

## ABSTRACT

Indonesian Stock Exchange (IDX) keeps growing every year, and from the increasing number of activities shows more people interested to become investor. In Indonesian companies, dividend plays an important role. Indonesian managers believe that dividend has significant influence on firm values. These facts above increased the need of understanding about the dividend policy and its effect on the price volatility, which is a common proxy for risk.

This study will use a quantitative approach by using basic research, using 330 data of firms of publicly listed companies in Indonesia that paid dividend to its shareholders each year within period 2012 to 2014. Multiple regression analyses are used to explore the association between share price changes and both dividend yield and payout ratio. A positive relation is found between dividend yield and share price changes, and a negative relation between dividend payout ratio and share price changes. In addition, it is shown that long-term debt also explain share price changes.

This research supports the fact that dividend policy is relevant in determining share price changes for a sample of firms listed in Indonesia Stock Exchange (IDX) which are caused by the risk of share price that measured using share price volatility. Therefore, this research finding have important implications on the stakeholders, which are people interested in Indonesia's stock market but not involved, company's management, and investors, since this research findings help them in decision making.

*Keywords: Dividends, Business policy, Share prices, Indonesia, Share Price Risk.*