



Juxtaposition of Micro and Macro Dynamics of Dividend Policy on Stock Price Volatility in Financial Sector of Pakistan: (Comparative Analysis through Common, Fixed, Random and GMM Effect)

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Abstract

The purpose of this study is to analyze the dividend policy dynamics in context to firm specific and macroeconomic variables with stock price volatility in the financial sector of Pakistan. Panel data is used for the period 2006-2014 to identify the common, fixed, random and GMM effect. It is concluded that dividend payout ratio, market value, interest volatility and inflation volatility have positive significant correlation with price volatility. Common effect model shows that dividend payout and interest volatility has a significant positive impact on the share prices. Whereas fixed effect model is more appropriate and good fit than random effect model and model indicate that dividend payout ratio has significant positive impact and market volatility has significant negative impact on stock prices. GMM results also support the fixed and random effect outcomes with more robustness. This study significantly contributes in dividend policy decisions and elaborates the dynamic roll of micro and macro variables on stock price volatility in financial sector of Pakistan.