Cash Distributions to Shareholders

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Abstract

Economists have long been puzzled by why firms pay dividends when alternative methods of rewarding shareholders and financiers exist which involve less taxes. This paper will highlight the fact that firms can distribute cash to equity holders in ways more lightly taxed than dividends. The two methods we examine are share repurchase programs and cash-financed mergers and acquisitions. So why should cash distributions from firms to shareholders ever take the form of dividends? This paper first provides evidence on the explosive growth in dividend cash payments, and then discusses how this evidence should affect theories about corporate finance.

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