

ABSTRACT

The main objective of this study is to investigate the relative importance of dividend and retained earnings in share price determination and to examine the implication of Bird-in-the-Hand theory on Pakistani firms. The analysis documents 77 firms from 11 different sectors listed on Karachi Stock Exchange for the period of 2006-2013. Firms are categorized according to two business stages, growth firms and mature firms. Findings suggest that both dividend and retained earnings play role in share price determination. However, in case of growth firms, retained earnings hypothesis dominates over dividend hypothesis. While in case of mature firms, dividend hypothesis is stronger than retained earnings hypothesis. The contribution of this research is to reduce the dearth of previous studies on this theory in developing markets like Pakistan to explore the empirical relationship between dividend, retained earnings and stock prices.

JEL Classification: G35

Keywords: Dividend, Retained earnings, Share price