

**A CATERING THEORY OF DIVIDENDS:
(EVIDENCE FROM LISTED COMPANIES IN THAILAND)**

Abstract

In this paper, I examine the impact of the investor's demand of a dividend payment in the management's decision to pay dividend. I expect that managers cater investors by paying dividends when investors add a dividend premium in stock price and by not paying when the dividend premium is negative. To test this prediction, I find the dividend premium to measures of investor demand for dividend. The results show that on average, firms tend to initiate dividends when demand is high or dividend premium is positive and omit dividends when demand is low or dividend premium is negative. I have used the regression analysis to test the relationship between the rate of dividend initiation, dividend premium and other variables. I find that dividend premium has a significant relation to rate of dividend initiation especially in the case of high book asset firms and not so significant for low book asset firms. Other variables that can help to explain the catering theory is dividend yield and ratio of the market to book value for nondividend paying firms which are significant in relation to rate of dividend initiation.