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Stock Liquidity and Dividend Payouts

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Abstract

This study investigates the informational effect of stock liquidity on dividend payouts. Using a sample of Chinese listed firms during 2000–2014, we find a positive relation between stock liquidity and dividend payouts. This result is robust to the use of alternative measures of liquidity, and holds after we control for endogeneity concerns. In accord with our hypothesis that stock liquidity provides information and increases insiders' incentive to pay out dividends, we find that the positive relation between stock liquidity and dividend payouts is more pronounced when the information environment is opaque, and when conflict between controlling shareholders and minority investors is severe. Further, market reactions to regulatory stipulations requiring dividend payouts are more favorable for firms with low stock liquidity, suggesting that legal provisions and regulations are substitutes for stock liquidity. Finally, we rule out several alternative explanations concerning the governance of non-controlling blockholders and the alleviation of manager-shareholder agency conflict.

Keywords: Stock liquidity; Dividend payouts; Controlling shareholder; Informational effect; China.

JEL classification: G14 G30 G35

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