

Effect of Bonus Issue Information and its Context on Price and Volume of Shares

REMYA RAMACHANDRAN*

TOMY MATHEW**

Abstract

The study examines the stock price and volume reaction resultant upon bonus issue information. It also evaluates whether there are abnormal returns and dramatic increase in the volume upon bonus issue announcements. The study uses a sample of 100 companies of BSE 100 index for a period of 5 years from 1st April 2004 to 31st March 2009 and only bonus issue is considered as a corporate event. 30 day pre and post announcement of information for each company having bonus issue have been considered. It is empirically hence evidenced that under stable market condition & the investor cannot earn abnormal returns and there is no significant change in the trading volume upon the release of bonus issue information. However, during the recession time, the bonus issue would have significant impact on the security returns. Further the Indian markets exhibit semi strong form of efficiency under normal market conditions.

I. Introduction

STOCK MARKET SECURITIES are more than a passive token of investment value to those who deal in it. In the present day financial markets, investment has become complicated and is both an art and science. The art of the investment is to see that the return is maximized with the minimum of risk, which is inherent in investments. A number of factors – both internal and external to the organization can cause changes in the returns of the securities and a study of these factors and the pattern of their impact on security returns have generated considerable interest to all the stake holders of the capital market.

The cumulative effect of a number of corporate actions can cause a share to undergo a complete metamorphosis. Corporate actions and the consequent corporate information are potential sources that capital markets may use in revising the prices of common stocks.

* Assistant Professor of Commerce, Sacred Heart College, Thevara, Cochin, Kerela, INDIA
** Associate Professor of Commerce, CMS College, Nagampadam, Kottayam, Kerela 686001, INDIA