# ABSTRACT

In corporate finance one of the most important decisions is whether to distribute profits to shareholders as dividends or retain it for investment purpose and even if dividend is given what percentage of its earnings is distributed. This thesis tries to observe the effect of dividends on the volatility of stock prices. To achieve this descriptive and analytical methods have been undertaken. 21 firms listed in the NSE are taken into account for the period 2007-2012. To identify the effect of dividend on the volatility of stock prices panel data regression model is used. Results show that stock price volatility is inversely related to dividend policy. Dividend announcement acts as a signaling for future earnings of the firm in the Indian equity market and in the presence of information asymmetry, investors treat dividend announcement about the future prospects of the firm.