A Comparative Investigation of Impact of Dividend Announcement in Recessions and Recovery on Stock Prices using Event Study Approach

Parag Rijwani[1] and Savir Bansal[2]

[1]*Assistant Professor, Institute of Management, Nirma University, Ahmedabad*

[2]*Management Scholar–MBA Program, Institute of Management, Nirma University, Ahmedabad*

E-mail: parag@imnu.ac.in, sbansal_10@student.imnu.ac.in

Abstract—*Announcement of dividends is an important event with reference to the movements of stock prices of common stock of any public company. The effect of announcement can be measured using an empirical study though an event study. With assumption of market rationality, the effect of the event will be immediately reflected in stock prices. Thus the measure of the event's economic impact can be constructed using security prices observed over a short duration of time. This paper aims to carry out a comparative study of the impact of the dividend announcement between pre-recession period, recession period and recovery period. Mackinlay's (1997) 'event study' approach has been applied to the stock prices of select Indian companies who declared dividends in the two time-periods viz. January 2007 to December 2008, identified as 'pre-recession' period, January 2008 to December 2008 is identified as 'recession' period and January 2009 to December 2010, identified as 'recovery' period. The results are useful to investors and analysts in predicting the impact of dividend announcement on stock price in a short run. It has been found that an investor can exhibit a very different behaviour when the period of investment is different, where period can be Pre-recession, Recession or Post-recession. Same percentage of dividend rate will be considered as good, bad or no news in three different periods. Good news will be very good news in recession period and bad news will be very bad news in post-recession period. Thus it can be concluded that investors are not always rational, there is some sentiments attached to it. This concept is in accordance with behavioural finance.*

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