

14th WEEK ASSIGNMENT

Explain the assumptions inherent in the Dividends do not matter school.

- ⇒ Dividend policy irrelevance: Dividend payments don't affect stock price
- ⇒ Informational irrelevance: Dividends convey no information about future earnings.
- ⇒ Capital markets efficiency: investors can create homemade dividends by selling shares.
- ⇒ Dividends signal commitment to pay out cash
- ⇒ Information asymmetry exists: dividends convey information.
- ⇒ Transaction costs, taxes, and other frictions affect homemade dividends.