Index

abnormal returns, 42, 168

cash flow, 151

dividend change, 157

insurance, regulated industries, 474

real estate investment trusts, 475

Act of 1862, 26

adjustment model, 72

agency, 442

capital costs, 205–206

catering theory, 224–225

control, minority shareholders, 62

cross-country studies, emerging markets, 503–505

dividend, 424, 426–427

dividend policy, 448–451

models, catering theory, 224–225

shareholders, minority, 62

agency costs, 408, 410, 427

capital costs, 205–206, 448–449

cash dividend, 9

dividend changes, 152–154

dividend policy, 424, 442, 450

executive compensation, 454–456

firm life cycle, 201, 205–206

free cash flow hypothesis, 145–161, 206

global role, 155–157

governance mechanisms, 62

irrelevance theory, 107–108

market imperfections, impact, 107–108

overinvestment, 147–152, 154–155

risk behavior, 449

special dividends, 315–316, 318, 322

stock repurchase, 247–250

TRA, 470

utilities, regulated industries, 472–473

agency theory

dividend policy, 458–459

free cash flow hypothesis, 450

model, European, 72

American Revolution, 24–25

American Stock Exchange (AMEX), 208

analytical finance, 97, 110

announcement

abnormal bond-price reaction, repurchases, 256

dividend information, relationship, 169

initiations, price drift, 234

insurance, regulated industries, 474

negative share price, repurchases, 247

non-investment-grade debt, repurchases, 256

ownership partitioning, 332–333

period returns, repurchases, 151

positive returns, repurchases, 247–248

price drift, initiations, 234

stock dividends, 332–333

under offers, 255

annual aggregate cash distributions, 55–56, 64

arbitrage arguments, 99

asset transfer, special dividends (SDDs), 318

asymmetric information, 163

catering theory, 223–224

dividend signaling, 171

signaling theory, 9

asymmetry theory, stock splits, 368–388

attention hypothesis, stock dividends, 334

average dividend payout ratios, banking, 468

Baker, Farrelly, Edelman followup survey, 366–369

Baker, H. Kent, 366–369

Baker, Wurgler catering theory of dividends, 217–222

Bank holding companies (BHCs), 467, 469

Bank of England, 25

Bank of New York, 25

Bank of North America, 25

Bank of the United States, 25

banking, regulated industries, 477

BHCs, 467, 469

CARs, 467–469

dividend announcements, 468–469

dividend studies, 463–467

payout ratios, 468

quality, 467

regulatory capital requirements, impact, 464

Rozeff model, 470

signaling, 467–469

TRA, 470

Basel Accord, 477

behavioral explanations, 179–200

cash dividends, 9

catering theory, 197

clientele effects, 194–196

dividends, 9, 192

irrelevance, 182–191

taxes, transaction costs, 196

theoretical framework, 181

behavioral life cycle (BLC), 180–191, 408–412

behavioral model, 181, 367

bird in hand, 102, 179–180, 190, 472–473

Board of Trade, 28

board structure, corporate governance, 456–457

bond rating, 121

British East India Company, 23–24

British Parliament, 23

Bubble Act, 22, 24–26

bull market, 1990s, 197

Bush administration, 45, 477

buybacks, 11
Canadian institutional investors, 415–418
Canadian tax reform, 1972, 137
capital asset pricing model (CAPM), 105, 132
capital cost
agency cost, 448–449
dividend reinvestment plan, reduced, 347
firm life cycle, 205–206
return on equity, relationship, 211
capital definitions, regulated industries, 476–477
capital gains, dividend vs., 36, 127
capital markets model, banking model, vs., emerging markets, 504
capital structure
dividend irrelevance, 97, 99–101
leverage, ratios, targets, 261–262
pecking order theory, 261
policy, firm characteristics, 58
repurchases, 245–250, 261–262
capitalization, dividend reinvestment plan, 352
cash distribution
dividend policy, 366–373
initiation, 277
payout, comprehensive, survey, 378–380
share repurchases, 374–378
survey research, 366–380
cash dividend
agency cost, free cash flow hypothesis, 9
behavioral explanations, 9
catering theory, 10
decline, 36–39
firm life cycle theory, 10
irrelevance theory, 8
policy, 7–8, 14
share repurchase, relationship, 14, 48
signaling theory, 9
stock repurchase vs., 268–269
survey evidence, 14
tax, 8–9, 269
cash flow, 148
abnormal returns, 151
dividend, expected future, 424
dividend reinvestment plan, 352
payouts, substitute forms, 64
signaling, free cash flows models, 145, 157–158
