

This thesis deals with the question of whether there is a positive relationship between dividend and firm's value. Thesis focuses on the signaling theory which states that dividends convey information from managers about the future performance of the company to investors. The first part covers theoretical background for determining the optimal level of dividends. It focuses on description of processes how firm's future profitability may be communicated via dividends and critical assessment of signaling models, particularly in respect to their assumptions and the relationship between dividends and stock repurchase. The second part verifies the signaling theory based on data from WSE (Warsaw Stock Exchange). It describes the specifics of Polish market and the methodology of data collection. Then hypotheses whether the amount of dividend has an impact on the stock price on the day of the announcement and whether announced dividend convey the information about firm's future profitability are tested. In the end there are presented the results. Analysis of the collected data gave mixed evidence for the signalling theory. Data confirmed the relationship between dividends and firms' future profitability, but not the relationship with stock prices. Based on the results I hypothesise that the information contained in dividends is not exclusive, i.e. at the time of dividend announcement managers have already an access to the information it conveys.