

**Rotman School of Management  
University of Toronto**

**Syllabus**

**RSM 3023 Selected Topics in Accounting Research**

**Spring 2015**

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**Instructor:**

Baohua Xin

Room 541

416-946-7166

bxin@rotman.utoronto.ca

**Course objectives:**

This course provides an examination of selected topics in analytical accounting research and develops your understanding of the research process and the key elements of a sound analytical research design.

Prerequisites: MGT 3020

**Class format:**

This course will be conducted primarily as a seminar course and no formal lectures will be given in class. We will discuss two to three selected papers each week. Please read the assigned papers before class and be prepared to discuss the following for each reading:

1. What is the issue being addressed and why is it interesting?
2. What are the assumptions – are they for mathematical convenience or are they driving the results?
3. What are the major results? Are they intuitive/surprising?
4. How is the analysis structured and how might the analysis have been structured differently?
5. How does it fit into the literature? Possible extension/generalization/improvement?

**Course evaluation:**

Your final grade is mainly based on class participation and paper presentation, and possibly a research proposal/assignment.

## **Topic 0: Background Readings** (Adverse Selection and Moral Hazard)

Spence, M. 1974. Competitive and Optimal Responses to Signals: Analysis of Efficiency and Distribution. *Journal of Economic Theory*: 296-332.

Wolinsky, A. 1983. Prices as Signals of Product Quality. *Review of Economic Studies*: 647-58.

Miller, M., and K. Rock. 1985. Dividend Policy under Asymmetric Information. *Journal of Finance*: 1031-51.

Leland, H., and D. Pyle. 1977. Information Asymmetries, Financial Structure and Financial Intermediation. *Journal of Finance*: 737-48.

Bhattacharya, S. 1979. Imperfect Information, Dividend Policy, and 'the Bird in the Hand' Fallacy. *Bell Journal of Economics*: 259-270.

Crawford, V. , and J. Sobel. 1982. Strategic Information Transmission. *Econometrica* 1982: 1431-51.

Holmstrom, B. 1979. Moral Hazard and Observability. *Bell Journal of Economics*: 74-91.

Grossman, S., and O. Hart. 1983. An Analysis of the Principal-Agent Problem. *Econometrica*: 7-45.

Rogerson, W. 1985. The First-Order Approach to Principal-Agent Problems. *Econometrica*: 1357-1368.

Jewitt, W. 1988. Justifying the First-Order Approach to Principal-Agent Problems. *Econometrica*: 1177-1190.

## **Topic 1: Voluntary Disclosure**

### Seminar papers

Grossman, S. 1981. The Information Role of Warranties and Private Disclosure about Product Quality. *Journal of Law and Economics*: 461-83.

Dye, R. 1985. Disclosure of Nonproprietary Information. *Journal of Accounting Research*: 123-45.

Jung, W., and Kwon, Y. 1988. Disclosure When the Market is Unsure of Information Endowment of Managers. *Journal of accounting Research*: 146-53.

Verrecchia, R. 1983. Discretionary Disclosure. *Journal of Accounting and Economics*: 179-94.

Darrough, M. and N. Stoughton. 1990. Financial Disclosure Policy in an Entry Game.

Journal of Accounting and Economics: 219-43.

Shin, H. 1994. News Management and the Value of Firms. Rand Journal of Economics: 58-71.

### Further readings

Milgrom, P. 1981. Good News and Bad News: Representation Theorems and Applications. Bell Journal of Economics: 380-91.

Gigler, F. 1994. Self-Enforcing Voluntary Disclosures. Journal of Accounting Research: 224-240.

Feltham, J. and J. Xie. 1992. Voluntary Financial Disclosure in an Entry Game with Continua of Types. Contemporary Accounting Research: 46-80.

Wagenhoffer, A. 1990. Voluntary Disclosure with a Strategic Opponent. Journal of Accounting and Economics: 341-63.

