Dividend Essay Plan

- Introduction
- Modigliani and Miller Dividend Irrelevance: equations: discounted cashflow formula
- Source and application of funds.
- Dividends and capital gains.
- Homemade dividends.

Lintner (1956)

- Survey of US financial execs =>
- Firms have target payout ratios
- Smooth dividends.
- Lintner proposed asymmetric info explanation

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  - Gordon Growth Model
- Asymmetric Information (Miller-Rock)
  - => dividend signalling hypothesis.
  - Agency problems (FCF: Jensen 1986)
    - => Free cashflow hypothesis

Dividend Cuts bad news?

- Signalling and FCF models predict that dividend increases are good signals/dividend cuts bad news.
- Fairchild (2008) argues that situation is more complex:
- Eg What about if company needs to cut divs to invest in good projects?
- Wooldridge and Ghosh
- 6 roundtable discussions of CF.
- Fairchild (2008): Investors believe that div cuts are bad news (conditioning)
- => communication/reputation.
- Evidence.
- Conclusion.