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Effect of Dividend Policy Decision on Share Price Volatility of Modaraba Companies Listed in Pakistan Stock Exchange

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ABSTRACT

This study aims to test the relationship between dividend policy decisions on the share price Volatility of Modaraba Companies quoted in the Pakistan stock exchange. The data for empirical analysis was collected from the Pakistan stock exchange, Recorder archive, and Ksestocks.com. By using the sampling technique, a sample of 19 Modaraba Companies was taken from 2010 to 2018. The empirical analysis was conducted using multiple regression techniques by employing a fixed effect model on panel data. This study also incorporated four control variables (size, growth, operating earning & level of debt) in empirical analysis to avoid multicollinearity problems between dividend policy measures and spurious regression. The results of the study validate the theory of relevance of dividend policy decisions on share price Volatility. Dividend policy has a negative and significant bearing on Stock price volatility. Higher leverage (debt level) leads to higher instability in stock prices. Firm earning volatility is positively associated with share price volatility. Firm size and firm's growth in terms of assets also has a negative but insignificant impact on share price Volatility.

JEL Classification: *D53, E55, G18*

Keywords: *Dividend policy decision, share price volatility, Pakistan Stock Exchange*

INTRODUCTION

The long-term goal of investors investing in stocks is to maximize their wealth while mitigating the associated risk. Active participation of investors in the market makes it attractive and viable. Investors are by default risk-averse and react in response to the information flowing into the market. Investors are found with the tendency to overreact towards the news of dividends, earnings, and waves of positivism and negativism (De bondt, 1987; Hu, Ni, & Wen, 2020). One major decision the financial manager is bound to make is related to the earnings distribution among shareholders. Financial managers continually strive to find optimal dividend payout ratio and retained earnings to maximize the shareholder's wealth (Al-Sharif, 2020). Despite extensive research on dividend policy, consensus could not be achieved about its relevance to stock price volatility.

The research area is still contentious, with opposing views relating to share prices' responsiveness towards dividend payments. Gordon (1963) led the group to believe in stock prices' responsiveness towards dividend policy decisions (Tasnia, AlHabshi, & Rosman, 2020). The other view of irrelevance was led by Miller & Modigliani (1961) does not believe in any bearing of DP on SPV.

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The investor may also prefer deferred payments of capital gains to avoid heavy taxes on dividends compared to capital gains. From the agency theory standpoint, the current dividend payment might narrow the agency problem because the declaration of dividend curtailed the funds at the manager's discretion and reduced his control. The study aims to make a contribution to the existing literature by examining the link between the widely researched relationship of Dividend policy decision (DP) and share price Volatility (SPV) in the context of the Sharia-Complaint investment sector of Modaraba Companies listed on Pakistan Stock Exchange (PSX). Based on the aims of this study, this study has the following objectives:

• To find out the impact of dividend payout ratio on the stock price volatility of Modaraba Companies listed in PSX.

• To check the impact of dividend yield on the stock price volatility of Modaraba Companies listed in PSX.

On the basis of the objectives of this study, following research questions are proposed in this study:

• What is the impact of the dividend payout ratio on the stock price volatility of Modaraba Companies listed in PSX?

• What is the impact of dividend yield on the stock price volatility of Modaraba Companies listed in PSX?

Modaraba companies are fast-growing investment options for investors in the past decade in Pakistan. Modarabas provide Sharia-Complaint investment opportunities to investors. There are 29 Modarabas listed in PSX in 2018 with total assets of Rupees 49.036 billion.

This study is the first attempt to target the fast-growing Modaraba sector of Pakistan. Modaraba is an alternate investment and Sariah-Complaint option to the investors, gaining popularity due to its increasing returns. There are 29 listed Modaraba companies on Pakistan Stock Exchange (PSX). Figure 1 below is representing the Modaraba investment growth pattern in Pakistan, retrieved from the records of AWWAL:

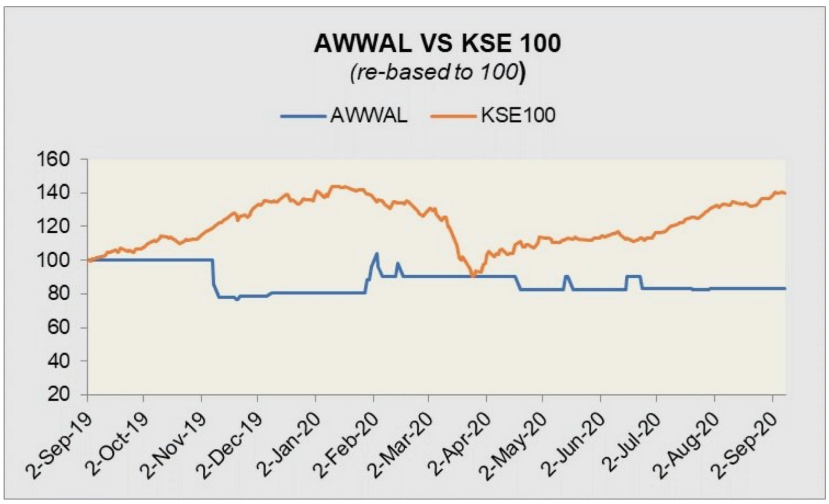

Figure 1: *Modaraba investment growth (Source: brecorder.com)*

SECP has improved and fortified the regulatory framework for Modarabas, which led to phenomenal growth in Modarabas since 2016. In 2017, 21 Modarabas announced a cash dividend for their shareholders. In 2018 there are over 25000 investors with fast-growing equity of Rs. 22.624 billion and expanding total assets of Rs 49.1 billion. The Modaraba assets grow by a healthy margin of 67% in the last eight years from 2012 to 2018.

Theoretical gaps were identified by investigating previous research that has considered dividend yield and dividend payout ratio in the context of conventional financial institutions and markets only. The study is significant for investigating the impact of dividend yield and dividend payout ratio on the stock market volatility. In previous studies, the implications of dividend yield and dividend payout ratio have only been investigated in the context of conventional and traditional financial markets and institutions. Yet, this is the current study novelty which provides empirical evidence based on modaraba companies' data. The present research contributes to the literature and proposed practitioners' implications and concern bodies related to modaraba financing.

In the current section, the researcher provided the study context, purpose, and significance; the next section is related to the hypothesis's literature and development. The remaining three sections are connected to methods, findings, and conclusion respectively.

LITERATURE REVIEW

Miller et al., (1961) presented the groundbreaking theory suggesting no link between dividend payments and financial performance of firm. The authors were of the view that firms which pay dividends are not different from the firms without dividend payment. The authors did not find any significant relevance between dividend policy decisions and share price movements. This theory was later challenged and criticized by the later research studies due to this unrealistic assumption.

In previous literature, stock market volatility has been considered the most misunderstood concept in investment. In contrast, volatility represents range of price change in the security experiences over a specific period of time (Arshad, Munir, Ahmad, & Waseem, 2019). A low level of volatility in the stock represents stable prices, whereas high volatility represents that the price changes are quick, erratic, and rapid. Bekhet, Alhyari, & Yusoff (2020) propose that individuals are more concerned about the loss than gain while investing in the stock, so the stocks in the market that show upward volatility more often, rather than downward, attract investors less and seem like a riskier proposition. There is a significant impact of dividend payout ratio on the stock market volatility, as shareholders wealth significantly decides the stock market value, in the same way market value significantly impacts the shareholders' wealth (Boubakri, Chen, Guedhami, & Li, 2019).

Several researchers have proposed an interdependent relationship between dividend yield and stock market volatility. It is because dividend yield represents the value of dividend that the company pays out each year concerning its stock price in the market. The market stock price is significantly impacted by the values of dividend paid and level of shareholder's wealth.

Gordon (1963) was the lead author who challenged the hypothesis of the irrelevance of dividend policy towards stock prices volatility. He presented a stock valuation model based on dividend payments. His findings indicated the relevance DP and SPV. He further discusses

that investors are likely to prefer dividend receipts at present over capital gain in future due to their risk averse attitude. Current payments are certain but future payments involve an element of uncertainty. The theory of relevance later backed by the studies carried by Linter (1962) and Walter (1963) on the basis of these assumptions; a) investors are not perfectly informed about the profitability of the firm; b) Capital gains can only be realized by selling the shares; and c) Dividends serve as a signal of positive cash flow. A stable and significant dividend payout can result in a higher level of shareholder wealth, which in turn decreases the risk of market value volatility of that specific company's stock. However, in the second case, a significantly lower dividend payout ratio will result in less shareholder wealth maximization, resulting in lower market value and high stock market volatility (Boubakri et al., 2019). So, significant relationships can be observed between these two variables.

