

- **Walter's Model** Price per share is the sum of the present value of the infinite stream of constant dividends and present value of the infinite stream of capital gains.

$$P = (\text{DIV} / k) + \frac{\left(\frac{r}{k}\right)}{k}(\text{EPS} - \text{DIV})$$

- **Gordon's Model** Market value of a share is equal to the present value of an infinite stream of dividends to be received by shareholders.

$$P = \text{EPS}(1 - b)/(k - br)$$

- **Bird-in-the-hands Argument** Investors are risk averters. They consider distant dividends as less certain than near dividends. Rate at which an investor discounts his dividend stream from a given firm increases with the futurity of dividend stream and hence lowering share prices.
- **M-M Model** According to *M-M*, under a perfect market situation, the dividend policy of a firm is irrelevant as it does not affect the value of the firm. They argue that the value of the firm depends on firm earnings which results

from its investment policy. Thus when investment decision of the firm is given, dividend decision is of no significance.

- **Information Content** In an uncertain world in which verbal statements can be ignored or misinterpreted, dividend action does provide a clear cut means of 'making a statement' that speaks louder than a thousand words.
- **Market Imperfections** Tax Differential—Low Payout Clientele, Flotation Cost, Transaction and Agency Cost, Information Asymmetry, Diversification, Uncertainty—High Payout Clientele, Desire for Steady Income, and No or Low Tax on Dividends: