Behavioral Rationality in Finance: The Case of Dividends

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I. Introduction

As the title suggests, this paper presents the specifics of the behavioral reasons for dividends. At the heart of this conference by focusing on the main core of finance, namely, the supply of dividends, we are seeking to understand the essentially "rationalist" view of dividends. It seems to be limping most of the time. And the receiving end, which has been written off as "puzzling" to the same extent as redoubtable as Fischer. A much-cited 1976 article homed in on precisely on precisely the dividend-related soft spots in the literature (see esp. Shefrin and Statman, 1987). We have, in sum, an ideal place to start with an imminent "paradigm shift" in the direction of precisely the kind of research some of the other contributions to this conference.

The dividend-related dividend anomalies at issue here are the quintessential parochial concern of finance.
Abstract
Dividends seem a natural area in finance where the introduction of behavioral/cognitive elements might help resolve long-standing anomalies, particularly the seeming failure of supply to adjust to tax-induced price penalties. A closer look at the empirical record, however—particularly at evidence of responsiveness to major structural changes—shows behavior of the aggregates to be less anomalous than conventional handwringing might suggest. Behavioral/cognitive...