

Chapter 15

Distributions to Shareholders: Dividends and Share Repurchases

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Define target payout ratio and optimal dividend policy.
- Discuss the three theories of investors' dividend preference: (1) the dividend irrelevance theory, (2) the "bird-in-the-hand" theory, and (3) the tax preference theory; and whether empirical evidence has determined which theory is best.
- Explain the information content, or signaling, hypothesis and the clientele effect.
- Identify the two components of dividend stability, and briefly explain what a "stable dividend policy" means.
- Explain the logic of the residual dividend policy, and state why firms are more likely to use this policy in setting a long-run target than as a strict determination of dividends in a given year.
- Explain the use of dividend reinvestment plans, distinguish between the two types of plans, and discuss why the plans are popular with certain investors.
- List a number of factors that influence dividend policy in practice.
- Discuss why the dividend decision is made jointly with capital structure and capital budgeting decisions.
- Specify why a firm might split its stock or pay a stock dividend.
- Discuss stock repurchases, including advantages and disadvantages, and effects on EPS, stock price, and the firm's capital structure.