Table of Contents

Table of Contents ..... **XI**

List of Abbreviations ..... **XIII**

List of Symbols ..... **XV**

List of Figures ..... **XXIII**

List of Tables ..... **XXV**

1 Introduction **1**

2 The Dividend Irrelevance Theorem and Competing Dividend Theories **9**

2.1 The Dividend Irrelevance Hypothesis – Miller and Modigliani (1961) 9

2.1.1 Model Assumptions 10

2.1.2 The Dividend Irrelevance Theorem 10

2.2 Competing Dividend Theories – An Overview 13

2.2.1 Behavior-Based Explanations – Investor Irrationality 15

2.2.2 Tax-Based Dividend Theories 18

2.2.3 Informational Asymmetries 25

2.2.3.1 Dividend Policy and Agency Theory 26

2.2.3.2 Dividend Policy and Signaling Theory 32

2.3 Summary and Conclusion 39

3 The Incremental Importance of Dividend Changes in Signaling Earnings Persistence – A Theoretical Analysis **43**

3.1 Introduction 43

3.2 The Informational Content of Dividends about Current and Future Earnings – Empirical Evidence 44

3.3 The Sequential Release of Two Generic Information Signals and their Interrelations – Holthausen und Verrecchia (1988) 46

3.4 A Model on Investor Reassessment of Earnings Persistence Induced by a Confirming Dividend Change 48

3.4.1 Overview 48

3.4.2 The Basic Structure of the Model 49

3.4.2.1 Properties of the Prior and the Posterior Distribution 54
3.4.2.2 Management's Dividend Decision and the Informativeness of a Confirming Dividend Change 57
3.4.2.2.1 The Likelihood Function as a Stylization of Management's Dividend Policy 58
3.4.2.2.2 The Reliability of a Confirming Dividend Signal 61
3.4.2.2.3 The Non-Monotonic Inverse U-Shape between the Differential ERC and A Priori Investor Assessment 63
3.4.2.2.4 The Influence of Varied-Intensity Confirming Dividend Changes on the Differential ERC 66
3.5 Implications from the Theoretical Analysis 69

4 Dividend Changes Conveying Earnings Persistence Conditional on Past Time-Series Persistence – An Empirical Analysis 71
4.1 Introduction 71
4.2 Sample Criteria, Variable Measurement and Descriptive Statistics 71
4.3 Cross-Sectional Tests for the Non-Monotonic Inverse U-Shape between the Incremental ERC and A Priori Investor Knowledge 76
4.4 Varied-Intensity Dividend Signals and the Relationship between the Incremental ERC and A Priori Investor Knowledge 83
4.5 The Informativeness of the Supplementary, Confirming Dividend Signal Juxtaposed against the Information Content of the Current Earnings Surprise 96
4.6 The Persistence of Firm's Time-Series of Earnings Conditional on Firm's Dividend Policy 100
4.7 Summary 102

5 The Incremental Importance of Confirming Dividend Changes in Signaling Earnings Persistence Conditional on Earnings Quality 105
5.1 Introduction 105
5.2 Alternative Earnings Quality Metrics 107

6 Concluding Remarks 117

7 Appendix 123

References 127

http://www.springer.com/978-3-658-04472-5

Confirming Dividend Changes and the Non-Monotonic Investor Revision of Earnings Persistence

Mueller, C.

2014, XXV, 137 p. 8 illus., Softcover
ISBN: 978-3-658-04472-5