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Assessing the Relationship between Dividends per Share and Stock Prices On the Tehran Stock Exchange

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ABSTRACT

The current study aimed to assess the correlation between dividends and stock prices in Tehran Stock Exchange Market. It is applied in terms of the objective, and descriptive-correlational in terms of the method. The statistical population included the companies listed on the Tehran Stock Exchange among which 470 were chosen as the sample by the use of a convenience random sampling. Following the related literature, the multiple linear regression has been used in the current study for which the functional data in 5 years (2015-2019) have been subsequently used in the DATA Panel method. The Eviews 7 Software has been used for hypothesis testing. The results indicated that the coefficient of the variable dividends for each share has been calculated at 0.095. Since this value is positive, it can be concluded the dividend per share in the random sample companies is directly correlated with the share price. The significance level has been equal to 0.000, so, there is a linear correlation between the dividend per share and the share price at the 99% confidence level.

Keywords: Share price, dividend per share, Tehran Stock Exchange, panel data.


INTRODUCTION

The main basis for pricing the companies' stocks was the profit per share according to the authorities and experts on Tehran Stock Exchange. This committee used the retail and wholesale methods to price companies' shares. The main difference in the calculation of the stock price between these two methods was derived from the difference between the investors' goal of buying stocks. Obviously, the investment was controlled by the number of board members selected by him/her (the investor) in the company which depended on the percentage of his/her stocks in each company (Jahankhani & Abdollahzadeh, 2000, 21).

Some people believe that the main objective of the stock corporations should be maximizing social welfare. Although this goal is very sublime, it is practically impossible. And that is why some people believe the objective of the stock corporations should be to maximize the stock price. On the other hand, the stock price is one of the items people highly tend to predict, since it is used by both internal users (such as the financial managers and executives) and external users (such as the creditors and investors). For example, the investors' goal of investment in the

companies is to earn reasonable returns. The stock return consists of two parts of changes in stock price and return. Therefore, one of the decision-making criteria for the stock trading is the stock price (its changes) and that is why the factors effective in the stock price should be specified to provide a model of price prediction. The researchers, especially, the fundamentalists, seek to investigate what factors are correlated with the corporation's stock value (Ebrahimi & Saeidi, 2010).

Accounting research is faced with several various intellectual systems such as the economy, finance, and accounting. The use of common concepts such as the costs, profit, return, price, asset, capital, etc. has led to the further misguidance of the studies. The lack of a complete accounting theory and its introduction as a profession has made its customary and contractual aspects more prominent. And as a result, accounting has been more introduced as a set of methods formulated to meet specific conditions and situations. Many accounting data users and even professionals are not sufficiently aware of the limitations of this knowledge and its assumptions. Compliance with accounting and auditing standards and their consolidation and legalization in many countries have also led accountants to have less leeway in the face of environmental change (Ebrahimi & Saeidi, 2010).



The accounting changes and evolutions, unlike the economy, are mainly affected by the environmental changes and the accountants' reaction to economic and legal changes and crises, etc. rather than the provision of new theories in the academic community. In this process, both the users and the professionals experience behavioral stability. Through some presumptions, the economic theories try to simplify the complex words so that they can be reduced to simple, linear mathematical models that allow calculations and predictions to be made, and accountants simplify the same simplified economic models with other resummptions to measure the models' variables in a convincing way (Saghafi, 2003).

Accounting is reduced to some methods and its flexibility degree in the face of complex and dynamic situations in the real world has become very low. It provides solutions that are static and based on fixed and predetermined methods and customs. Therefore, the accountants should change the realities, which have a basically multi-dimensional nature, into one-dimensional items, i.e. make the impossible possible. The excessive simplification and lack of attention to the model's presumptions as well as the use of the model mechanically, and preparing its data based on substitute accounting information have led to the mistakes in prediction and misleading users of research results. The collision of these intellectual systems in the recent decade due to the activation of the Stock Exchange and the issue of valuing and pricing the stocks have been manifested in recent studies (Saghafi, 2003). Thus, the current study aimed to assess the correlation between the dividend per share and share price on Tehran Stock Exchange.

