**Chapter – Dividend Theory**

**Creative Questions**

1. **What is main objective of dividend policy?**

The most important objective of dividend policy is the improvement of the financial health of the company. This objective also takes into consideration shareholder's wealth as the shareholder of the company plays a very important role in the company's growth.

1. **What are the 3 benefits of dividend?**

Characteristics of Dividend Policy These three characteristics of dividend policy which usually used in firm to determine their share value are **Constant-Payout-Ratio Dividend Policy, Regular Dividend Policy, as well as Low-Regular-And-Extra Dividend Policy**

1. **What are the factors of dividend policy?**

A company's dividend policy is a guideline to determine the type, period and pattern of distributing dividends. The factors that impact a company's dividend policy are **profitability of the company, availability of funds, growth plans, dividend history of the company and dividend trends in the industry**

1. **What is dividend and its types?**

Definition: Dividend refers to **a reward, cash or otherwise, that a company gives to its shareholders**. Dividends can be issued in various forms, such as cash payment, stocks or any other form. A company's dividend is decided by its board of directors and it requires the shareholders' approval.

1. **What are the 3 benefits of dividend?**

Five of the primary reasons why dividends matter for investors include the fact they substantially increase stock investing profits, provide an extra metric for fundamental analysis, reduce overall portfolio risk, offer tax advantages, and help to preserve the purchasing power of capital.

**6. What are the features of dividend policy?**

Characteristics of Dividend Policy These three characteristics of dividend policy which usually used in firm to determine their share value are **Constant-Payout-Ratio Dividend Policy, Regular Dividend Policy, as well as Low-Regular-And-Extra Dividend Policy**.

7. **Why MM model of dividend policy is called dividend irrelevance theory?**

Modigliani and Miller suggested that **in a perfect world with no taxes or bankruptcy cost, the dividend policy is irrelevant**. They proposed that the dividend policy of a company has no effect on the stock price of a company or the company's capital structure

**8. What is dividend policy explain with Gordon's model and MM hypothesis?**

Myron Gordon proposed a dividend model that included some more assumptions than the Walter's model. **Gordon's model increased the assumptions of Walter's model and it reflected the evaluation of projects of those firms that have palpable tax and cost of capital greater than growth rate**.

**9. What is the importance of the Modigliani-Miller model?**

The Modigliani-Miller theorem explains the relationship between a company's capital asset structure and dividend policy and its market value and cost of capital; the theorem **demonstrates that how a manufacturing company funds its activities is less important than the profitability of those activities**.

**10. What is dividend growth model of cost of equity?**

The dividend capitalization model takes dividends per share (DPS) for the next year divided by the current market value (CMV) of the stock, and adds this number to the growth rate of dividends (GRD), where **Cost of Equity = DPS ÷ CMV + GRD**.