

“The Impact of Dividend Announcement on Share Prices (A Test of Market Efficiency)”



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Abstract

Every information which arrives the market has an impact on the prices of the shares and market weighs every information. The announcement of the dividends is also an information and it makes an impact on the prices of the shares. This study has been conducted to test the efficiency of the market. There have been quite a number of studies to test the efficiency of the market but those studies have been conducted on the entire market. This study has been conducted on the Oil and Gas sector of Pakistan using a four year period from 2011 to 2014. The study contains the event study analysis and runs test to determine about the efficiency of market. The results of both of these tests have revealed that market is efficient in its weak and semi-strong form. Since there were no significant pattern of abnormal returns in the results of event study analysis, it shows that the market is efficient in its semi-strong form. On the other hand, the results of the runs test shows that the returns are occurring in a random manner and are independent of each other. So on the bases of results, the market is appearing to be efficient. The dividend announcement are largely seeming to be causing negative abnormal returns for the companies in the post event time, so it may be deduced that the announcement is having a negative impact on the prices of stocks. For further research on the topic, the area can be enhanced to include more sectors of the market. Furthermore, the third form of market efficiency can also be test through the application of various tests.

Key words: market efficiency, abnormal returns.

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Dedication

***This Study is dedicated to my parents, supervisor, friends and colleagues
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