Bhattacharya, (1979) laid down a model which suggest that anticipated income and cash flows of a company are reflected by current dividends. The announcement of dividends transmits signs of pessimism about the firm, and which lead to rise in stock price (Al-Sharif, 2020). A dividend cut signals a bad sign and hence cause the stock price to fall. Dividend is a tool to boost the confidence of investors on firm's stocks (D. T. Nguyen, Bui, & Do, 2019).

A bird in hand (dividend payment) is more preferable over two birds in the bush (Future inflows of capital gains) due to the risk averse behavior of the investor which intends to mitigate the uncertainty associated with gains (Al-Malkawi 2007; Dai, Zhou, Wen, & He, 2020). This theory was based on the underlying assumption of symmetric information available to all the investors at the same time. The author stated that investor will sacrifice a larger uncertain payment in future for relatively smaller certain payment at present.

Malkawi, (2007) explained that agency cost theory and dividend policy are related with each other managers with surplus cash flows can engaged in activities which are costly for shareholders but rewarding for managers (Hu, Ni, & Wen, 2020). Shareholders always want high dividend payouts when surplus cash is piled up in the firm, so the managers are left with less to bribe hence agency problem and dividend payments are interrelated (Dai, Zhou, Wen, & He, 2020). Jensen, (1986) also argued that managers with free cash will give more dividends.

Baskin, (1989) argued that result can be misleading due to problem of multicollinearity while using the two proxies of DP which are namely dividend payout ratio (DPR) and dividend yield (DY).

He introduced a new model to check the degree of responsiveness of SPV in response to DP by incorporating four control variables in the theoretical model which were size of firm, growth of assets, operating earnings, and leverage (Hu, Ni, & Wen, 2020). His findings showed that dividend policy is an effective tool to get a response from share prices. He empirically showed that SPV inversely related with DP. According to Di, Shaiban, and Hasanov (2021), higher level of dividend yields results in high market value, thus resulting in stable stock market prices, resulting in lower volatilities. Whereas high fluctuations in the dividend yield, lower level of shareholders wealth and low dividend payout ratio results in high level of stock market volatility (Liaqat, Nazir, & Ahmad, 2019; Mehmood & Farid Hasnu, 2019).

To measure the share price volatility different proxies have been used by different researchers in different era. Dr Said Shah and Syeda Urooj Baber, (2018); Prof. Dr. Radhe S. Pradhan and Nabin Gautam (2015) and Rozaimah Zainudin et al (2017) have used same proxies earning per share ratio to measure the volatility of stock. As well as other proxies which were mostly used by different researchers were ROE, share price, margin ratio, growth in assets, earning volatility and leverage (Adam Enebrand and Tobias Magnusson, 2018; Akram Budagaga, 2017; Rozaimah Zainudin et al 2013). Square of stock return (R) and Stock return (R) uses as proxies for share price volatility.

Akif Shah and Noreen (2016) examined behavior of prices of stock which affected due to policy of dividend by taking sample of 50 companies out of 11 different industries and reported that DPR and DY negatively affect the share price volatility (T. Nguyen, Nguyen, Tran, & Le, 2020).

Suleman et al., (2015) by employing the model presented by (Baskin, 1989) reported that dividend payments are inversely associated with SPV in context of PSX. The study undertaken by (Nazir et al., 2010) also further supported the findings of (Suleman et al., 2015) in context of PSX. Iqbal et al., (2014) and Nishat and Irfan (2003) studied the relationship in context of PSX and reported results which back the theory of relevance of dividend policy (Olatunde, Rasaki, and Jeremiah, 2020). Iqbal et al., (2014) and Nishat & Irfan (2003) also reported the responsiveness of stock price volatility towards dividend policy which approves the theory of relevance in context of PSX.

