



The ex-dividend day stock price behavior in the Chinese stock market

Nikolaos T. Milonas^a, Nickolaos G. Travlos^{b,*},
Jason Zezhong Xiao^c, Cunkai Tan^d

^a *University of Athens, Greece*

^b *ALBA Graduate Business School, Greece and Cardiff Business School, U.K.*

^c *Cardiff Business School, U.K.*

^d *Tianjin Tiens Group Co. Ltd., China*

Received 20 May 2002; accepted 6 June 2005

Available online 13 October 2005

Abstract

This paper analyzes the ex-dividend day stock price behavior in the Chinese stock market. This market allows to examine the impact of tax effects while keeping any microstructure factors constant. The findings from non-taxable stocks show that their price, on the ex-dividend day, falls by an amount that is not statistically different from the dividend. For the taxable sample, stock prices of small dividend yield stocks fall proportionally to the dividend paid. For the large dividend yield stocks, the price adjustment depends on the effective tax rate on dividend income. The overall findings are consistent with the tax hypothesis.

© 2005 Elsevier B.V. All rights reserved.

JEL classification: G12; G35

Keywords: Dividends; Ex-dividend day; Dividend puzzle; Chinese stock market

1. Introduction

Finance theory predicts that, in perfect capital markets, stock prices on the ex-dividend day (adjusted for any market-related influence) should fall by an amount that equals the dividend paid. Yet, several studies show that stock prices decrease by an amount that is smaller than the dividend. Many studies attribute this finding to tax effects, that is, to the higher tax rate applicable to income from dividends relative to capital gains. Other studies disagree with this

* Corresponding author. ALBA Graduate Business School, Athinas and Areos Street 2A, Vouliagmeni, 16671, Greece. Tel.: +30210 8964531; fax: +30210 8964737.

E-mail address: ntravlos@alba.edu.gr (N.G. Travlos).

tax-related explanation and attribute the finding to other factors, such as the trading and microstructure characteristics of capital markets. Recently, some studies have attempted to shed light on this issue by studying the ex-dividend day stock price behavior in environments where dividends are not taxed. While this is indeed a good approach, a problem may arise in interpreting the empirical findings in cases where microstructure effects are also present.

In this paper, the ex-dividend day price behavior is examined in an environment where the microstructure effects are neutralized. We have chosen the Chinese stock market, where cash dividends could be either taxable or non-taxable, depending on their magnitude relative to the annual interest which could have been earned on an amount equaling the face value of the corresponding stocks. Thus, this study neutralizes the effect of other potential factors, and focuses on the tax effect on stock price behavior on the ex-dividend day.

Consistent with the tax hypothesis, the empirical findings for non-taxable stocks show that their prices, on the ex-dividend day, fall by an amount that is not statistically different from the dividend paid. For the taxable sample, the empirical findings vary according to the dividend yield and the effective tax rate on dividends. That is, assuming an effective tax rate on dividend income of 20%, for small dividend yield stocks, ex-dividend day prices drop by an amount that is not significantly different from the tax-adjusted dividend at the 0.05 level. In contrast, high dividend yield stocks experience a price drop that (in statistical terms) is larger than the tax-adjusted dividend. However, when a more realistic effective tax rate, below the statutory 20%, is applied in the analysis (10%, 5% or even 0%), the statistical significance of the difference between the stock price drop and its corresponding theoretical value, in general, disappears. The findings from the non-taxable sample are consistent with the traditional [Elton and Gruber \(1970\)](#) tax hypothesis. When the effective tax rates fall closer to 0%, the findings from the taxable sample are also consistent with the tax hypothesis and they are in line with the findings of [Green and Rydqvist \(1999\)](#) that apply in a similar tax environment, which favors dividends (coupon interest) relative to capital gains.

Section 2 presents the most relevant prior research. Section 3 describes the institutional environment of Chinese stock market. Section 4 discusses the methodology and Section 5 explains the data. Section 6 presents the empirical findings and Section 7 contains the conclusions.

2. Previous research

The debate on the stock price drop on the ex-dividend day began with [Elton and Gruber's](#) paper published in 1970. In their study they observe that stock prices on the ex-dividend day fall by an amount smaller than the dividend paid. They attribute this difference to the fact that the dividend paid is taxed; that is, the dividend amount net of taxes is what really counts to the investor. It is therefore expected that, *ceteris paribus*, the ex-dividend day stock price should be smaller than the price on the day before, the difference being only the after tax dividend amount.

[Elton and Gruber's](#) arguments have motivated numerous studies on the ex-dividend day behavior of stock prices. These studies address various factors, such as the differential taxation between dividend and capital gains in the U.S.¹; the different tax codes in other countries²;

¹ See [Litzenberger and Ramaswamy \(1979\)](#), [Poterba and Summers \(1984\)](#), and [Barclay \(1987\)](#).

² See [Booth and Johnston \(1984\)](#) for Canada, [Hietala and Keloharju \(1995\)](#) for Finland, [Michael and Murgia \(1995\)](#) for Italy, [Lasfer \(1995\)](#) for the U.K., [Kato and Loewenstein \(1995\)](#) for Japan, and [Frank and Jagannathan \(1998\)](#) for Hong Kong.

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات