## *ABSTRACT*

This research is aimed to investigate whether managers tend to pay the dividend based on the dividend premium or not. The dividend catering theory argues that the decision to pay dividend is driven by investors demand. Studies on catering dividend have shown mixed results. Ferris et al. (2006) shows that there is catering incentives on dividend payment in UK. Nopphon Tang jitprom (2011) studied on catering theory of dividends in Thailand. However, Denis and Osobov (2008) explain that the declining dividends in Germany and France is not significantly affected by catering incentives of dividends. Based on those mixed result, the writer decided to write this research.

To gauge the investors' demand for dividends, the writer use dividend premium. Market to book ratio is used as the proxy to measure dividend premium The sample of this research is around 150 manufacturing companies listed in Indonesia Stock Exchange during the period of 2001-2010.

The result of the regression between dividend premium measured by market to book ratio and propensity to pay dividend shows that there is no correlation between dividend premium and propensity to pay dividend. Such a relationship might be caused by the high number of investment opportunity in Indonesia during period of observation.


Keywords: dividend premium, Indonesia, dividends, catering, payout policy.