Shin, H. 2006. Disclosure Risk and Price Drift. Journal of Accounting Research: 351 – 379.

Bertomeu J., A.Beyer, and R. Dye. 2011. Capital Structure, Cost of Capital, and Voluntary Disclosures. The Accounting Review 86 (3): 857-886.

### Some applications

Berger, P., and R. Hann. 2007. Segment Profitability and the Proprietary and Agency Costs of Disclosure. The Accounting Review 82 (4): 869 -906.

Hope, O.-K., and W. Thomas. 2008. Managerial Empire Building and Firm Disclosure. Journal of Accounting Research 46: 591–626.

Botosan, C. A., and M. Stanford. 2005. Manager's Motives to Withhold Segment Disclosures and the Effect of SFAS No. 131 on Analyst' Information Environment. The Accounting Review 80: 751–71.

Chen, F., Y. Hou, G. Richardson, and M. Ye. 2014. Auditor Quality and Litigation Loss Contingency Disclosures. University of Toronto Working Paper.

Clarkson, P., A. Dontoh, G. Richardson and S. Sefcik. 1992. The Voluntary Inclusion of Earnings Forecasts in IPO Prospectuses. Contemporary Accounting Research 8 (2): 601-626.

Clarkson, P., J. Kao, and G. Richardson. 1994. The Voluntary Inclusion of Forecasts in the MD&A Section of Annual Reports. Contemporary Accounting Research 11 (1): 423-450.

## **Topic 2: Earnings Management**

### Seminar papers

Guttman, I., O. Kadan, and E. Kandel. 2006. A Rational Expectations Theory of Kinks in Financial Reporting. *The Accounting Review*: 811–848.

Stein, J. 1989. Efficient Capital Markets, Inefficient Firms: A model of Myopic Corporate Behavior. *Quarterly Journal of Economics*: 655–669.

Beyer, A. 2009. Capital Market Prices, Management Forecasts, and Earnings Management. *The Accounting Review*: 1713–1747.

Fischer, P., and R. Verrecchia. 2000. Reporting Bias. *The Accounting Review*: 229-245.

Ewert, R., and A. Wagenhofer. 2005. Economic Effects of Tightening Accounting Standards to Restrict Earnings Management. *The Accounting Review*: 1101-1124.

### Further readings

Li, W. 2013. A Theory on the Discontinuity in Earnings Distributions. *Contemporary Accounting Research*, Forthcoming.

Fischer, P., and P. Stocken. 2004. Effect of Investor Speculation on Earnings Management. *Journal of Accounting Research*: 843–870.

Fischer, P., and R. Verrecchia. 2004. Disclosure Bias. *Journal of Accounting and Economics*: 223-250.

Ewert, Ralf, and Wagenhofer, Alfred. 2013. Accounting Standards, Earnings Management, and Earnings Quality. University of Graz Working Paper.

### Some applications

Armstrong, C., D. Larcker, G. Ormazabal, and D. Taylor. 2013. The Relation between Equity Incentives and Misreporting: The Role of Risk-taking Incentives. *Journal of Financial Economics*, forthcoming.

Brown, L., M. Caylor. 2005. A Temporal Analysis of Quarterly Earnings Thresholds: Propensities and Valuation Consequences. *The Accounting Review* 80 (2).

McVay, S. 2006. Earnings Management Using Classification Shifting: An Examination of Core Earnings and Special Items. *The Accounting Review* 81 (3): 501–531.

Healy, P., and K. Palepu. 2001. Information Symmetry, Corporate Disclosure, and the Capital Markets: A Review of the Empirical Disclosure Literature. *Journal of Accounting and Economics* 31: 405-440.

### Voluntary and Mandatory Disclosures, and Applications

Einhorn, E., and A. Ziv. 2012. Biased Voluntary Disclosure. *Review of Accounting Studies* 17: 420 – 442.