Munyua (2014) examined responsiveness of stock prices towards changes in dividend payments by taking sample of 61 companies from NSE and reported that stock price volatility responds directly to dividend policy.

Zakaria et al., (2012 found DPR (dividend payout ratio) related directly with SPV in context of Malaysian Stock Exchange (MSX) specifically for construction and material companies. They reported no relationship between DY (dividend yield) and SPV.

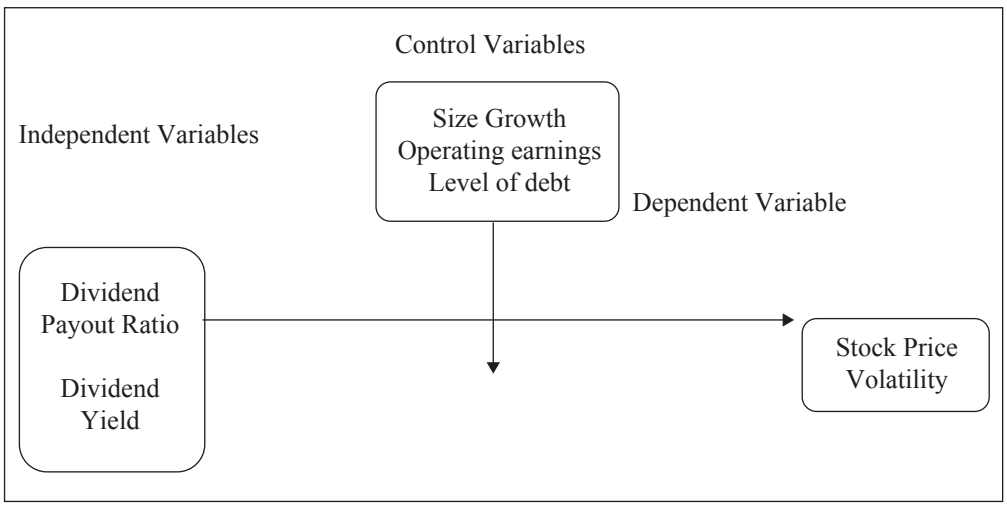

Figure 1: *Theoretical Model*

Research Hypothesis

Following hypothesis have been constructed on the basis of conceptual framework.

H_1: DPR (dividend payout ratio) has significant bearing on SPV of Modaraba Companies listed in PSX.

H_2: DY (dividend yield) has significant bearing on SPV of Modaraba Companies listed in PSX.

METHODS AND MATERIAL

This study undertaken in the context of sole Modaraba Sector of Pakistan Stock Exchange (PSX). Total 29 Modaraba Companies are listed on PSX. This study uses sampling technique to select 19 companies on the basis of availability of data relating to dependent and independent variables from the period 2010 to 2018. Those companies are selected which are declaring cash dividends and whose stock is being traded on PSX without any interruption or time lapse for the whole study period which is 2010 to 2018. The data for the purpose of empirical analysis has been taken from multiple sources which include Financial Statement Analysis of financial sector, annual reports of listed companies and PSX website. Historical prices of stocks are taken from Business recorder historical data archive and Ksestocks.com. The dependent variable is Share price volatility which is the deviation from the average market value of stock. The main independent variable is dividend policy which is measured through two proxies namely dividend payout ratio and dividend yield. The concept of measuring dividend policy with these proxies was proposed by (Basikin, 1989). Apart from dividend policy measuring proxies this study incorporated four control variables to address the problem of multicollinearity between dividend payout ratio and dividend yield.

Methodology

This study adopted the model proposed by Baskin, (1989) which he employed when regressing the dividend yield and dividend payout ratio on stock price volatility. Empirical analysis is comprised of descriptive statistics, panel data least square multiple regression technique and Correlation analysis. Hausman test is applied for the selection of robust and appropriate from Fixed and Random effect models. Following econometric model has been formulated to test the hypotheses of the study:

$$SPV_{it} = \beta_{\circ} + \beta_1 DPR_{it} + \beta_2 DY_{it} + \beta_3 DL_{it} + \beta_4 FS_{it} + \beta_5 FG_{it} + \beta_6 EV_{it} + \mu_{it}$$

On the left-hand side, Stock price volatility is the dependent variable, while on the right-hand side β_0 is the intercept and β_1 to β_2 are slope coefficients of independent and control variables. DPR represents dividend payout ratio, DY shows dividend yield, DL indicates debt level, FS means firm size and FG is firm growth.

