

IBUS 6323
TOPICS IN INTERNATIONAL ACCOUNTING RESEARCH
CAPITAL MARKETS SEMINAR IN ACCOUNTING
COLLEGE OF BUSINESS ADMINISTRATION
THE UNIVERSITY OF TEXAS AT EL PASO
FALL 2020

Contact Information

Instructor: Adam Esplin, Ph.D., Assistant Professor of Accounting
Office: 205 Business Administration Building
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Office Hours: Mondays 10 am to noon and by appointment
Class Time: Wednesdays from 2:00 PM to 4:50 PM via Zoom

I. Objectives of Course

The objective of this course is to develop your ability to critically evaluate and conduct empirical research on a variety of contemporary financial reporting topics. Our discussions will highlight the following:

- An understanding of research designs commonly used in accounting and finance research.
- The necessary skills to design and conduct empirical research.
- Sources of Type I and Type II errors.
- Opportunities for future research in selected areas.

II. Conduct of Course

The course will be conducted online using a seminar format via Zoom. You will be expected to take an active part in discussing and evaluating the readings assigned for each class session. This may take the form of explaining to other members of the class what an author was attempting to do in a particular paper. At other times, it may involve comparing various types of research approaches. Finally, you may be asked to critique, either orally or in writing, a particular research approach or paper.

In general, each class discussion will be focused on three papers in an area with one or more papers as supplemental readings. It is expected that each of us will read critically and think deeply about the assigned papers *before* class and be prepared to discuss the readings in detail. For each assigned reading, a student will be assigned as the discussion leader. The other students are expected to ask questions and provide criticisms of the paper during the session. The discussion leader will also provide a summary/analysis memo (see below) for the assigned reading that will be distributed to each of the students prior to the start of class. The quality of these questions will factor into your class discussion and participation grade.

Expectations for online course:

We will use Zoom for the class. You must be on time, have your video on and you must actively participate in the class discussion.

Summary/Analysis Memo:

1. What is the research question and why is it important?
 - a. What is the motivation for the study?
 - b. How does the question relate to prior research?
2. What are the hypotheses?
 - a. What is the underlying theory?
 - b. What assumptions are being made?
3. How is the question being addressed?
 - a. What data sources are used over what time periods?
 - i. What does the sample look like?
 - ii. Are there sample selection biases?
 - b. What empirical tests are performed?
 - i. Are there any biases in the tests?
 - ii. Are the tests low power?
4. What are the main empirical findings?
 - a. Do they support the hypotheses?
 - b. Are there alternative explanations for the results?
5. How could the study be improved and extended?
 - a. What are the strengths and weaknesses of the study?
 - b. What extensions could be performed?
 - c. What incremental research questions follow from the study?

In addressing the questions listed above, you should critique and analyze the paper in terms of its external and internal validity. You should not merely accept what the paper does and finds, instead you should challenge assumptions made, methodology use and inferences drawn.

III. Course Requirements & Grading

Class discussion and participation	30%
Referee Report	10%
Replication	10%
Research Proposal	25%.
Final Examination	25%

Research Proposal:

This proposal should be on some market-based or disclosure research topic and should be no more than 10 to 15 pages in length. Section 1 of the proposal should identify the research question, explain why this question is important, and how it contributes to the extant literature. Section 2 should review the relevant literature and develop the hypotheses that will be tested in the paper. Section 3 should outline the research design that you will use to test your hypotheses and your data sources.

Referee Report/Replication:

More information regarding the referee report and the replication will be provided in class.

IV. Important Dates

October 17 (midnight) – Referee report due

November 25 (midnight) – Replication due

December 5 (midnight) – Research proposal due

December 9 – Final Exam, 2:00 pm – 4:50 pm

Acknowledgments: I thank Richard Cazier and Teri Yohn for sharing their syllabi with me.

Academic Integrity

Academic dishonesty is prohibited and is considered a violation of the UTEP Handbook of Operating Procedures. It includes, but is not limited to, cheating, plagiarism, and collusion. Cheating may involve copying from or providing information to another student, possessing unauthorized materials during a test, or falsifying research data on laboratory reports. Plagiarism occurs when someone intentionally or knowingly represents the words or ideas of another as ones' own. Collusion involves collaborating with another person to commit any academically dishonest act. Any act of academic dishonesty attempted by a UTEP student is unacceptable and will not be tolerated. All suspected violations of academic integrity at The University of Texas at El Paso must be reported to the [Office of Student Conduct and Conflict Resolution \(OSCCR\)](#) for possible disciplinary action. To learn more, please visit [HOOP: Student Conduct and Discipline](#).

