The Impact of Dividend Policy on Stock Price Volatility: Evidence from Manufacturing Sector and Capital Good Sector in Sri Lanka

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ABSTRACT

Introduction: This study was investigated the impact of dividend policy on stock price volatility in manufacturing sector and capital good sector listed in Colombo stock exchange in Sri Lanka using panel data regression.

Design/Methodology/Approach: Data gathered from 12 manufacturing and 12 capital good sector from 2011/12 to 2020/21. Descriptive statistic, Correlation analysis and panel data regression employed to identify the relationship between the predictor variables and dependent variable. Dividend yield a (DY_t, DY_{t-1}) and Pay Out Ratio (POR_t, POR_{t-1}) were used as independent variables and firms' size and Asset growth were used as control variables. Stock Price Volatility (PVOL) was use as dependent variable in this study.

Findings: In manufacturing sector enterprises in Sri Lanka, DY_t and POR_{t-1} is positively significant at the 5% probability level and POR_t and GROWTH is negatively significant, further, DY_{t-1} are negatively insignificant, and SIZE is positively insignificant at this study. According to the overall panel regression model. In Sri Lanka, there are four variables are significant variables affecting manufacturing enterprises after using random effect model. DY_t has a significant negative connection with PVOL in Sri Lankan capital goods companies, according to the overall panel regression model. In Sri Lankan capital goods companies, DY_{t-1}, POR, POR_{t-1}, SIZE, ASSET GROWTH are all positively insignificant when it comes to PVOL. In addition, the similarities and differences of PVOL adopted by manufacturing and capital goods sector organizations in Sri Lanka explored in this study.

Conclusion: The research fills a gap in the literature and achieves the study's goals. Future research on dividend policy will benefit from these insights.

Keywords: *Dividend Policy, Stock Price Volatility, Panel Data Regression, Random Effect Model*