In above model *i* represents cross sectional units while *t* indicates time units. μ is the error term which capture the unexplained variation in the dependent variable not being explained by independent variable included in the model? For estimation, fixed effects models used in the current study based on the housemen test. The fixed effect uses OLS regression, which estimates the model parameters and not under serial homogeneity. Allison says, "In a fixed-effects model, the unobserved variables are allowed to have any associations whatsoever with the observed variables." With time-invariant results, FE will control for or partly

eradicate the effects of time-unvaried constructs. This holds regardless of whether the variable is evaluated directly or not. This study uses a fixed effect approach in the regression model because when cross-sectional and time series data merges we get more disparity less internal co-relation between variables.

Definitions and formula of Variables

Dependent variable – SPV

The dependent variable of this study (SPV) is measured by taking the difference of highest and lowest annual stock prices and then dividing the difference which is in fact the range of stock prices with average of highest and lowest stock prices in that year. After division, the values are raised to power two for eliminating any negative values.

DY-Dividend yield

Dividend yield is one of the two proxies of dividend policy. It is calculated by dividing the dividend per share divided by the average price of the share in a year. It can also be expressed by division of total dividend per annum and total market value of stocks.

DPR-Dividend payout ratio

This is another proxy of dividend policy along with dividend yield included in this study. It is wieldy used as measure of dividend policy in numerous studies. It is expressed as the fraction of dividend per share and earning per share. It shows the portion of total profit distributed among the stockholders.

DL-Debt level

Debt level is one of the four control variables. In Modaraba Company's balance sheet long term liabilities refer as long-term debt. Debt level is expressed as the fraction of long-term liabilities of Modaraba companies (claims against the assets) and total assets of the company (resources owned and controlled by business).

FS-Firm size

Another control variable used in the model is firm size. The proxy for representing size of the firm is calculated by taking the natural log of total assets at the start of the year. Olson and McCann (1994) also proposed to incorporate the size in the model.

FG-Firm growth

Another control variable which is relevant in the discussion of impact of dividend policy on stock prices. FG is expressed as the percentage rise or fall in the total assets of the business with respect to the opening value of total assets.

EV-Earning volatility

The last control variable in the econometric model is earning volatility. PBIT to TA ratio is used to find the earning volatility. This ratio indicates the dispersion of PBIT from its mean. EV is measured through taking the square root of the variance of PBIT to TA ratio.

RESULTS

The first part of the result section comprises of a table 1. This table provides the summary of characteristics of all the variables used in this study. This table is presenting a broad picture of variables and their basic tendencies. SPV is dependent variable of this study and its range is from 0.5489 to -3.2043 the value of mean median and standard deviation of these variables are

as follow (-0.4229), (-0.3452), (.5315). Furthermore, DY and DPR are considered as two basic independent variables of that study. Both of these variables have different maximum and minimum values. Maximum value of DY and DPR is 0.5489 and 1.9355 correspondingly minimum values of DY and DPR are 0.00 and -10.7143. Whereas the values of standard deviation and mean are 0.1611, 0.0913 and 0.0667 of DY. Similarly values of DPR's S.D and mean are 0.9548 and 0.4201 respectively.

Firm size, Asset growth, earning volatility and firm leverage are considered as control variables of firm. FS is one of the most important control variables of the study who's maximum and minimum values are16.1456 and 9.6629 in sequence and values of S.D and Mean are 1.1975 and 13.2312. The range of FG is 9.0666 to -0.8848 but the value of S.D is 0.1112 and mean is 0.0711 as well as values of S.D and mean for FL are 0.1383, and 0.1175 and it range is from 0.7619 to 0.000. Maximum and minimum value range of earning volatility (EV)is from 0.7212 to -10.7143 but the value of mean is0.0454

In summary, Firm size has (13.231) mean which is highest among all variables and also have highest standard deviation with value 1.1975.

At the end of the table 1, all the variable names are given.