temporary, permanent, 64
cash substitutions hypothesis, 392
catering theory
agency models, 224–225
asymmetric information, signaling, 223–224
behavioral explanations, 197
cash dividend, 10
cross-country, 232
dividend, 10, 43, 222–225
earnings management, 233
Europe, 231–232
evidence, 225–229, 235
extensions to catering model, 216, 218, 222–223
institutional variables, 232
investor preferences, 233–234
model, 217–219
pay propensity, 43, 61
proxies capturing dividend premium, 219–220
return, risk perceptions, 197
share repurchases, 253
split-capital closed-end funds, 232
U.K. evidence, 230
U.S. evidence, 225–230
censored quantile regression (CQR), 266
Center for Research in Security Prices, 44, 394, 396
Citizens’ Utilities, 216, 220
Civil War, 26–27
clientele effects, 8
behavioral explanations, 194–196
Canadian tax reform, 137
corporate governance, 137–138
dividends, 137–138
dividends, tax, factors influencing, 65
dividend policy, survey research, 367–368
DRIP, 354
ex-dividend day studies, 132–134
irrelevance theory, 108–109
JGTRRA, 136–137
market characteristics, tax, 59–60
market imperfections, impact, 108–109
shareholder, dominant role, 138–139
signaling theory, 173
status, 194–196
tax, 127–139, 246, 256
tax, dividend, corporate governance, 131–132, 137–138
tax, factors influencing dividends, 65
tax rate changes, dividend policy, 134–137
TRA, 135–136
clientele hypothesis, 71
common law, civil law, vs., 51
compliance, reverse stock splits, 337
Compustat, 44, 277
Consumer Expenditure Survey, 192
dividend policy, 15, 447–459, 482–490
empirical evidence, 484–490
Enron scandal, 45
European, 72–73
executive compensations, 454
German firms, 485–486
mechanisms, 45, 62
minority shareholders, 451–454
payout policy, 453–454
policy, 15, 482–490
tax, 137–138
theoretical evidence, 9
transactions, distributions, 275
ultimate, 484
Corning Glass, 310
corporate control, governance
agency cost, 62
board structure, 456–457
clientele effects, 137–138
countrywide investor protection, vs., 505
dividend policy, 15, 447–459, 482–490
empirical evidence, 484–490
European, 72–73
corporate ownership
dividend policy, 482–490
empirical evidence, 484–490
German firms, 485–486
theoretical evidence, 482–484
Corporation(s). See also firm
England, before 1720, 21–24
Holland, before 1720, 21–22
U.S., 24–25
cost of capital, risk, 424, 427–428
cross-country studies, emerging markets, 503–505
cumulative abnormal returns (CARs), 42
Datastream, 73
debt, non-investment grade, 256
<table>
<thead>
<tr>
<th>INDEX</th>
<th>529</th>
</tr>
</thead>
<tbody>
<tr>
<td>debt ratios, free cash flow hypothesis, 45</td>
<td></td>
</tr>
<tr>
<td>defense, takeover, special dividends, 313, 315, 320–322</td>
<td></td>
</tr>
<tr>
<td>defensive payouts, 265</td>
<td></td>
</tr>
<tr>
<td>deterministic cash dividend, 252</td>
<td></td>
</tr>
<tr>
<td>developed financial markets (DFMs), 499</td>
<td></td>
</tr>
<tr>
<td>differential tax rates, 246</td>
<td></td>
</tr>
<tr>
<td>direct stock purchase plan (DSPP), 344–345, 359</td>
<td></td>
</tr>
<tr>
<td>disappearing dividends</td>
<td></td>
</tr>
<tr>
<td>announcements, 42</td>
<td></td>
</tr>
<tr>
<td>background, trends, 35–36</td>
<td></td>
</tr>
<tr>
<td>country, 47</td>
<td></td>
</tr>
<tr>
<td>evidence, 36</td>
<td></td>
</tr>
<tr>
<td>firm quality, 42</td>
<td></td>
</tr>
<tr>
<td>global trends, 47–51</td>
<td></td>
</tr>
<tr>
<td>payers, payouts, 35–36, 47–51</td>
<td></td>
</tr>
<tr>
<td>relationship, catering theory, 43</td>
<td></td>
</tr>
<tr>
<td>trends, 39</td>
<td></td>
</tr>
<tr>
<td>dividend policy</td>
<td></td>
</tr>
<tr>
<td>agency, 448–451</td>
<td></td>
</tr>
<tr>
<td>agency theory, 458–459</td>
<td></td>
</tr>
<tr>
<td>asymmetric information, 368</td>
<td></td>
</tr>
<tr>
<td>board structure, 457–459</td>
<td></td>
</tr>
<tr>
<td>bond rating, 121</td>
<td></td>
</tr>
<tr>
<td>capital structure, 58</td>
<td></td>
</tr>
<tr>
<td>cash distribution, 366–373</td>
<td></td>
</tr>
<tr>
<td>clientele effects, 367–368</td>
<td></td>
</tr>
<tr>
<td>conceptual basis, 116–119</td>
<td></td>
</tr>
<tr>
<td>corporate governance, 15, 137, 139, 447–459, 482–490</td>
<td></td>
</tr>
<tr>
<td>determinants, 367</td>
<td></td>
</tr>
<tr>
<td>DRIP, 351</td>
<td></td>
</tr>
<tr>
<td>emerging markets, 16</td>
<td></td>
</tr>
<tr>
