

## **Impact of Dividend Policy on Stock Price Volatility in Colombo Stock Exchange**

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### **Abstract**

This study investigates the relationship between the dividend policy and the stock price volatility in the listed firms in Colombo Stock Exchange, Sri Lanka. The research problem led to research issues of whether there is an individual impact of dividend payout ratio, dividend yield, and size of the firm and the asset growth of the company on the stock price volatility. Data for the study was collected using the secondary data collection method that is the annual reports from the listed companies in Colombo Stock Exchange (CSE) for the ten years period from 2011 to 2020. The study has identified stock price volatility as the dependent variable and dividend payout ratio and the dividend yield as independent variables and size of the firm and the asset growth as the control variables. The significance of the study is that compared to previous studies the calculation of the stock price volatility is more accurate because the method used by the study captures all the dimensions of the stock prices. Since the traditional linear regression models lead to biased estimators, panel regression is used since it is a powerful way to control unobserved, independent on a dependent variable and the panel regression results indicate that there is a relationship between the Dividend policy and the stock price volatility. The findings of the study stated that the Dividend payout ratio has a positive impact, dividend yield has negative impact, the size of the firm has negative impact, and the

asset growth has positive impact on the stock price volatility. Further, there is a weak relationship between dividend payout ratio and dividend yield and significant relationship between the size of the firm and the asset growth of the company. Derived from the above the conclusion is that there is a relationship between the dividend policy and the stock price volatility.

***Keywords:*** *Dividend payout ratio, Dividend yield, Stock price volatility, Multiple linear regression model, Unit root test*

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