



---

# Dividend announcements: Cash flow signalling vs. free cash flow hypothesis? ☆

Larry H.P. Lang, Robert H. Litzenberger

Show more ▾

🔗 Share 🗨️ Cite

---

[https://doi.org/10.1016/0304-405X\(89\)90077-9](https://doi.org/10.1016/0304-405X(89)90077-9) ↗

[Get rights and content](#) ↗

---

## Abstract

We test the cash flow signalling and free cash flow/overinvestment explanations of the impact of dividend announcements on stock prices. We use Tobin's Q ratios less than unity to designate overinvestors. The average return associated with announcements of large dividend changes is significantly larger for firms with Q's less than unity than for other firms. This evidence, the results of further tests involving a finer partition of the data, and an analysis of changes in analysts' earning forecasts surrounding dividend announcements support the overinvestment hypothesis over the cash flow signalling hypothesis.

---

## References (22)

A. Kalay *et al.*

[Predictable events and excess returns: The case of dividend announcements](#)

Journal of Financial Economics (1985)

K. Eades *et al.*

[Market rationality and dividend announcements](#)

Journal of Financial Economics (1985)

J. Brickley

[Shareholder wealth, information signalling, and the specially designated dividend: An empirical study](#)

Journal of Financial Economics (1983)

M.J. Barclay *et al.*

[Announcement effects of new equity issues and the use of intraday price data](#)

Journal of Financial Economics (1988)

J. Aharory *et al.*

## Quarterly dividend and earnings announcements and stockholders' return: An empirical analysis

Journal of Finance (1980)

P. Asquith *et al.*

## The impact of initiating dividend payments on shareholders' wealth

Journal of Business (1983)

S. Bhattacharya

## Imperfect information, dividend policy and the 'bird in the hand' fallacy

Bell Journal of Economics and Management Science (1979)

S. Bhattacharya

## Nondissipative signalling structures and dividend policy

Quarterly Journal of Economics (1980)

A.A. Berle *et al.*

## The modern corporation and private property

(1932)

F.H. Easterbrook

## Two agency costs explanation of dividends

American Economic Review (1984)



View more references

---

Cited by (480)

### [Do asymmetric information and leverage affect investment decisions?](#)

2023, Quarterly Review of Economics and Finance

Show abstract

### [Type I and type II agency conflicts in family firms: An empirical investigation](#)

2022, Journal of Business Research

Show abstract

### [Does business strategy affect dividend payout policies?](#)

2022, Journal of Business Research

Show abstract

### [Does it really pay off for investors to consider information from social media?](#)

2022, International Review of Financial Analysis

[Show abstract](#) 

## [Formalization of a new stock trend prediction methodology based on the sector price book value for the Colombian market](#)

2022, Heliyon

[Show abstract](#) 

## [Social trust and dividend payouts: Evidence from China](#)

2022, Pacific Basin Finance Journal

[Show abstract](#) 



[View all citing articles on Scopus](#)

---

### Recommended articles (6)

Research article

#### [Direct evidence of dividend tax clienteles](#)

Journal of Empirical Finance, Volume 28, 2014, pp. 1-12

[Show abstract](#) 

Research article

#### [Reputation building and the lifecycle model of dividends](#)

Pacific-Basin Finance Journal, Volume 46, Part A, 2017, pp. 177-190

[Show abstract](#) 

Research article

#### [Majority support of shareholders, monitoring incentive, and dividend policy](#)

Journal of Corporate Finance, Volume 30, 2015, pp. 1-10

[Show abstract](#) 

Research article

#### [What drives the disappearing dividends phenomenon?](#)

Journal of Banking & Finance, Volume 37, Issue 9, 2013, pp. 3499-3514

[Show abstract](#) 

Research article

#### [Do firms use dividend changes to signal future profitability? A simultaneous equation analysis](#)

International Review of Financial Analysis, Volume 37, 2015, pp. 194-207

## Dividends as a signaling device and the disappearing dividend puzzle

Journal of Economics and Business, Volume 79, 2015, pp. 62-81

- ☆ The authors acknowledge helpful comments from Yakov Amihud, Michael Barclay, K.C. Chan, Michael Jensen, Kose John, David Mayers, Richardson Pettit (the referee), Andrei Shleifer, Clifford Smith (the editor), Rene Stulz, and participants of a seminar at the 1988 American Finance Association meeting in New York. The data collection, calculation of Tobin's  $Q_t$  and computer programming assistance of Anne Cheng are gratefully acknowledged. The research assistance of C.T. Chen, Jose Puyol, Lin Shaw, and David Sun are also acknowledged. The remaining errors are the sole responsibility of the authors. The original title of this paper was 'What information is contained in dividend announcements?'.

[View full text](#)

Copyright © 1989 Published by Elsevier B.V.



Copyright © 2023 Elsevier B.V. or its licensors or contributors.  
ScienceDirect® is a registered trademark of Elsevier B.V.

