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# Large dividend increases and leverage\*

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## Abstract

This study documents the fact that large dividend increases are followed by a significant increase in leverage, consistent with management increasing the dividend to use up excess debt capacity. However, the leverage increase is not captured by a standard partial adjustment model of leverage. Nor does it reflect variables known to be related to dividend increases, such as firm maturity, investment, and risk. Instead, the dividend increase signals a complex change in the way firms adjust to their leverage target, but it does not signal a change in the target.

JEL Codes: G32, G35

Keywords: Capital structure; dividend policy; dividend changes; leverage

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