Theoretical Framework:

Correlation between the Dividend Policies and Stock Price:

Prof. James E. Walter argues that the dividend policy almost always affects the value of the corporation. His model is one of the first theoretical works to indicate the correlation between the internal rate of return of the company (r) and its capital cost (k) in the determination of the dividend policy to maximize the current value of shareholders' wealth. Walter's model is based on the following assumptions (Eslami Bidgoli, 1991, 14): All profits made by the corporation are considered dividends or consumed for internal investment. All the necessary funds for investment are provided from the residual income of the corporation and as a result, no new debt is created. The internal rate of return of the company (r) and the cost of its capital (k) are fixed. The income and dividends never change. The value of earnings per share (E) and the dividend per share (D) may change to determine the outcome, but any value given to (E) and (D) to determine the value of the share is assumed to be fixed. The life of the company is very long or unlimited.

Signaling Theory of Dividend:

The dividend policy and its change can contain information for the shareholders. Investors buy a company's stocks whose dividend policy is acceptable. The amount of dividends proposed by the board of directors usually contains information about the expectations of managers about the future profitability of the company. Obviously, if the company's management seeks to increase the dividend, it actually claims that the profitability of the company is increased. The researchers believe that sudden change in the dividends is indicative of important information, especially when the dividends are decreased or not paid at all. Usually, in an efficient market, the company management applies this method when they want to convey the message to the shareholders and investors that the next year's profit will be decreased (Jahankhani & Parsaeian, 1994, 165).



Limitations and Factors Effective on the Dividend Policies:

In addition to consideration for the legal cases, the companies should also consider other factors and limitations most important of which are (Dastgir, 2008, 45):

Since the dividend is indicative of the cash outflow from the company, the better the company's liquidity condition, the higher the dividends. Profit alone is not a reason to divide it, but there must be enough liquidity. A company that is profitable and growing, because it invests its cash in fixed assets, may not have enough liquidity. Therefore, some companies decrease their dividend due to a lack of enough liquidity or borrow from financing institutions to keep their dividends at the same level so that shareholders do not see a reduction in dividends as a sign of the company's unprofitability in the future.

1- Companies' Access to the Money and Capital Markets:

The higher the ability of the companies in borrowing and securing liquidity through debt, their flexibility in payment of the dividends will be higher. Securing a loan might be done through the issuance of bonds or referral to the capital market. The bigger and the more organized the company, the higher its access to the capital markets. In addition, the higher the ability of the

company to secure a loan and raise funds by loans, the higher its flexibility in payment of the dividends (Dastgir, 2008).

2- Time Limitations:

The fourth important factor in dividend policy is the existence of legal restrictions that greatly impede many of the company's actions. Some regulations usually do not allow the company's management to act as they wish for the determination and payment of the dividends. Sometimes, the existence of these restrictions leads to deviation of the company from its usual path and implement a policy that is unexpected for shareholders (Dastgir, 2008).

3- Tax:

In many countries, the rate of income tax is derived from the profit earned by the increase in stock price or the dividend is the same, and the total annual dividend received by the individuals is subject to tax, however, the income tax from the stock price increase would be payable in the year in which the stocks are sold, and the companies should adopt a policy that is at least not imposing tax load on the shareholders (Dastgir, 2008).

3- Shareholders' Needs:

Another factor that should be taken into consideration while formulating the dividend policy is the shareholders' need. Generally, we do not aim to show that the shareholder is seeking more or less profit but to show that the shareholders are interested in a stable dividend distribution policy. The shareholders, as the main owner of the company, have a share in the company's net profit and therefore can share a part of the company's dividend among themselves. Basically, some shareholders buy the common stocks intending to receive an amount as a dividend, annually and continuously, and finally, some shareholders buy the common stocks intending to receive the dividend and increase in the stocks price. In terms of the existence of various interests, some shareholders prefer to invest in companies with higher continuous and annual dividends, while some others are interested in companies with lower annual dividends but higher stock prices. The presence of different interests indicates that if a company adopt a stable policy in terms of the dividend distribution, those investors who are interested in the dividend policy of the company buy the common stocks of the company would remain a shareholder as long as the company does not change its policy (Jahankhani & Parsaeian, 1994, 156).

Review of Related Literature:

Francis (2008) has investigated the relationship between the accruals components and cash flows and the stock return and found out that the profit components and stock returns are positively and significantly correlated. This correlation is especially stronger between the cash flows and accounts receivable.



The findings of Mohd Halim Kadri et al. (2009) in a study entitled “the correlation between market value and book value and earnings” in Malaysia, which was conducted according to both international accounting standards and the Malaysian standards, indicate that based on market value-based approach, the variables of book value and earnings are significantly correlated with the market value. This evidence indicates that with the change in the reporting system, the results are also affected in a way that with the adoption of the Malaysian accounting standards, both the book value and earnings variables are significantly correlated with the market value, however, with the adoption of the international accounting standards, only the book value was significantly correlated with the market value.

Habib, Wesam M. Shamel M. Elhamawy (2010) investigated the information content of the cash and accrual components of the profit in Egypt. They concluded that both cash and accrual components of the profit are effective in the prediction of stock value and abnormal earning forecast. Also, the cash flows and stock market value are positively correlated, while the accruals and stock market value are negatively correlated.

Abdel Razaq et al. (2014) aimed to identify the effects of some of the accounting variables (dividend payment ratio, dividend performance, market value, net income fluctuations, debt ratio, and assets of the company) on the stock price fluctuations in Amman’s Stock Exchange Market over 200-2010 period. Their results indicated that the accounting variables (dividend payment ratio, dividend performance, market value, net income fluctuations, debt ratio, and assets of the company) explain 3.8% of the stock price fluctuations while 96.2% of the price fluctuations are due to other reasons. The results of this study showed that there is a weak important correlation between the dividends payment ratio and fluctuations in stock prices. Finally, the results indicated that the accounting variables and the stock price fluctuations are not significantly correlated.

Hanifi et al. (2013): Prediction of the stock price and a proper strategy for stock trade is the subject of many studies. Among the notable discussions in this field is the fundamental analysis. This study investigates the explanatory power of some fundamental variables. The results indicated that the fundamental variables which are earning per share predicted earnings per share, return on shareholders' equity, and book value have a significantly positive correlation with the stock price in the seasonal data, except for the return on shareholders' equity. All variables have an above-90% explanatory power for the stock price. Basiri and Khanmohammadi (2013) investigated the effects of stable earnings growth on the stock price and the earning per share forecast on the Tehran Stock Exchange. The statistical analysis indicated that the reaction of the stock exchange to bad forecast news and the horizon of earnings per share forecast in companies with stable earnings growth is different from other companies, while the reaction of the stock exchange to the good forecasts news and the accuracy earnings per share forecast has not been affected by the stable earning growth. In this regard, it seems that the investors' reaction to the bad news is affected by their attitude towards the validity and importance of this news.



Mehrani and Mehrali (2013) investigated the effects of the EPS, P/E, and DPS on the stock price index in the companies listed on the Tehran Stock Exchange under sanction conditions over the period 2004 to 2010. Based on the results obtained from the related tests, the three variables of the EPS, DPS, and P/E were significantly correlated with the stock price index and predicted 98.7% of the total changes in all share indexes.

Sajjadi et al. (2013) investigated the correlation between the cash and accrual components and the stock price of companies listed on the Tehran Stock Exchange. The results of the first test indicated that the cash components are positively and significantly correlated with the stock price, and the rate of stock price increase in the companies with higher earnings cash components is greater than the other companies. The results of the second hypothesis testing also indicated that the accruals, discretionary accruals, and non- discretionary accruals are significantly and positively correlated with the stock prices. In addition, the rate of stock price increase in the companies with high-quality discretionary and non- discretionary accruals is higher.

Banimahd et al. (2014) investigated the behavioral stability hypothesis in Tehran Stock Exchange. They concluded that whenever the earnings per share in a company are higher than the previous year, the stock prices are also increased. Based on this conclusion, it can be argued that the positive changes in the earnings per share are more derived from the earning management and it is in line with the behavioral stability hypothesis.