<td>empirical evidence, 484–490, 492–493</td>
<td></td>
</tr>
<tr>
<td>firm value, 145, 166</td>
<td></td>
</tr>
<tr>
<td>global perspective, 16, 481</td>
<td></td>
</tr>
<tr>
<td>historical evolution, 6–7, 21–34</td>
<td></td>
</tr>
<tr>
<td>industry variants, 367–368</td>
<td></td>
</tr>
<tr>
<td>initiation, important change, 211</td>
<td></td>
</tr>
<tr>
<td>investment, 120</td>
<td></td>
</tr>
<tr>
<td>issues, 15–16</td>
<td></td>
</tr>
<tr>
<td>law, 452–454, 490–494</td>
<td></td>
</tr>
<tr>
<td>life cycle factors, 208–209</td>
<td></td>
</tr>
<tr>
<td>listing status, 61, 62</td>
<td></td>
</tr>
<tr>
<td>North American financial markets, 72</td>
<td></td>
</tr>
<tr>
<td>ongoing debate, 139</td>
<td></td>
</tr>
<tr>
<td>optimal, model, firm life cycle theory, 203–205</td>
<td></td>
</tr>
<tr>
<td>politics, 490–494</td>
<td></td>
</tr>
<tr>
<td>public, private firms 388, 62–63</td>
<td></td>
</tr>
<tr>
<td>regulated industries, 15–16</td>
<td></td>
</tr>
<tr>
<td>reinvestment plan, 351</td>
<td></td>
</tr>
<tr>
<td>research, 30</td>
<td></td>
</tr>
<tr>
<td>shareholder rights, 451–453</td>
<td></td>
</tr>
<tr>
<td>signaling effect, 367–368</td>
<td></td>
</tr>
<tr>
<td>special dividends, 310</td>
<td></td>
</tr>
<tr>
<td>survey evidence, 385</td>
<td></td>
</tr>
<tr>
<td>survey research, 367–368, 371–373</td>
<td></td>
</tr>
<tr>
<td>tax, corporate governance, 137–139</td>
<td></td>
</tr>
<tr>
<td>tax, world impact, 128–131</td>
<td></td>
</tr>
<tr>
<td>tax rate changes, 134–137</td>
<td></td>
</tr>
<tr>
<td>theoretical evidence, 9, 482–484, 491–492</td>
<td></td>
</tr>
<tr>
<td>theory development, 71</td>
<td></td>
</tr>
<tr>
<td>time-series trends, 215, 219</td>
<td></td>
</tr>
<tr>
<td>TRA, 135</td>
<td></td>
</tr>
<tr>
<td>value, 15</td>
<td></td>
</tr>
<tr>
<td>zero, 105</td>
<td></td>
</tr>
<tr>
<td>dividend policy, European</td>
<td></td>
</tr>
<tr>
<td>corporate governance, 72–73</td>
<td></td>
</tr>
<tr>
<td>cross-country determinants, 81–87</td>
<td></td>
</tr>
<tr>
<td>management, 87, 89–90</td>
<td></td>
</tr>
<tr>
<td>taxes, 84</td>
<td></td>
</tr>
<tr>
<td>trends, 73</td>
<td></td>
</tr>
<tr>
<td>dividend reinvestment plan (DRIP)</td>
<td></td>
</tr>
<tr>
<td>adoption influences, 354–357</td>
<td></td>
</tr>
<tr>
<td>brokerage operated, 344</td>
<td></td>
</tr>
<tr>
<td>capitalization, 352</td>
<td></td>
</tr>
<tr>
<td>cash flow, 352</td>
<td></td>
</tr>
<tr>
<td>characteristics, 344</td>
<td></td>
</tr>
<tr>
<td>clientele effect, 354</td>
<td></td>
</tr>
<tr>
<td>company operated, 344</td>
<td></td>
</tr>
<tr>
<td>discontinuation, 357</td>
<td></td>
</tr>
<tr>
<td>discount features, 350, 352–353</td>
<td></td>
</tr>
<tr>
<td>distribution method, 13</td>
<td></td>
</tr>
<tr>
<td>firms, 347–349, 353–358</td>
<td></td>
</tr>
<tr>
<td>investment alternatives, 358</td>
<td></td>
</tr>
<tr>
<td>investment steps, 345</td>
<td></td>
</tr>
<tr>
<td>irrelevance theory, 350</td>
<td></td>
</tr>
<tr>
<td>management, 357, 401</td>
<td></td>
</tr>
<tr>
<td>market reactions, 347, 349</td>
<td></td>
</tr>
<tr>
<td>motivations, 396–397</td>
<td></td>
</tr>
<tr>
<td>new issue, 343, 347–349, 351–359</td>
<td></td>
</tr>
<tr>
<td>open market, 343, 347, 356, 358–359</td>
<td></td>
</tr>
<tr>
<td>ownership, 352</td>
<td></td>
</tr>
<tr>
<td>participation rates, 352–354</td>
<td></td>
</tr>
<tr>
<td>pecking order theory, 350–351</td>
<td></td>
</tr>
<tr>
<td>policies, 351, 357–359</td>
<td></td>
</tr>
<tr>
<td>raise equity financing, 350</td>
<td></td>
</tr>
<tr>
<td>reduce capital costs, 347</td>
<td></td>
</tr>
<tr>
<td>shareholder wealth, 348</td>
<td></td>
</tr>
<tr>
<td>signaling theory, 351</td>
<td></td>
</tr>
<tr>
<td>stakeholder relations, 348</td>
<td></td>
</tr>
<tr>
<td>stock value, 358</td>
<td></td>
</tr>
<tr>
<td>strengths, 346</td>
<td></td>
</tr>
<tr>
<td>survey studies, 397–401</td>
<td></td>
</tr>
<tr>
<td>tax, 350–351, 354, 357–359</td>
<td></td>
</tr>
<tr>
<td>transfer agent operated, 344</td>
<td></td>
</tr>
<tr>
<td>VPOs, 353</td>
<td></td>
</tr>
<tr>
<td>weaknesses, 346</td>
<td></td>
</tr>
<tr>
<td>dividend-paying firms, emerging markets</td>
<td></td>
</tr>
<tr>
<td>payment magnitude, 518–519</td>
<td></td>
</tr>
<tr>
<td>payout ratios, 1994–2004, 511, 515</td>
<td></td>
</tr>
<tr>
<td>proportion, 509–518</td>
<td></td>
