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Impact of Dividend Policy, Earning Per Share, Return on Equity, Profit after Tax on Stock Prices

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Umer Mustafa (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=3100224)

Pir Mehr Ali Shah Arid Agriculture University Rawalpindi (PMAS)

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Abstract

Purpose: The volatility in stock prices is one of the most discussed topics in finance. Many studies have been conducted to find the factors which cause fluctuation in stock prices and different results have been found. In this study an attempt has been made to see the affect of dividend yield, dividend payout ratio, return on equity, earning per share and profit after tax on stock prices in Pakistan. For this purpose four non financial sectors (Sugar, Chemical, Food and personal care, Energy) have been selected. A sample of 63 companies listed at Karachi stock exchange was analyzed for the period of 2006-2011.

Methodology: Ordinary least square regression model has been applied on panel data.

Findings: The results indicate dividend yield and dividend payout ratio which are both measures of dividend policy have significant impact on stock price. Dividend yield is negatively related with stock price and dividend payout ratio is positively related with stock price which means that these results are against dividend irrelevance theory. For other independent variables profit after tax and earnings per share have significant positive impact on stock price and return on equity which shows positive insignificant impact on stock price.

Recommendations: This paper shows new insights for policy makers to improve the performance of Karachi stock exchange.

Keywords: Dividend Policy, Stock Price, Dividend Irrelevance Theory

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