Rahmani et al. (2014) investigated the correlation between the systematic stock risk (market beta) and the macro-variables and accounting data in Tehran Stock Exchange. The results were indicative of the correlation between some macro-variables and accounting data, and the market beta. In the fitted model, based on the significance level of the variables, the most important accounting variables included firm size, company growth and debt ratio of the accounting information type, GDP growth variables, bank interest rates, inflation, crude oil price changes, and exchange rate changes of the macro-variables type.

Methodology:

The current study is applied in terms of the objective, and descriptive-correlational in terms of the method. The statistical population included the companies listed on Tehran Stock Exchange with the following inclusion criteria:

- 1- The company's stocks should be traded on Tehran Stock Exchange over the 2012-2016 period.
- 2- The company is not transferred to the OTC.
- 3- The trading is active for the company and it has been traded at least once over the year.
- 4- The fiscal year of the company should end in March and it should not be changed over the studied period.
- 5- The financial information of the company over the studied period is available.



6- The company should not be included in the financial intermediary companies group.

Table 1: The number of companies considered for the statistical population

Description	Frequency	Frequency
All companies listed on the stock exchange until the end of 2019		523
The number of companies that have been part of investment companies and banks.	65	
For homogeneity, companies whose fiscal year does not end at 12/29.	133	
The number of companies whose trading symbol has been halted for more than 4 months.	153	
The number of companies whose information is not available for the entire research period.	47	
Total excluded companies		398
Number of the companies included in the statistical population		125

The companies which have not provided the data required for the calculation of the research variables have been excluded from the statistical population and finally, 125 companies were selected as the statistical population for 5 years. Then, based on the Krejcie and Morgan table, the sample size was calculated to be 94 companies that were selected by simple random sampling. Therefore, the final volume of the sample has been 470 year/company which was used as the data for hypothesis testing.



Following the related literature, the multiple linear regression has been used in the current study for which the functional data in 5 years (2015-2019) have been subsequently used in the DATA Panel method.

The Mathematical Model of the Study:

In this expression, the variables have been defined and measured by the mathematical or logical symbols and equations, and the correlation between the variables has been also defined. The general equation of the current study is a single-variable model defined as follows:

$$Y=f(X_2, X_4, X_5)$$

Where:

- 1- Y is the stock price
- 2- X_2 is the dividend per share
- 3- X_4 is the firm size
- 4- X_5 is financial leverage

Variables Measurement Method:

1- Y: Stock Price: it is obtained from the average stock price throughout the year.

Y= Average Stock Price

3- X₂: Dividend per share: It is calculated by the following formula:

$$X_2 = \frac{\text{dividend}}{\text{number of common shares}}$$

4- X₄: Firm Size X₄=log of net sales

5- X₅: Financial Leverage: X₅= Total Assets/Total Debt

The Correlation between the Variables:

In the current study, the following multiple linear regression has been used to obtain the correlation between the variables:

$$+\beta_r X_r + \beta_\Delta X_\Delta + X_r \beta_r + Y = \alpha +$$

Measurement of the Equation:

In this study, to estimate the relationship between the variables, multiple linear regression and econometrics have been used. Based on the performance data over the 5-year period from 2015 to 2019, or in other words, 5 dependent random samples, the values of the independent variables X₁, X₂, X₃, X₄, and X₅, and the dependent variable Y have been determined. The Panel Data have been also used to calculate the parameters α , and β_1 to β_5 . The Eviews Software Ver.7 has been also used to test the hypotheses.

Findings:

The results of the description of the findings are presented in Table (2). In this table, the descriptive statistics of the research variables have been calculated.