Gigler, F., and T. Hemmer. 1998. On the Frequency, Quality, and Informational Role of Mandatory Financial Reports. *Journal of Accounting Research* 36: 117-147.

Dutta, S., and F. Gigler. 2002. The Effect of Earnings Forecasts on Earnings Management. *Journal of Accounting Research*: 631–655.

Gigler, F., and X. Jiang. 2011. Necessary Qualities of Accounting Information to Serve a Confirmatory Role. Working Paper, University of Minnesota and Duke University.

Beyer, A., D. Cohen, T. Lys, and B. Walther. 2010. The Financial Reporting Environment: Review of the Recent Literature. *Journal of Accounting and Economics* 40: 296-343.

Ball, R., S. Jayaraman and L. Shivakumar. 2012. Audited Financial Reporting and Voluntary Disclosure as Complements: A Test of the Confirmation Hypothesis. *Journal of Accounting and Economics* 53: 136-166.

### **Topic 3: Economic Consequences of Accounting Disclosure**

#### Seminar papers

Kanodia, C., R. Singh, and A. Spero. 2005. Imprecision in Accounting Measurement: Can It Be Value Enhancing? *Journal of Accounting Research*: 487-519.

Kanodia, C., and D. Lee. 1998. Investment and Disclosure: The Disciplinary Role of Periodic Performance Reports. *Journal of Accounting Research*: 33-55.

#### Further readings

Danthine, J.P. 1978. Information, Futures Prices and Stabilizing Speculation. *Journal of Economic Theory*: 79-98.

Sapra, H. 2002. Do Mandatory Hedge Disclosures Discourage or Encourage Excessive Speculation? *Journal of Accounting Research*: 933-64.

Beyer, A., and I. Guttman. 2012 Voluntary Disclosure, Manipulation and Real Effects. *Journal of Accounting Research* 50 (5): 1141 – 1177.

Kumar, P., N. Langberg, and K. Sivaramakrishnan. 2012. Voluntary Disclosures, Corporate Control, and Investment. *Journal of Accounting Research* 50 (4): 1041 – 1076.

### Some applications

Leuz and Verrecchia. 2000. The Economic Consequences of Increased Disclosure. *Journal of Accounting Research*: 91-124.

Bushee, B., and C. Leuz, 2005. Economic Consequences of SEC Disclosure Regulation: Evidence from the OTC Bulletin Board. *Journal of Accounting and Economics* 39: 233-264.

Hope, O-K. 2003. Disclosure Practices, Enforcement of Accounting Standards, and Analysts' Forecast Accuracy: An International Study. *Journal of Accounting Research*.41 (2): 235-72.

Zhang, H. 2009. Effect of Derivative Accounting Rules on Corporate Risk-management Behavior. *Journal of Accounting and Economics* 47 (3): 244-264.

## **Topic 4: Value of Information/Higher Order Beliefs**

### Seminar Papers

Morris, S. and H.S. Shin. 2002. Social Value of Public Information. *American Economic Review*: 1521-1534.

Anctil, R., J. Dickhaut, C. Kanodia, and B. Shapiro. 2004. Information Transparency and Coordination Failure: Theory and Experiment. *Journal of Accounting Research*: 159–195.

### Further readings

Gao, P. 2008. Keynesian Beauty Contest, Accounting Disclosure, and Market Efficiency. *Journal of Accounting Research* 46: 785-807.

Morris, S., and H. S. Shin. 2004. Coordination Risk and the Price of Debt. *European Economic Review*: 133-153.

Allen, F., S. Morris, and H.S. Shin. 2006. Beauty Contests, Bubbles and Iterated Expectations in Asset Markets. *Review of Financial Studies*: 719-752.

Plantin, G., H. Sapra and H. Shin. 2008. Marking to Market: Panacea or Pandora's Box? *Journal of Accounting Research*: 435-460.

Allen, F., and E. Carletti. 2008. Mark-to-Market Accounting and Liquidity Pricing. *Journal of Accounting and Economics*, 2008: 358-378.

