

Effect of Dividend Policy on Share Price Volatility in Listed Banks and Finance Companies in Sri Lanka

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A B S T R A C T

Despite many studies conducted abroad, a study on the effect of dividends on share price volatility could not be found in the Sri Lankan context relating to banks and finance companies. Therefore, this study examines how dividend affects the share price volatility of banks and finance companies listed on the Colombo Stock Exchange. The data was collected from 16 banks and 38 finance companies during the ten years from 2011 to 2020. The dividend was measured using the dividend yield and dividend payout. The share price volatility was measured by dividing the annual range of share price by the average of the highest and lowest adjusted share price for each year. The firm size, growth, and earnings per share were used as control variables. Regression analysis was used to analyze the data. The results show that dividend yield has a negative effect on share price volatility. Nevertheless, dividend payout positively affects the share price volatility. Firm size and earnings per share have a negative relationship with share price volatility. However, firm growth does not affect the share price volatility.

Keywords: Dividend Policy, Firm Size, Growth, Share Price

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