World Academy of Science, Engineering and Technology
International Journal of Economics and Management Engineering
Vol:9, No:11, 2015

Dividend Policy, Overconfidence and Moral Hazard

Authors : Richard Fairchild, Abdullah Al-Ghazali, Yilmaz Guney

Abstract : This study analyses the relationship between managerial overconfidence, dividends, and firm value by developing theoretical models that examine the condition under which managerial overconfident, dividends, and firm value may be positive or negative. Furthermore, the models incorporate moral hazard, in terms of managerial effort shirking, and the potential for the manager to choose negative NPV projects, due to private benefits. Our models demonstrate that overconfidence can lead to higher dividends (when the manager is overconfident about his current ability) or lower dividends (when the manager is overconfident about his future ability). The models also demonstrate that higher overconfidence may result in an increase or a decrease in firm value. Numerical examples are illustrated for both models which interestingly support the models' propositions.

Keywords : behavioural corporate finance, dividend policy, overconfidence, moral hazard
Conference Title : ICBCF 2015 : International Conference on Behavioural Corporate Finance
Conference Location : Madrid, Spain
Conference Dates : November 12-13, 2015