

Contemporary Issues in Finance Management & Economics



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DIVIDEND SMOOTHING: AN EMPIRICAL STUDY ON SELECT FIRMS IN INDIA

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Abstract

The innate psychology behind the practice of dividend smoothing stems from the fear of the fact that dividend payments bear a strong linkage with the stock price of the firm. Stock price is the weightage assigned to a company by the investors based on the available information. However, in reality the information available to the investors' are asymmetric. Thus, from the investors' eyes the patterns of dividend payment speak more than the picture upheld by the financial statements. Under the given circumstances, a manager who cares about the market value of the firm may most likely opt for dividend smoothing even at the cost of profitable investment opportunities, thus, losing out on the intrinsic value of the firm. However, a pertinent requirement for dividend payment is the availability of cash, one of the primary sources of which being

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