Class Recordings

The use of recordings will enable you to have access to class lectures, group discussions, and so on in the event you miss a synchronous or in-person class meeting due to illness or other extenuating circumstance. Our use of such technology is governed by the Federal Educational Rights and Privacy Act (FERPA) and UTEP's acceptable-use policy. A recording of class sessions will be kept and stored by UTEP, in accordance with FERPA and UTEP policies. Your instructor will not share the recordings of your class activities outside of course participants, which include your fellow students, teaching assistants, or graduate assistants, and any guest faculty or community-based learning partners with whom we may engage during a class session. **You may not share recordings outside of this course.** Doing so may result in disciplinary action.

Plagiarism Detecting Software

Some of your course work and assessments may submitted to SafeAssign, a plagiarism detecting software. SafeAssign is used review assignment submissions for originality and will help you learn how to properly attribute sources rather than paraphrase.

COVID-19 Precautions

You must **STAY AT HOME** and **REPORT** if you (1) have been diagnosed with COVID-19, (2) are experiencing COVID-19 symptoms, or (3) have had recent contact with a person who has received a positive coronavirus test. Reports should be made at [screening.utep.edu](#). If you know of anyone who should report any of these three criteria, you should encourage them to report. If

the individual cannot report, you can report on their behalf by sending an email to COVIDaction@utep.edu.

For each day that you attend campus—for any reason—you must complete the questions on the UTEP screening website (screening.utep.edu) prior to arriving on campus. The website will verify if you are permitted to come to campus. Under no circumstances should anyone come to class when feeling ill or exhibiting any of the known COVID-19 symptoms. If you are feeling unwell, please let me know as soon as possible, and alternative instruction will be provided.

Students are advised to minimize the number of encounters with others to avoid infection.

Wear face coverings when in common areas of campus or when others are present. You must wear a face covering over your nose and mouth at all times in this class. If you choose not to wear a face covering, you may not enter the classroom. If you remove your face covering, you will be asked to put it on or leave the classroom. Students who refuse to wear a face covering and follow preventive COVID-19 guidelines will be dismissed from the class and will be subject to disciplinary action according to Section 1.2.3 *Health and Safety* and Section 1.2.2.5 *Disruptions* in the UTEP Handbook of Operating Procedures.

(classes with on-campus meetings) Please note that if COVID-19 conditions deteriorate in the City of El Paso, all course and lab activities may be transitioned to remote delivery.

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University of Texas at El Paso
Fall 2020

Supplemental readings will not be discussed in class, but are helpful for your understanding of the literature.

Causal Inference, Threats to Validity, and Empirical Design - Aug 26

Organizational meeting and discussion of research framework

Kinney. 1986. "Empirical accounting research design for PhD students," The Accounting Review 41, pp. 338-350.

Arrington, E. and W. Shweiker, "The Rhetoric and Rationality of Accounting Research," Accounting, Organizations and Society (1992): 511-533.

Overview of Market-Based Research in Accounting – Sep 2

Kothari. 2001. "Capital markets research in accounting," Journal of Accounting and Economics 31, pp. 105-232.

Lee. 2001. "Market efficiency and accounting research: A discussion of 'capital market research in accounting' by S.P. Kothari," Journal of Accounting and Economics 31, pp. 233-253

Graham, Harvey and Rajgopal. 2005. "The Economic Implications of Corporate Financial Reporting," Journal of Accounting and Economics 40: 3-73.

Dichev, Graham, Harvey and Rajgopal. 2013. "Earnings quality: evidence from the field," Journal of Accounting & Economics 56, pp. 1-33.

Earnings Management (Discretionary Accruals)—Background, Measurement and Design Issues

Day 1 – Sep 9

Dechow, P.M., W, Ge and C. Schrand. 2010. "Understanding earnings quality: A review of the proxies, their determinants and their consequences," Journal of Accounting and Economics 50, pp. 344-401. (Super long – good overview. 1st table was instructive.)

Dechow, P. M., & Dichev, I. D. (2002). The quality of accruals and earnings: The role of accrual estimation errors. *The Accounting Review*, 77 (s-1), 35-59.

Hribar, and Nichols. 2007. "The use of unsigned earnings quality measures in tests of earnings management," Journal of Accounting Research 45: 1017-1054.

