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**Stock Market Reaction to Dividend Announcements:
An Empirical Investigation of Listed Companies in
Sri Lanka**



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Abstract

The dividend policy has been given considerable interest in the field of finance. Numerous empirical studies conducted by different researchers, have documented evidences that have shown contradictory results. Some researches indicated that dividend announcements convey specific information to the capital market, while others have argued that it has no effect on the capital market reaction.

This study examined the effect of dividend announcements on share prices traded on Colombo Stock Exchange. Particularly this study investigated market response to dividend behaviors. The study included an overall sample of 303 events of 43 firms during the period of nine years from 1993 to 2001. Abnormal returns were calculated from daily share prices using well-established market model commonly used by researchers under the Event Study Methodology.

The results of the overall sample provided supportive evidences to some extent for the predictions of dividend-signaling hypothesis. However, large dividend increasing firms and dividend decreasing firms revealed significant abnormal returns to confirm the dividend-signaling hypothesis. On the other hand, constant dividend firms showed the insignificant reaction to dividend news.

Insufficient evidences given by this study remains a question in prediction of the dividend-signaling hypothesis in the Sri Lankan context.