Table 2: Description of the research findings:

Symbol	Variable's name	Minimum	Maximum	Mean	Standard deviation	Skew coefficient	Coefficient of kurtosis
Y	Stock price	150	45892.0	4820.11	521.48	2.89	13.26
X ₂	Dividend per share	101.40	5164.47	445.30	62.84	3.01	13.23
X ₄	Firm size	9.10	18.49	13.17	1.85	0.113	1.68
X ₅	Financial leverage	0.10	0.91	0.618	0.232	2.12	1.38

The stock prices in the sample companies have been at least 150 and at most 45892, relatively. The average stock price has been 4820.11 with a standard deviation of 521.48. The dividend per share which is equal to the total paid dividend divided by the total number of shares has been at least 101.40 and at most 5164.47. Its average value among the sample companies has been 445.30 with a standard deviation of 62.84. The firm size which is equal to the natural logarithm of the total sales of the company has been at least 9.10 and at most 18.49. Its average value among the sample companies has been 13.17 with a standard deviation of 1.85. The financial average among the sample companies has been at least 0.10 and at most 0.91, relatively. Its average value among the sample companies has been 0.618 with a standard deviation of 0.232.

Table 3: Results of the Kolmogorov–Smirnov test for the dependent variable

Variable		Kolmogorov Z- statistic	Significance level	Result
Stock price	Y	4.24	0.000	Distribution is not normal

Regarding the calculated significance level in Table 4-6, and since the significance levels correspondent to the Kolmogorov-Smirnov statistic for the dependent variable of the stock price is above 0.05 or 5% of the test level, the H₀ hypothesis of “normality of dependent variable distribution” is approved at the 95% probability.



Table 4: Results of the Kolmogorov–Smirnov test for the independent variable

Variable		Kolmogorov-Smirnov statistic	Significance level	Result
Dividend per share	X ₂	5.076	0.000	Distribution is not normal
Firm size	X ₄	0.116	0.121	Distribution is not normal
Financial leverage	X ₅	0.128	0.119	Distribution is not normal

Regarding the calculated significance level in Table 4, and since the significance levels correspondent to the Kolmogorov-Smirnov statistic for the dependent variable of the stock price is above 0.05 or 5% of the test level, the H₀ hypothesis of “normality of independent variable distribution” is approved at the 95% probability.

Table 5: Summary of F-Limer Test results

Correlation	F-statistic	Probability	Test result
Stock price and accounting variables	**3.46	0.0000	Rejection of H ₀

Based on Table 5, the F-limer statistic for estimating the correlation between the stock price and accounting variables as the independent variables has been equal to 3.46, and its corresponding significance level has approached zero and is lower than 1 and 5%. Based on the significance level, it can be asserted that the test result is significant at the 95 and even 99% significance levels. Accordingly, it can be concluded that for all the years studied, the HO hypothesis on the equality of the intercepts in all estimated correlations is rejected. Therefore, the inequality of the intercepts is approved at the 99% significance level.

The parameters of the multiple regression correlation between the variables based on the panel data were estimated by the use of EViews, summarized in Table (6).

Table 6: Estimation of parameters of correlation between the stock price and accounting variables

Description	Symbol	Coefficient	Standard deviation	T-statistic	Significance level
Intercept	---	4.26	0.200	21.31	0.000
Dividend per share	X ₂	0.095	0.014	6.70	0.000
Firm size	X ₄	0.045	0.012	3.63	0.003
Financial leverage	X ₅	-0.133	0.096	-1.38	0.165

In the table (6), in addition to the intercept or the constant value of the estimated correlation, the standard slope, and deviation of the first estimated linear correlation, a Student's t-test, and finally, based on this statistic, the significance level or the smallest test level for each variable have been provided to reject the HO. If the estimated parameters in Table (6) are replaced in the parametric linear equation of the mathematical model of the study, the mathematic correlation between the variables is obtained in the form of the following linear equation:

$$P = 4/26 + 0/095DPS + 0/045SIZE - 0/133 LEV + \varepsilon$$

Based on the regression estimates summarized in Table (6), the coefficient of this variable which is shown with the mathematical symbol X₂ is equal to 0.095. Since this value is positive, it can be concluded that “the dividend per share is directly correlated with the stock price”, i.e. parallel to the increase in the dividend per share as one of the company's accounting variables measures, the rate of the stock price has been also increased. Its significance level provided in the last column and is correspondent to a student's t-statistic is equal to 0.00 which is lower than 1%. Therefore, the HO hypothesis on the lack of a linear correlation between the dividend per share and the stock price in the statistical population or the selected companies of the Tehran Stock Exchange is rejected. In other words, the H1 hypothesis on the existence of a linear correlation between the dividend per share and the stock price is approved at the 99% confidence level.