Supplemental readings:

Dechow, Kothari and Watts. 1998. "The relation between earnings and cash flows," Journal of Accounting & Economics 25, pp. 133-168.

Jansen, Ramanath and Yohn "A diagnostic for earnings management using changes in asset turnover and profit margin," Contemporary Accounting Research (Spring 2012), pp. 221-251.

Dechow, Sloan and Sweeney. 1995. "Detecting earnings management," Accounting Review 70, pp. 193-226.

Dechow, Hutton, Kim and Sloan, 2012. "Detecting earnings management: A new approach," Journal of Accounting Research 50, pp. 275-334.

Earnings Management: Day 2 – Sep 16

Ball, 2013. "Accounting informs investors and earnings management is rife: Two questionable beliefs," Accounting Horizons 27, pp. 847-853.

Kothari, Leone and Wasley, 2005. "Performance matched discretionary accrual measures," Journal of Accounting & Economics 39, pp. 163-197.

McNichols and Stubben, 2018. "Research Design Issues in Studies Using Discretionary Accruals," Abacus 54, 2, pp. 227-246.

Supplemental Reading:

Banker, Byzalov, Fang and Jin. 2020. "Operating asymmetries and non-linear spline correction in discretionary accrual models," Review of Quantitative Finance and Accounting 54:803-850.

Healy and Wahlen, 1999. "A review of the earnings management literature and its implications for standard setting," Accounting Horizons, (December 1999), pp. 365-384.

McNichols, M. 2000. "Research design issues in earnings management studies," Journal of Accounting and Public Policy 19: 313-345.

Modeling Determinants of Misreporting/Fraud – Sep 23

Jensen. 2005. "Agency costs of Overvalued Equity," Financial Management (Spring, 2005): pp. 5-19.

Samuels, Taylor, and Verrecchia. 2018. "The Economics of Misreporting and the Role of Public Scrutiny" Working Paper, University of Pennsylvania.

Dechow, Ge, Larson and Sloan. 2011. "Predicting material accounting misstatement," Contemporary Accounting Research 28, pp. 17-82.

The Role of Corporate Culture in Earnings Management– Sep 30

Graham, Harvey, Popadak and Rajgopal. 2018. “Corporate culture: Evidence from the field,” Working Paper, Duke University.

Ji, Rozenbaum, and Welch. 2017. “Corporate Culture and Financial Reporting Risk: Looking Through the Glassdoor,” Working paper, George Washington University.

Bowen, Call, Rajgopal. 2010. “Financial whistle-blowing: Target firm characteristics and economic consequences,” The Accounting Review 85, pp. 1239-1271.

Supplemental reading:

Guiso, Sapienza and Zingales. 2015. “The value of corporate culture,” Journal of Financial Economics 117, pp. 60-76.

Guiso, Sapienza and Zingales. 2006. “Does culture affect economic outcomes?” Journal of Economic Perspectives 20, pp. 23-48.

Guiso, Sapienza and Zingales. 2015. “Corporate culture, societal culture, and institutions,” American Economic Review: Papers & Proceedings 105, pp. 336-339.

Kedia, Luo and Rajgopal. 2015. “Culture of weak compliance and financial reporting risk,” Working Paper, Columbia University.

Real Earnings Management – Oct 7

Roychowdhury, S., 2006. “Earnings management through real activities manipulation,” Journal of Accounting and Economics 42: 335-370.

Zang. 2012. “Evidence on the trade-off between real activities manipulation and accrual-based earnings management,” The Accounting Review 87, pp. 675-703.

Kothari, Mizik and Roychowdhury. 2016. “Managing for the moment: The role of earnings management via real activities versus accruals in SEO valuation,” The Accounting Review 91, pp. 559-586.

Supplemental reading:

Cohen, D. and Zarowin, P. 2010. “Accrual-based and real earnings management activities around seasoned equity offerings,” Journal of Accounting and Economics 50, 2-19.

Cohen, D., Dey, A., Lys, T., 2008. Real and accrual-based earnings management in the pre- and post-Sarbanes-Oxley periods,” The Accounting Review 83, 757-787.

Referee Report – Oct 14

Mispricing and Market Anomalies - Oct 21

Sloan.1996. "Do stock prices fully reflect information in accruals and cash flows about future earnings?" Accounting Review 71, pp. 289-316.

