

RELATIONSHIP BETWEEN INVESTMENT AND DIVIDEND DECISIONS: AN OVERVIEW OF EMPIRICAL RESEARCH PAPERS.

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Abstract

Investment and dividend decisions are strategic for the corporation since determine its future. The modern theory of corporate finance says that the investment and dividend decisions of the company should be related. But 40-50 years ago, starting with Miller and Modigliani's famous theory of irrelevance, economists believed and proved empirically that decisions about investments and dividends do not affect each other. Modern empirical research leads to controversial results.

This paper contains a survey of empirical studies on the relationship between investment and dividend decisions of the company since the 1960s up to the present time. Reviewed scientific works are organized by testable hypotheses and studied samples (developed and developing capital markets). The first section includes the studies based on the hypothesis of perfect capital market. Section 2 includes research papers that take into account the asymmetry of information. Section 3 is dedicated to developing markets including Brazil, India and Russia, and its specific characteristics.

It was found that in emerging capital markets linkage between investment and dividend decisions is often missing. The author tried to identify the reasons for such a result. It was suggested that the imperfection of corporate management, including presence of private benefits of control, tunneling and asset stripping, affects the relationship of investment and dividend decisions.

However, in some developing countries (e.g. India) it was revealed the presence of link between investments and dividends. Therefore, further elaboration of the issue with the introduction in the analysis of additional explanatory factors is required. In addition, a detailed study of this problem on the basis of Russian data has still not been implemented, which also opens the way for further research.

Keywords: investment decision, dividend decisions, information asymmetry

JEL: G32, G35

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