</tr>
<tr>
<td>dividend(s)</td>
<td></td>
</tr>
<tr>
<td>accounting, 326, 335, 409–411</td>
<td></td>
</tr>
<tr>
<td>alternative, repurchases, 87</td>
<td></td>
</tr>
<tr>
<td>announcement date, 332–333</td>
<td></td>
</tr>
<tr>
<td>behavior, 9, 119–120</td>
<td></td>
</tr>
<tr>
<td>capital gains tax, 36, 39</td>
<td></td>
</tr>
<tr>
<td>cash, repurchases es., 39–42</td>
<td></td>
</tr>
<tr>
<td>cash flow, expected future, 424</td>
<td></td>
</tr>
<tr>
<td>clientele, 131–132, 137–138, 354</td>
<td></td>
</tr>
<tr>
<td>determinant, 65–66</td>
<td></td>
</tr>
<tr>
<td>homemade, investor, 30</td>
<td></td>
</tr>
<tr>
<td>increase, cash, 334–335</td>
<td></td>
</tr>
<tr>
<td>initiation, risk, 424</td>
<td></td>
</tr>
</tbody>
</table>
investor sentiment, 61–62
issuance explanations, 391–396
legal protection, substitute, 60
motivations, 394, 401
puzzle, 36, 71–72, 139, 215
repurchase, signaling theory vs., 172
residual policy, 8
shareholder structure, 42
signaling, evidence, 107
stable, 117
transaction costs, 408–412
dividend(s), changes
dividend(s), irrelevance theory, 8, 386, 407, 410
capital structure, 101
reinvestment plan, 350
dividends-received exclusion, 320
dividend-to-sales ratio, emerging markets
companies, 1994-2004, 512
dividend-paying companies, 1994-2004, 513
median, all companies, 1994-2004, 517
Domino’s Pizza, 313, 321
Dutch auction
repurchasing shares, methods, 279
stock repurchases, 279
tender offers, 242–245, 249, 253–254
Dutch East India Company, 23
Dutch stock owners, 499–414
earnings, 281–282
dividends vs., 169
linear mean reversion, 154
management, 233, 266–268
measurement, biased, 166
repurchase relationship, 65–66
Eastman Kodak, 311–312
economic policy, DRIP, 357–359
Economist, 44
Edelman, Richard, 366–369
electric utilities, 471, 476
emerging financial markets (EFMs)
agency considerations, 499, 502
corporate governance, firm-level, 505
cross-country studies, 503–505
dividend-paying firms, 518
empirical analysis, 509–519
financial systems, 504–505
foreign investors, 502
government ownership, 502
institutional influences, 509–518
legal constraints, 500
liberalization, 499
logit models, 58
newly listed companies, characteristics, 62
payouts average, 77
public vs. private, 62
relationship, with, 48–42
reinvestment plan, 355–357
liquidity, dividend reinvestment plan, 358
logit models, 58
valuation model, 98
firm
Employee Retirement Income Security Act, 117
employee stock options, 282
Enron, 310
Enron scandal, 2002, 45
entrenchment hypothesis, 148
equity REITs, 474–475
Europe, United States, comparison, 81–82, 87
Europe, United States, comparison, 81–82, 87
European firms
agency model, 72
catering theories, evidence, 231–232
corporate governance, 72–73
country, by, 73–74
dividend payouts, 73–80
dividend policy, 81–87, 89–90
payout policy, 7, 71–73, 82–87
percentage, dividend-paying, 75
repurchase decisions, 82, 87, 89
tax issues, 84
European market index, 82
excess funds, 150
ex-date, stock dividends, 333
ex-dividend day studies, 131–134
executive compensation, agency cost, 454–456
exploratory hypotheses, stock splits, 329–332
expropriation effect, 168–169
external debt, financing mechanisms, 261
external financing, 110, 166, 251
Fama, 310
Fama, French, three-factor model, 58, 294, 298–300, 433
Farrelly, Gail, 366–369
Federal Deposit Insurance Corporation, 463, 477
Federal Reserve, regulated industries, 463
financial systems, emerging markets, 504–505
Financial Time European Stock Exchange, 82
financing mechanisms, 261
Finnish Central Securities Depository, 194
firm. See also corporation
capital expenditures changes, 436–437
cash changes, 435–436
characteristics, 57–59
classifications, 164
debt changes, 436
dividend initiation, 429–442
DRIP, 347–348, 355–356
Economist, 44
German, 485–486
governance role, dividend, 45
growth, 452
leverage, dividend reinvestment plan, 355–357
life cycle, 10, 201–214
liquidity, dividend reinvestment plan, 358
logit models, 58
newly listed companies, characteristics, 62
payouts average, 77
relationship, with, 38, 42
reinvestment plan, 355–357
liquidity, dividend reinvestment plan, 358
logit models, 58
valuation model, 98
firm value
dividend reinvestment plan, 355
payments, 385
policy, 167
variations from, 165
firm-specific dividend model, 423–424
fixed price tender offer, 242–245, 279
INDEX

