Course Materials:

I will make all the relevant papers available to you on Classes*v2.

Course Goal:

The objective of this course is to introduce you to several areas of empirical research within the financial accounting literature. Since the areas we will cover extend over a number of both related and unrelated fields only a superficial coverage of the topics will be possible. The goal is to introduce the types of questions asked in these areas, to think about how these questions may relate to each other and to questions in other disciplines, and to get you to think about issues you may want to research. Ultimately, the goal of this course is to help you in the process of becoming a researcher capable of identifying interesting, important, and researchable topics related to empirical financial accounting.

Course Organization:

Each class will follow roughly the same pattern. I will spend about 20-30 minutes of a class on a lecture regarding the relevant research area touching upon the background of the research, some related questions which we are not explicitly covering, general themes or issues in this research, and recent developments. The rest of the class will be spent on 3 papers representing different facets or questions within the research area explored. Generally, the discussed papers are all well-known published papers. This should not suggest that they need be accepted without question – rather they were chosen because they give a good sense of the research on a given topic and have contributed greatly to a fertile research area. One student will present one paper in a 45 minute window. The presenters are expected to give a summary of the paper and to evaluate and/or pose questions regarding the critical aspects of the paper: topic choice, hypotheses, research design, sample, empirical methods, etc. You should focus on issues such as the importance of the topic, the testability of the hypotheses, the validity and power of the research design, the interpretability of the empirical results (and alternative explanations for the empirical results). What questions did the authors asked and successfully answered and what is left for future research?

All participants in the course are expected to read the 3 papers discussed at the session and should come prepared with questions and comments.

Course Grading:

The course grade is based equally on three items: a) the presentations you will make in class for the papers assigned to you, b) a referee report of an empirical working paper (assigned several weeks before the end of class), and c) thoughtful class participation for papers that you will not be presenting.
Preliminary Schedule (May change)

#1. 1/29 Relevance of reported accounting numbers
Ball & Brown (JAR 1968)
   “An Empirical Evaluation of Accounting Income Numbers”
Beaver (JAR 1968)
   “The Information Content of Annual Earnings Announcements”
Lev (JAR, 1989)
   “On the Usefulness of Earnings and Earnings Research…”

#2. 2/5 Event studies
Fama, Fisher, Jensen, & Roll (IER 1969)
   “The Adjustment of Stock Prices to New Information”
Leftwich (JAE 1981)
   “Evidence of the Impact of Mandatory Change in Accounting Principles on Corporate Loan Agreements”
Alford, Jones, Leftwich, & Zmijewski (JAR 1993)
   “The Relative Informativeness of Accounting Disclosures in Different Countries”

2/12 NO CLASS – Recruiting Conference

#3 2/19 Time series of earnings, and ERC
Kormendi & Lipe (JoB 1987)
   “Earnings Innovations, Earnings Persistence, and Stock Returns”
Collins & Kothari (JAE 1989)
   “An Analysis of Intertemporal and Cross-Sectional Determinants of ERCs”
Ramakrishnan & Thomas (JAAF 1998)
   “Valuation of Permanent, Transitory, and Price-Irrelevant Components of Reported Earnings”

#4 2/26 Historical perspective
Watts & Zimmerman (JLE 1983)
Watts & Zimmerman (TAR 1990)
   “Positive Accounting Theory: A Ten Year Perspective”
Barton & Waymire (JAE 2004)
   “Investor protection under unregulated financial reporting”

Overview provided by first 3 chapters of Basu/Waymire monograph
#5 3/4  Conservatism
Basu (JAE 1997)
“The conservatism principle and the asymmetric timeliness of earnings”
Dietrich, Muller, & Riedl (RAST 2007)
“Asymmetric timeliness tests of accounting conservatism”
Givoly, Hayn, & Natarajan (TAR 2007)
“Measuring Reporting Conservatism”

Overview provided in Watts “Conservatism in Accounting Parts I & II” (both in Accounting Horizons 2003)

#6 3/11 Institutional & Retail Investors
Bushee (AR 1998)
“The Influence of Institutional Investors on Myopic R&D Investment behavior”
Bushee & Goodman (JAR 2007)
“Which Institutional Investors Trade Based on Private Information About Earnings and Returns?”
Barber & Odean (RFS 2008)
“All that glitters: The effect of attention and news on the buying behavior of individual and institutional investors”

Overview provided by Bushee JACF 2004 paper.

Spring Break – NO CLASS 3/18, 3/25, 4/1

#7 4/8 One-time items
Riedl (TAR 2004)
“An Examination of Long-Lived Asset Impairments”
McVay (TAR 2006)
“Earnings Management Using Classification Shifting…”
Jones & Smith (TAR 2011)
“Comparing the Value Relevance, Predictive Value, and Persistence of Other Comprehensive Income and Special Items”

#8 4/15 Financial reporting effect of taxes
Mills & Newberry (JAR 2005)
“Firms’ Off-Balance Sheet and Hybrid Debt Financing: Evidence from Their Book-Tax Reporting Differences”
Hanlon, Maydew and Shevlin (JAE 2008)
Hanlon & Slemrod (JPE 2009)
What does tax aggressiveness signal? Evidence from stock price reactions to news about tax shelter involvement”

Two background review papers: Graham/Raedy/Shackelford (JAE 2012); Hanlon/Heitzman (JAE 2010)
#9 4/22  Fundamental Ratio Analysis
Ou & Penman (JAE 1989)  
“Financial Statement Analysis and the Prediction of Stock Returns”
Lev & Thiagarajan (JAR 1993)  
“Fundamental Information Analysis”
Piotroski (JAR 2000)  
“Value Investing: The Use of Historical Financial Statement Information to Separate Winners from Losers”

#10 4/29  Corporate Governance
Core, Holthausen, & Larcker (JFE 1999)  
“Corporate governance, chief executive officer compensation, and firm performance”
Bushman, Piotroski, & Smith (JAR 2004)  
“What Determines Corporate Transparency”
Larcker & Richardson (JAR 2004)  
“Fees Paid to Audit Firms, Accrual Choices, and Corporate Governance”

#11 5/6  Corporate Governance (continued)
Beasley (TAR 1996)  
“An Empirical Analysis of the Relation between the Board of Director Composition and Financial Statement Fraud”
Bushman & Smith (JAE 2001)  
“Financial accounting information and corporate governance”
Klein (JAE 2002)  
“Audit committee, board of director characteristics, and earnings management”

A session to make up – to be scheduled

#12  Aggregate earnings and returns
Kothari, Lewellen, & Warner (JFE 2006)  
“Stock returns, aggregate earnings surprises, and behavioral finance”
Hirshleife, Hou, & Teoh (JFE 2009)  
“Accruals, cash flows, and aggregate stock returns”
Jorgensen, Li, & Sadka (JAE 2012)  
“Earnings dispersion and aggregate stock return”