

ABSTRACT

Stock market efficiency has been of considerable importance in finance literature. The capital market efficiency is classified into allocative efficiency, operational efficiency and informational efficiency. The EMH deals with informational efficiency which states that participants cannot outperform the market with new informational flow. Many researchers investigated the stock market reaction to informational disclosure by considering various corporate announcements such as stock split, mergers and acquisition, dividend announcement etc. Stock price response to dividend announcements has received considerable attention as dividend are considered as the firms' performance indicator. The investors' expectation on the extent of excess return that they would make from trading in the stock market is based on several factors and one of them is dividend announcement news.

There are three forms of efficient market hypothesis (EMH) have been examined by researchers and analysts. This paper examines the stock price reactions to dividends, one of the publicly available information, to test the semi-strong form of EMH. The study is based on the dividend announcements of 100 companies which are part of the CNX-100 Index that announced dividends for the period 2006-2014. To test the stock price reactions, the expected returns are found out by regressing the daily returns of companies and market index. Based on these results, abnormal returns, cumulative abnormal returns (CAR) are worked out for 6 days prior to and 30 days after the dividend announcement (event) date. The analysis of the results shows that ARs do not approximate to zero and CARs show wide fluctuations indicating that abnormal returns can be earned several days after the event day. CARs show that abnormal returns can be earned 30 days after the event day. From this we conclude that Indian market is not efficient in the semi-strong form.

The study has been divided into five different sections. The first is the introduction to the topic. The second section reviews the relevant literatures to gain greater insight and grip over the issue at hand. The third section explains in detail the methodology and the sample data adopted for the analysis. The fourth section enumerates and examines the results obtained. The fifth section draws valid conclusion given the stated hypothesis and results obtained.