foreign investors, emerging markets, 502
Fortune 50, Fortune 500, 136
401(k) plans, 184, 187
framing effect, 179–180, 196
free cash flow, 71, 408, 411
agency costs, 145–161, 206
agency theory, 450
dividend changes, profitability indicator, 152–154, 157
empirical tests, 146–147
incremental cash disbursements, 146
initiations, dividend, 146
investor preferences, 231
misuse, 152
payments, debt ratios, 45
roots, agency problem, 145
stock repurchase, 247–250
theory, 146
future earnings, 170–172, 255, 284
General Motors (GM), 310–311
German firms, 485–486
government ownership, emerging markets, 502
Great Depression, 29
Greek stock owners, 409–414
greenmail, 244
growth, value, life cycle effects, 15
Health Management Associates (HMA), 321
hedonic editing, 188–192, 197
high cash balances, taxes, 117
history, trends, determinants
1900–1962, 29–30
before 1800, 22–24
before 1900, 24–25
cross-country determinants, 7
developing research, 30–31
England to 1720, 22–24
Holland to 1720, 22–24
influencing factors, 6, 55
legislation, early, 24–25
new industry, 25–28
overview, 21–24
trusts, 28
hostile takeover, 263, 266, 282
impairment rule, 23
income tax, 26
indicator profitability, changes, 152–154
individual country studies, emerging markets,
505–509
industrial firms, United States, 241–243, 245, 268
industrial stock, 26
industry variation, dividend policy, 367–368
inflation-adjusted dividend, repurchases, 276
information asymmetry, 205
basis, signaling model, 145
capital cost, 205
irrelevance theory, 105–107
market imperfections, impact, 105–107
proxies for, 171
information content, special dividends, 314–318
initiations, 172
announcements, price drift, 234
cash distribution, 277
free cash flow hypothesis, 146
important change, dividend, 211
life cycle factors, 209
Microsoft, 209–211
risk, 424
signaling theory, omissions, 172–173
insider stock holdings, 59
insider trade returns, signaling theory, 171
institutional investors, ownership, 406
institutional shareholders, UK, 456–457
institutional variables, catering theory, 232
insurance, regulated industries, 463, 473–474, 477
insurance annuities, deferred, 130
internal capital, financing mechanisms, 261
Internal Revenue Service (IRS), 187, 282
International Harvester, 310
investment motivation, 407–418
investor protection, 60–61, 65, 503
investor sentiment, 61–62, 232–234
irrelevance theory, 35–36, 407, 410
agency costs, 107–108
capital structure, 97, 101
cash dividend, 8
challenges, recent, 109–110
clientele effects, 108–109
DRIP, 350
electric utilities, regulated industries, U.S., 471
information asymmetry, 105–107
investor transaction costs, 386
market imperfections, impact, 104–109
MM's dividend irrelevance, 99–104
null hypothesis, 109
origins, 97
shareholder indifference, 386
signaling theory, 163
substitution hypothesis, 39
tax, 104–105
theories before, 97–99
Japan, 11–12, 15
JGTRRA, 21, 31, 136–137, 477
joint consumption-portfolio choice, 181–182
Joint Stock Companies' Registration and Regulation
Act, 26
labor-leisure component, 181
LaQuinta Corporation, 313
legal constraints, emerging markets, 500–502
legislation
Act of 1862, 26
Bubble Act, 22, 24–26
common vs. civil, 51
control, ownership rights, 60–61
dividend policy law, 452–454, 490–493
impairment, profit rules, 23
investor protection, 60, 303
Joint Stock Companies' Registration and
Regulation Act, 26
nineteenth century, 25
twentieth century, 26
leverage, 89–90, 261–262
leveraged buyout firm, 321
levered vs. unlevered firms, 119
Liberty Bonds, 29
life cycles, 15, 17, 207–209
life insurance firms, 473–474
limited liability, 23–26
linear mean reversion, earnings, 154
Lintner's classic dividend model, 14, 373, 380, 447
seminal study, dividend policy, 366
signaling theory, 163, 425–426
smoothing dividends, policy, 98
target-payout hypothesis, 30
liquidity, stock splits, 330, 337, 388
listing status, dividend policy, 61
London Company, 23
macroeconomic conditions, emerging markets, 502–503, 520
management
dividend reinvestment plans, 393–396, 401
employee stock options, repurchases vs. dividends, 282
entrenchment, DRIP, 357
managerial ownership, 456–457
residual dividend policy, 123
manager implications, ownership, partitioning, 338–339
managerial flexibility, 281
mandatory dividend requirement, 72
mandatory dividends, legal constraints, 500
Marcus Corporation, 313
market characteristics
dividends, factors, 65
investor protection laws, 60
investor sentiment, 61
product market competition, 63
public companies, newly listed, 62–63
status, public vs. private, 62
taxes, clientele effects, 59–60
market imperfections, impact
tax, 104–105
market liquidity, pay propensity, 230
market microstructure effects, 133
market reaction, DRIP, 347, 349
market reaction, SDDs, 313–315
agency cost explanation, 315–316
share repurchases vs., 318–319
signaling explanation, 316–318
wealth transfer explanation, 318
Massachusetts legislation, 26
maturity argument, 45
maturity hypothesis, 153
mental accounts, 184
Microsoft
case of, 210
firm life cycle, 209–211
initial public offering, 1986, 210
special dividends, 309–310, 313
tax cuts, 210
microstructure effects, ex-dividend day premium, 133
Miller, Modigliani (MM)
firm valuation, 97
framing effects, 179
historic research, 30
investment policy, 55
irrelevance theory, 4, 71, 365
payout policy, 245
repurchases, 275
residual dividend policy, 115
signaling, 163
taxes, 127
minority shareholders, 451–454
Moody’s Industrial Security, 28
mortgage REITs, 474–475
multinationals, repatriating, 117
Muscovy Company, 23
narrow framing, 184
neglected-firm hypothesis, 331
neoclassical structure, behavioral model
behavioral life cycle, 181, 183–187
human capital, 182
joint consumption-portfolio choice, 181
risk and dividends, 188–191
self-control and dividends, 187–188
neoclassical theory, 179–180, 183
net present value (NPV), 115–116, 120–146
neutral reinvestment, 104
new equity, retained earnings vs., 97
new industry, 25–28
New London Society United for Trade and Commerce, 24
New York Stock Exchange (NYSE), 208
Nixon era, controls, 221
nonconvertible bonds, 168
non-investment-grade debt, 256
nonregulated, regulated industries vs., 463, 476
non-zero dividend policy, 110
North American financial markets, policy, 72
null hypothesis, 109
O/C ratio, 60–61
omissions, 172
open market
dividend reinvestment plans, 343, 351
new issue plans, 343, 347–349, 351–359
share repurchases, 242–245, 278
optimum, dividend policy, 203–205
option, bonus, yield, 59
outcome model, 60
overinvestment hypothesis, 147–152, 169
ownership
control, 503–504
DRIP, 352
institutional investors, 406
managerial ownership, 456–457
structure, 502, 520
ownership, partitioning
announcement date, 332–333
attention hypothesis, 334
compliance, 337
ex-date, 333
inconvenience hypothesis, 331
increase-in-cash-dividends hypothesis, 334–335
investor implications, 338
liquidity, 330, 337
manager implications, 338–339
neglected-firm hypothesis, 331
optimal hypothesis, 330–331
reactions, change, 325–326
retained earnings hypothesis, 334
reverse stock splits, 326, 335–339
self-selection hypothesis, 331
signaling, 329, 335, 337
small shareholders, 337–338
stock dividends, 325–326, 329, 332–335
stock marginability, 337
stock splits, 325–331, 339
tax-option-value hypothesis, 331
INDEX