Banerjee, S., R. Kaniel, and I. Kremer. 2009. Price Drift as an Outcome of Differences in Higher-Order Beliefs. *Review of Financial Studies*: 3707-3734.

Balakrishnan, K., C. Schrand, and R. Vashishtha. 2010. Analyst Recommendations and Higher Order Beliefs: Explaining Bubbles and Price Drift. Wharton Working Paper.

Qu, H. 2013. How Do Market Prices and Cheap Talk Affect Coordination. *Journal of Accounting Research* 51 (5):1221- 1260.

## **Topic 5: Trust**

### Seminar Papers

Berg, J., J. Dickhaut, and K. McCabe. 1995. Trust, Reciprocity, and Social History. *Games and Economic Behavior* 10: 122-142.

Maas, V., M. van Rinsum, and K. Towry. 2012. In Search of Informed Discretion: An Experimental Investigation of Fairness and Trust Reciprocity. *The Accounting Review* 87 (2): 617-644.

Waymire, G., R. Lunawat, and B. Xin. 2014. A Peek Behind the Curtain that Conceal Self-Dealing. University of Toronto Working Paper.

### Further readings

Kirchsteiger, G., L. Rigotti, and A. Rustichini. 2006. Your Morals Might Be Your Moods. *Journal of Economic Behavior and Organization* 59: 155-172.

Glaeser, E., D. Laibson, J. Scheinkman, and C. Soutter. 2000. Measuring Trust. *The Quarterly Journal of Economic*: 811-846.

Carlin, B. I., F. Dorobantu, and S. Viswanathan. 2009. Public Trust, the Law, and Financial Investment. *Journal of Financial Economics* 92: 321–341.

Pevzner, M., F. Xie, and X. Xin. 2013. When Firms Talk, Do Investors Listen? The Role of Trust in Stock Market Reactions to Corporate Earnings Management. *Journal of Financial Economics* Forthcoming.

Basu, S., J. Dickhaut, G. Hecht, K. Towry, and G. Waymire. 2009. Recordkeeping Alters Economic History by Promoting Reciprocity. *Proceedings of the National Academy of Sciences of USA* 106(4): 1009-1024.

## **Topic 6: Debt Contracting**

## Seminar Papers

Göx, R., and A. Wagenhofer. 2010. Optimal Precision of Accounting Information in Debt Financing. *European Accounting Review* 19: 579-602.

Guay, W., and R. Verrecchia. 2006. Discussion of an Economic Framework for Conservative Accounting and Bushman and Piotroski (2006). *Journal of Accounting and Economics*. 42: 149-165.

Gigler, F, C. Kanodia, H. Sapa, and R. Venugopalan. 2009. Accounting Conservatism and the Efficiency of Debt Contracts. *Journal of Accounting Research* 47 (3): 767-797.

## Further readings

Li, J. 2013. Accounting Conservatism and Debt Contracts: Efficient Liquidation and Covenant Renegotiation. *Contemporary Accounting Research* 30 (3): 1082-1098.

Aghion, P., and P. Bolton. 1992. An Incomplete Contracts Approach to Financial Contracting. *The Review of Economic Studies* 59 (3): 473-494.

Ball, R., R. M. Bushman, and F. P. Vasvari .2008. The debt-contracting value of accounting information and loan syndicate structure. *Journal of Accounting Research* 46, 247-287.

Christensen, H., and V. Nikolaev. 2012. Debt Contracts and the Need for Mandatory Accounting Changes. University of Chicago Working Paper.

Dou, Y. 2012. The Debt-Contracting Value of Accounting Numbers, Renegotiation, and Investment Efficiency. New York University Working Paper.

Callen, J., F. Chen, Y. Dou, and B. Xin. 2014. Accounting Conservatism and Performance Covenants: A Signaling Approach. University of Toronto Working Paper.