Table 1.
Descriptive Statistics

Variable	Observations	Mean	S.D	Min	Max
SPV	172	-0.4229	0.5315	-3.2043	0.5489
DPR	172	0.4201	0.9548	-10.71429	3.0000
DY	172	0.0913	0.1611	0	1.9355
DL	172	0.1175	0.1383	0	0.76191
FS	172	13.2312	1.1975	9.6629	16.1456
FG	172	0.0711	0.7208	-0.8848	9.0666
EV	172	0.0454	0.1112	0	0.7212

SPV: Stock price volatility, DPR: Dividend payout ratio, DY: Dividend yield, DL: Level of debt, FS: Firm size, FG: Firm growth, EV: Earning volatility.

Descriptive statistics represent the characteristics of the data collected, total number of observations are 172, the mean value represents the point where most of the importance of the collected data fall. Standard deviation shows the level of dispersion or variation in the data. In this case the standard deviation or dispersion is low. Moreover, all of the values fall between the minimum and maximum value range, so the data can be said to be normally distributed.

Table 2.
Unit Root Test

Variable	Method	Statistics	Prob.	Order
SPV	Levin, Lin & Chu t*	-3.7567	0.0001	1(0)
YD	Levin, Lin & Chu t*	-10.8644	0.0000	1(0)
DPO	Levin, Lin & Chu t*	0.2227	0.0111	1(0)
FS	Levin, Lin & Chu t*	-4.8822	0.0000	1(0)
FG	Levin, Lin & Chu t*	-7.7882	0.0000	1(0)
FEV	Levin, Lin & Chu t*	-4.8162	0.0000	1(0)
FL	Levin, Lin & Chu t*	-5.2693	0.0000	1(0)

H_o: There exists a unit root in the data.
H_1: There exists no unit root in the data.

The unit root test is applied for testing stationarity in the time series data, using this test it can be assessed that whether or not stationarity is present, if shifting time does not brings about a change in shape of the distribution, stationarity is present.

Table 3.
Random Effect and Fixed Effect Models

Results of Random effect model are as follows:

Variables	Coefficients	Standard error	t-statistics	Prob.
YD	-0.19562	0.28520	-0.68590	0.49380
DPO	-0.00643	0.04896	-0.13138	0.89560
FEV	-1.66233	0.46117	-3.60457	0.00040
FG	-0.03126	0.04402	-0.71019	0.47860
FL	-0.11922	0.31917	-0.37353	0.70920
FS	-0.11602	0.04901	-2.36730	0.01910
C	1.22514	0.64785	1.89107	0.06040

Random Effect and Fixed Effect Models

Fixed effect model consists of levels of independent variables that are fixed, and these fixed levels or values only change in response to the levels of independent variables. Fixed effect is also a statistical model which is specially used in regression, but it also used in ANOVA and E views with supposing that independent variables will remain fixed. This model is used to simplify the results and simplification of results will be applied to the same values of study's independent variable. It helps to explain the relationship among the dependent and independent variables of firm. In fixed effect model time variation characteristics are eliminated to check the net effect and results of independent variable. Fixed effect helps to reduce the standard error.

Table 4.
Fixed Effect Model

Variables	Coefficients	Standard error	t-statistics	Prob.
YD	-0.02638	0.29573	-0.08922	0.01920
DPO	0.26448	0.05118	0.51677	0.04601
FEV	1.40580	0.70551	-1.99259	0.04820
FG	-0.01733	0.04546	-0.38110	0.70370
FL	0.45682	0.37520	-1.21754	0.22540
FS	-0.06935	1.38987	-0.65795	0.51160
C	0.60450	1.38987	0.43490	0.66420

Hausman Test

Hausman test is applied for selection of appropriate model between Fixed effect model and random effect model. Hausman test uses the chi square distribution to check the robustness of model. The hypothesis of Hausman test is.

H_o: Random effect model is appropriate and good for robust estimation.
H_1: Fixed effect model is appropriate and suitable for analysis through panel data regression.

The p value is greater than 5% which means we reject H1 which is the alternative hypothesis. In light of Hausman test we accept Random effect model and its appropriateness for estimation.