trading range hypothesis, 334
transaction costs, 337

Panic of 1874, 27
participation rates, DRIP, 352–354
pay propensity, 207. See also payers, payouts
catering theory, 43, 216
decreasing dividends, 43
firm size, 58
market liquidity, 230
payers, payouts, 38
payers, payouts
average, 76
background, 35–36
capital expenditures, 436–437
cash changes, 435–436
cash distribution, 378–380
cash flow, 64
corporate policies, 502, 520
country, by, 49–50, 436

debt changes, 436
defensive payouts, 265
distributions, 1971-2005, 56
dividend, trends, 6
dividend initiation, 429–442
dividend-paying, 74

dividends, disappearing, 35–36, 39–44, 47–51
dividends, earnings, 75–81, 468

dividends, reappearing, 44–47
dividends, repurchases
average, 39–41, 47–49, 241
dominant forms, 270
empirical evidence, 220–222
European firms, 75–80
evidence, 36–39
factors influencing, 37–38, 64–65
forms, 64, 270
frequency, catering theory, 64, 223
growth, 120, 423–442
investment opportunities, 46–47
investor demand, 61
law, common vs. civil, 51
life cycle effects, 423–425, 433, 435–436, 440, 442
managed payouts, 118
model, yield, 58
observations, 50
pay propensity, 38, 207–209
payment patterns, 310–314
payments, firm value, 385
payments surge, tax reform, 46
proportion, trends, 36–37
ratios, 39–40, 468, 471, 510–511
residual payouts, 283
returns, excess, 438–442
risk changes, 437–442
share repurchases, 64
short-term investment changes, 435–436
survey comprehensive, 378–380
tax effects, retained earnings, U.S., 44

