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THE ADOPTION OF NEW-ISSUE DIVIDEND REINVESTMENT PLANS AND SHAREHOLDER WEALTH

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ABSTRACT

This study examines security price reactions to the adoption of new-issue dividend reinvestment plans. The sample is broken down into three subsamples: nonutilities, utilities adopting plans prior to May 1981, and utilities adopting plans after July 1981. For the nonutility corporations, no significant market reaction is observed. The utilities adopting prior to the change in the tax law experience a negative reaction the day following registration for the plan. Corporations adopting after July 1981, whose dividends receive preferential tax treatment, experience abnormal returns significantly greater than those of the utilities without preferential tax treatment.

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