Table 5.
Hausman test

Details	chi square	chi square d. f	P
Cross section random	14.6281	6	0.0234

DISCUSSION

Both hypothesis of this study has been accepted on the basis of the results. DPR and DY both the proxies of dividend policy decisions (DPD) have considerable significant effect on stock prices volatile trend (SPVT). A large number of research studies reported evidence of significant responsiveness of stock prices towards dividend payment decisions in both developing and developed stock markets. Researchers found significant positive and negative link between dividend payment decisions and stock price fluctuations because of varying macroeconomic variables and political environment in different countries (Olatunde, Rasaki, & Jeremiah, 2020). This suggests that firms with higher dividend payments have stable stock prices in market. The companies with lower dividend face higher uncertainty in stock prices and have more volatile stocks (Tasnia, AlHabshi, & Rosman, 2020). The results are in line with the research undertaken by Baskin, (1989) on USA. The control variable leverage is also a good regressor of SPV which have significant association with SPV and impact positively. Firms with higher leverage face volatility in prices and firms with higher equity have (T. Nguyen, Nguyen, Tran, & Le, 2020). Studies carried out by researchers in developing countries yielded conflicting results. Rashid and Anisur Rahman (2008) examined the link between SPV and DP and reported the relationship insignificant. On the contrary (Nazir et al; 2010). (Iqbal et al; 2014) and (Nishat & Irfan; 2003) carried studies in context of PSX a similar market to DSE but reported the responsiveness of stock price volatility towards dividend policy which approves the theory of relevance in context of PSX.

In developed market like London Stock Exchange; Hussainey, Mgbame, & Chijoke-Mgbame,, (2011) reported very interesting results. His study showed inversely related stock prices towards dividend payments which suggest lower share price fluctuations in response to higher dividend payments (Olatunde, Rasaki, & Jeremiah, 2020; Al-Sharif, 2020). Another study was carried out by (Allen & Rachim, 1996) by taking sample from Australian Stock Exchange which reported that earning variations cause variations in stock prices. It can be concluded from this study that companies with more volatile earnings are like to face more stock price fluctuations.

CONCLUSION

This study is carried out with aim of testing the association between dividend policy decisions (DP) on share price Volatility (SPV) of Modaraba Companies quoted in PSX. The data for empirical analysis was collected from PSX and Brecorder archive. By using convenient sampling, a sample of 19 Modaraba Companies was taken from 2010 to 2018. Empirical analysis conducted by using E views technique by employing fixed effect model on panel data. This study also incorporated four control variables (size, growth, operating earning & level of debt) in empirical analysis to avoid the problems of multicollinearity between dividend policy measures and SPV. The result of the study validates the theory of relevance of dividend in

context of Modaraba companies listed in PSX. DPR is significantly and positively causing variations in SPV. The other proxy DY is also shown results which implied that DY and SPV are inversely related and have significant relationship with each other. This suggests that firms with higher dividend payments have stable stock prices in market. The companies with lower dividend face higher uncertainty in stock prices and have more volatile stocks. The results are in line with the research undertaken by Baskin (1989) on USA. The control variable FL have significant association with SPV and impact positively. Firms with higher leverage face volatility in prices and firms with higher equity have stable stock prices.

But FS demonstrated insignificant link with SPV. Probability value of FG (Firm growth) is 0.70370 which shows that it has no relation with the stock prices and growth of assets does not influence the market price of stock. These results are contradicting with the study of Baskin (1989), Allen et al., (1996) and Ahmed, (2014). Firm earning volatility is another control variable that positively correlates with SPV and EV with a 1.40580 coefficient value and probability value of that is 0.048, which represents a significant level of significance. These results are proved by the results of Baskin (1989), Allen et al., (1996) and Hashemijoo (2012). Studies of these researchers demonstrated that EV has a positive influence on SPV, but reviews of Asghar et al., (2011), Rashisd & Rahman, (2008) concluded opposite results. This study has discussed the impacts of dividend yield and dividend payout ratio on the stock market volatility considering the Modaraba Companies Listed on Pakistan Stock Exchange. Therefore, policymakers can formulate and implement policies regarding dividend yield and dividend payout ratio based on Modaraba companies' aspects.

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