trends, 37
value effects, 15, 423–442

payment
patterns, 310–314
prediction model, 45
variables, 220

payout policy
corporate, 453–454, 500–502, 520
country studies, 506
cross-country determinants, 82–87
heterogeneous shareholders, 247
institutional ownership, 246–247
ownership structure, emerging markets, 502
policy, 7, 247
relationship, earnings, 65–66
tax, investor, 60
tax reform, 46–47
tax status, 247
transition, growth, 208
payout policy, European firms
distinctive features, 72–73
dividend policy, 7, 82–87
fraction, dividend-paying, 73–74
ratios by country, 75–81, 468
share repurchase, 87
survey, managers, 81–82
U.S., comparison, 81, 87–90
payout ratios
all companies, 1994-2004, 510
average dividend, 468
banking, 468
dividend-paying companies, 1994-2004, 511
European firms, 40, 75–81, 468
total, dividend, repurchase, 39–40
utilities, regulated industries, 471
pecking order theory, 261, 350–351
permanent earnings, dividends, 65
petroleum, 463, 475–477
Philadelphia Contributionship for the Insuring of
Houses from Loss by Fire, 24
politics, 490–494
preference theory, tax, 386
preferred stock, 25, 27, 168
price, 134, 145–152, 174
privatization, emerging markets, 499, 502
probability weighting, 189
product market competition, 63, 65
profit rule, 23
propensity to pay, 49, 207–208
proportional ownership, 326, 332, 335
prospect theory, 188–191
protection laws, investor, 60
proxies, premium, 219–220
public companies, 62–63, 65
pyramidal ownership, 61
radiator, hostile takeover, 263
rate changes, tax, 134–137
real estate investment trusts, 463, 474–477
reappearing dividend, 44–47, 142
recapitalizations, special dividends, 320–321
reductions, 168
regret theory, 191
regulated firms, dividend, 465–467
regulated industries
banking, 463–470, 477
Basel Accord, 477
Bush administration acts, effects, 477
capital definitions, 476–477
dividend studies, 465–467
FDIC, 463, 477
Federal Reserve, 463
future research, 476–477
general literature, 476
insurance, 463, 473–474, 477
JGTRRA, 477
nonregulated industries, vs., 463, 476
petroleum, 463, 475–477
policy, dividend, 15–16
real estate investment trusts, 474–475
research control, 463
utilities, 463, 470–473, 477
regulation, tax
stock repurchase, potential motives, 245, 261
stock repurchase, theory, evidence, 245–247
regulatory changes, SEC, 1982, 245
repurchase shares, methods
Dutch-auction, 242–245, 249, 253–254
open market, 242–245, 279
stock repurchases, 278–279
tender offers, fixed-price, 242–245, 279
transferable put-rights distributions, 242–245
repurchases
abnormal bond-price reaction, 256
agency cost, 247–250
announcement-period return, 151
buybacks, beating market, 11
cancellations, 89
capital structure, 245–250, 261–262
cash distribution, 374–378
cash dividend, 14, 39–41, 48, 268–269
cash flow levels, 249
catering theory, 233
conflicts of interest, 248
costs, external financing, 251
decision, theoretical models, 283–285
dividend, interchangeable, 39
dividend, trade-offs, 10–11
dividend alternative, 87
dividends, fixed price, tender offer, 279–282
dividends, substitution hypothesis, 39–44
Dutch auction, 242–245, 249, 253–254, 278–279
earnings, payouts, 65–66
earnings management, stock option grant, 266–268
empirical results, 264–268
European firms, management, 81–82, 87, 89
financial restructuring, 320–322
fixed price, methods, 242–245, 279
free cash flow, 408, 411
global, 47–51
hostile takeover, repelling, 266
inflation-adjusted, 276
information content, 319
investor sentiment, 233
IRS, attitude towards, 282
legal constraints, emerging markets, 501–502
market reaction, 318–319
methods, 242–245, 249, 253–254, 277
motives, potential, 245–250
negative share price, 247
non-investment-grade debt, 256
open market, 278–279
payouts, rs., 47–51, 154
positive returns, 247–248
ratio, U.S. industrial firms, 241–243, 245, 268
SEC guidelines established, 39
share, 366, 374–378
signal future growth prospects, 248
signaling, undervaluation, 250–256
signaling theory, dividend vs., 172
size variable, payout division, level, 280
special dividends, 312–313, 318–320, 322
stock option grants, earnings management,
266–268
surveys, motives, 374–375
takeover deterrent, 262–264
taxed, 264–265
tax, dividend, trade-offs, trends, 280–281
tax, regulation, 245–247
tax consequences, 320
tax reform, 46
tax regulation, motives, 245–247, 261
tax-option-value hypothesis, stock splits, 331
temporary cash flows, 42
tender offer, 242–245, 251–255
tool, flexibility, 87
transferable put-rights distributions, 242–245
valuable, 277
valuation, 285–288
repurchases, dividends vs.,
Dutch auction, 279
earnings per share, management, 281
employee stock options, management, 282
historical record, 276–277
hostile takeovers, defense, 280, 282
management, 281–282
measurement, 277–278
open market, 278–279
positive returns, 247–248
return, risk perception, 197
return on capital, tax consequences, special
dividends, 320
return on equity, cost of capital, 203–205, 211–212
residual payouts, 283
residual theory, free cash flow hypothesis, 146
retained earnings
book value, ratio, 58
hypothesis, stock dividends, 334
new equity, rs., 97
propensity to pay, 208–209
return, risk perception, 197
return on capital, tax consequences, special
dividends, 320
return on equity, cost of capital, 203–205, 211–212
reverse stock splits, 326
compliance, 337
distribution method, 13
dividends, 13
empirical evidence, 335–336
explanatory hypotheses, 336–338
liquidity, 337
ownership, partitioning, 335–338
signaling, 337
small shareholders, 337–338
INDEX

stock marginability, 337
stock splits, 13
value-destroying transaction, 335
Revolutionary War, 25
risk
behavior, agency cost, 449
capital cost, 205
decline, 205
dividends, 424, 427–428
dividends, neoclassical structure, 188–191
dividends, relationship, 208
narrow framing, 184
perception, 89, 197
stock splits, 328
Roosevelt, Franklin, 152
Rozeff model, 470, 475–476
Rule 10b-18, SEC, 131, 245, 278–279
screening model, 71
Sears Roebuck, 310
Securities Exchange Act, 1934, 245, 278
Securities Exchange Commission (SEC)
guidelines, repurchases, 39
regulatory changes, 1982, 245
Rule 10b-18, 131, 245, 278–279
self-selection hypothesis, stock splits, 331
share repurchases, 242–245, 278
shareholder
dividend taxation, corporate governance, 138–139
dominant role, tax, clientele effects, 138–139
expectations, SDDs, 309, 314
institutional shareholders, 456–457
minority, corporate governance, 451–454
minority control, 62
model, global perspective, 495
rights, dividend policy, 451–453
voting rights, 263–265
wealth, dividend reinvestment plan, 348
Shefrin, Hersh, 14
Shefrin, Statman behavioral framework theory, 14, 180, 187, 191–193
signaling
assets, real, financial, 251
asymmetric information, 9, 171, 223–224
banking, regulated industries, 467–469
cash flow, free cash flow models, 145
clientele effect vs., 173
dividend, 9, 305, 335, 407, 410, 424, 426
dividend, earnings vs., 169–171
dividend, repurchase vs., 172
dividend changes, 165, 168, 173–174
dividend policy, 367–368
dividend reinvestment plan, 351
early works, 167–168
emerging markets, 502
future earnings, 171–172
hypothesis, 391–392
individual investors, 410
initiations, omissions, dividends, 172, 209
insider trade returns, 171
irrelevance theory, 163
liquidity, 169
modeling, 163–178
necessary conditions, 165
overinvestment hypothesis, 169
research directions, 174
reverse stock splits, 337
special dividends, 316–318
specially designated dividends, 172
stock splits, 329–330, 337
theory, 71
two-period, 250–251
undervaluation, stock repurchase, 250–256
utilities, regulated industries, 472–473
smoothing, 62, 504
Social Security, 184
South Sea Bubble, South Sea Company, 24
Spanish Company, 23
special dividends
agency cost explanation, 315–316, 318, 322
asset transfer, 318
consistent payment, 312
Corning Glass, 310
distribution method, 12–13
dividend policy, 310
dividends-received exclusion, 320
Domino’s Pizza, 313, 321
Eastman Kodak, 311–312
Exxon, 310
financial restructuring, 320–322
GM, 311–312
historical payment patterns, 310–314
HMA, 313, 321
information content, 314–318
International Harvester, 310
investment opportunities vs., 315
LaQuinta Corporation, 313
Marcus Corporation, 313
market reaction, 313–319
Microsoft, 309–310, 313
negative interpretations, 314–315
recapitalizations, 320–321
return of capital, 320
Sears Roebuck, 310
share repurchases, 312–313, 318–320, 322
shareholder expectations, 309, 314
signaling interpretation, 312, 316–318, 322
signaling theory, 172
specially design dividends, 148–151
substitutability, 311
Swift Corporation, 311–312
takeover defense, 313, 315, 320–322
tax consequences, 320, 322
tax treatment, stock repurchases, 312
TD Ameritrade, 313
Tobin’s Q ratio, 315
wealth transfer interpretation, 318
split-capital closed-end funds, 232
S-shaped growth pattern, life cycle theory, 203
stakeholder relations, DRIP, 348
Standard Oil, 27
Statman, Meir, 14, 180, 187, 191–193
stochastic stock repurchases, 252
stock splits
asymmetry theory, 386–388
distribution method, 13
dividends, 13
empirical evidence, 326–329
explanations, 387–389
explanatory hypotheses, 329–332
growth, 327
inconvenience hypothesis, 331
industry norms, financial ratios, 330
levels of risk, 328
liquidity hypothesis, 327, 330, 388
long-run performance after, 327–328
management views, 387–391, 401
manager implications, 338–339
motivations, 390
neglected-firm hypothesis, 331
optimal tick-size hypothesis, 329–331
optimal trading range hypothesis, 388
optimal-price-range hypothesis, 330
ownership, partitioning, 326–331
proportional ownership, 326
reverse stock splits, 13
self-selection hypothesis, 331
signaling hypothesis, 329–330
stock dividends vs., 333, 335
survey studies, 389–390
tax-option-value hypothesis, 331
trading volume, 327
stock(s) buybacks, 11
ex-dividend studies, 132–134
industrial, 26
option grant, earnings management, 264–268
price, 158, 174, 470–473
reverse stock splits, 337
valuation formula, 97
value, dividend reinvestment plan, 358
substitutability, 311
substitute financing, 104
substitution model, 39–44, 67, 452
Survey of Consumer Finances, 60
takeover defense, 313, 315, 320–322
takeover deterrent
SDDs, 313
share repurchase motives, 261
stock repurchase, theory, 262–264
takeover threat, 244
targeted stock repurchase, 242–245, 264–265
tax, taxes, 59–60, 127–128
Canadian tax reform, 137
capital gains, dividends rs., 36, 39
clientele effects, 134–139, 246, 256
corporate governance, 131–132, 137–139
cuts, 45–46, 210
defered insurance annuities, 130
differential rates, 246
dividend clienteles, 131–134
dividend policy, and, 128–131, 134–137
dominant shareholders, 138–139
DRIP, 350–351, 354, 357–359
European dividend policy, 84
ex-dividend dates, 132–134
hypothesis, 392
income tax, 26
irrelevance theory, 104–105
JGTRRA, 21, 31, 136
market imperfections, 104–105
preference theory, 386
rate changes, 134–137
reform, 30, 37, 46–47, 137
regulated industries, 470–473
regulation, 245–247, 261
repurchases, 36, 39, 280–281, 320
special dividends, 320, 322
tax-option-value hypothesis, stock splits, 331
transaction costs, 167, 181, 196, 408–412