The coefficient of the firm size variable was calculated as 0.045. Since this value is positive, it can be concluded that the firm size in the random sample's companies is directly correlated with the stock prices. The corresponding significance level has been equal to 0.0003, so the hypothesis of the existence of a linear correlation between the firm size and the stock price is approved at a 99% confidence level.

The coefficient of the financial leverage variable was calculated as -0.133. Since this value is negative, it can be concluded that the financial leverage in the random sample's companies is inversely correlated with the stock prices. The corresponding significance level has been equal to 0.0003165, so the H0 on the lack of a linear correlation between the financial leverage and the stock price of the selected companies on the Tehran Stock Exchange is approved. In other words, the hypothesis of the existence of a linear correlation between the financial leverage and the stock price is rejected at a 95% confidence level.

Conclusion:

The current study aimed to assess the correlation between the dividend per share and stock price on Tehran Stock Exchange. The description of the data or research variables indicated that the stock prices in the sample companies have been at least 150 and at most 45892, relatively. The average stock price has been 4820.11 with a standard deviation of 521.48. The dividend per share which is equal to the total paid dividend divided by the total number of shares has been at least 101.40 and at most 5164.47. Its average value among the sample companies has been 445.30 with a standard deviation of 62.84. The firm size which is equal to the natural logarithm of the total sales of the company has been at least 9.10 and at most 18.49. Its average value among the sample companies has been 13.17 with a standard deviation of 1.85. The financial average among the sample companies has been at least 0.10 and at most 0.91, relatively. Its average value among the sample companies has been 0.618 with a standard deviation of 0.232.

The results indicated that the coefficient of the variable dividends for each share has been calculated to be 0.095. Since this value is positive, it can be concluded the dividend per share in the random sample companies is directly correlated with the share price. The significance level has been equal to 0.000, so, there is a linear correlation between the dividend per share and the share price at the 99% confidence level.

The coefficient of the firm size variable was calculated as 0.045. Since this value is positive, it can be concluded that the firm size in the random sample's companies is directly correlated with the stock prices. The corresponding significance level has been equal to 0.0003, so the hypothesis of the existence of a linear correlation between the firm size and the stock price is approved at a 99% confidence level. The coefficient of the financial leverage variable was calculated as -0.133. Since this value is negative, it can be concluded that the financial leverage in the random sample's companies is inversely correlated with the stock prices. The corresponding significance level has been equal to 0.0003165, so the H0 on the lack of a linear correlation between the financial leverage and the stock price of the selected companies on the Tehran Stock Exchange



is approved. In other words, the hypothesis of the existence of a linear correlation between the financial leverage and the stock price is rejected at a 95% confidence level.

Based on Baradaran Hasanzadeh et al. (2010) study, the changes in the book value of each share and the earnings per each share are significantly correlated with the stock prices, and the correlation of changes in the book value of each share is higher than that of the earnings per each share. These results are similar to the results obtained in the current study. Ebrahimi and Saeidi's results (2010) are also similar to the results of the current study in some respects. They investigated the correlation between the accounting variables, firm attributes, and the stock prices on Tehran Stock Exchange, and concluded that the studied accounting variables included the book value per share, return on assets, asset turnover, operating cash flow per share, and earnings per share. The attributes of the surveyed companies included the stock price of the previous period, the size of the firm size, and the date of establishment of the company.

The results of the current study depend on the historical data of the selected companies listed on the stock market over the 2015-2019 period, and it is not possible to generalize the results outside this scope, although it can be generalized by repeating it at different periods. Regarding the main duty of the managers which is the promotion of the investors' capital to the highest possible amount, they should pay special attention to the accounting variables and Implement appropriate strategies to increase shareholders' capital.

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