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Fundamental Factors Influencing Price Earnings Relationships: A Cross Sectional Study (Classic Reprint)

By Sudhir Krishnamurthi

Forgotten Books, United States, 2015. Paperback. Book Condition: New. 229 x 152 mm. Language: English . Brand New Book ***** Print on Demand *****.Excerpt from Fundamental Factors Influencing Price Earnings Relationships: A Cross Sectional Study Factors such as size, growth, the explanatory power of the dividend-earnings regression are also important in explaining the relationship. And finally, we find that the industry factor is important in explaining the variability of the slope coefficient and its significance in the price earnings relationship. With the analysis in this paper we shed new light into phenomena observed by other researchers. For example, we reconfirm that the slope of the price earnings regression, which is similar to the P/E ratio, is higher for larger firms (Basu [1978]). This result has usually been attributed to the better quality of earnings for larger firms. Our investigation reveals that this slope is larger for firms which have a higher dividend payout ratio. Further, we observe that large firms have a higher dividend payout ratio, which fully accounts for their higher price earnings slope. We can explain this result by assuming that managements of large firms pay out a higher fraction of their earnings as dividends because of the...



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