Kraft, A., A. J. Leone, and C. Wasley. 2007. Regression-base tests of the market mispricing of accounting numbers: the Mishkin test and ordinary least squares. Journal of Accounting Research 45 (5): pp. 1081-1114.

Chordia, Subrahmanyam and Tong. 2014. "Have capital market anomalies attenuated in the recent era of high liquidity and trading activity," Journal of Accounting & Economics 58, pp. 41-58.

Supplemental reading:

Xie. 2001. "The Mispricing of Abnormal Accruals," Accounting Review 76, pp. 357-375.

Conservatism and Accounting – Oct 28

Watts, R., 2003, "Conservatism in accounting Part I: Explanations and implications," Accounting Horizons 17: 207-221.

Watts, R., 2003, "Conservatism in accounting Part II: Evidence and research opportunities," Accounting Horizons 18, pp. 287-301.

Basu. 1997. "The conservatism principle and the asymmetric timeliness of earnings," Journal of Accounting & Economics 24, pp. 3-38.

Supplemental reading:

Ball, Kothari and Nikolaev. 2012. "On estimating conditional conservatism," Accounting Review 88, pp. 755-787.

Collins, Hribar and Tian. 2014. "Cash flow asymmetry: Causes and implications for conditional conservatism research, Journal of Accounting & Economics 58, pp. 173-200.

Voluntary Disclosure - Nov 4

Healy and Palepu. 2001. "Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature." Journal of Accounting and Economics 31, pp. 405-440.

Ali, Klasa and Yeung. 2014. "Industry concentration and corporate disclosure policy." Journal of Accounting and Economics 58, pp. 240-264.

Ball, Jayaraman and Shivakumar. 2012. "Audited financial reporting and voluntary disclosure as complements: A test of the confirmation hypothesis," Journal of Accounting & Economics 53, pp. 136-166.

Supplemental readings:

Dye. 1986. "Proprietary and Nonproprietary Disclosures." The Journal of Business 59 (2): pp 331-353.

Beyer, Cohen, Lys, and Walther. 2010. "The financial reporting environment: Review of the recent literature." Journal of Accounting and Economics 50 (2-3), pp. 296-343.

Berger. 2011. "Challenges and opportunities in disclosure research—A discussion of 'The financial reporting environment: Review of the recent literature,'" Journal of Accounting and Economics 51, pp. 204-218.

Lang and Sul. 2014. "Linking industry concentration to proprietary costs and disclosure: Challenges and opportunities." Journal of Accounting and Economics 58, pp. 265-274.

Causes and Consequences of Earnings Quality – Nov 11

Biddle, Hilary and Verdi. 2009. "How does financial reporting quality relate to investment efficiency?" Journal of Accounting and Economics 48, pp. 112-131.

Srivastava. A. 2014. "Why have measures of earnings quality changed over time," Journal of Accounting and Economics 57, pp. 196-217.

Hope, Thomas and Vyas. 2013. "Financial reporting quality of US private and public firms," Accounting Review 88, pp. 1715-1742.

Supplemental reading:

Callen, Khan and Lu. 2013. "Accounting quality, stock price delay, and future stock returns," Contemporary Accounting Research 30, pp. 269-295.

Demerjian, Lev, Lewis and McVay. 2013."Managerial ability and earnings quality," Accounting Review 88, pp. 463-498.

Givoly, Hayn, and Katz. 2010. "Does public ownership of equity improve earnings quality," The Accounting Review 85, pp. 195-225.

Regulation and the Reporting Environment – Nov 18

Hail, Leuz, and Wysocki. 2010. "Global Accounting Convergence and the Potential Adoption of IFRS by the U.S. (Part I): Conceptual Underpinnings and Economic Analysis." Accounting Horizons 24 (3): 355-394.

Leuz and Wysocki. 2016. "The Economics of Disclosure and Financial Reporting Regulation: Evidence and Suggestions for Future Research," Journal of Accounting Research 54 (2): pp. 525-622.

Armstrong, Barth, Jagolinzer, and Riedl. 2010. “Market reaction to the adoption of IFRS in Europe,” The Accounting Review 85 (1): pp.31-61.

Supplemental Reading:

Lee, Strong and Zhu. 2014. “Did regulation fair disclosure, SOX and other analyst regulations reduce security mispricing,” Journal of Accounting Research 52, pp. 753-774.

Replication – Nov 25

Textual Analysis of Narrative Disclosure – Dec 2

Loughran and McDonald. 2016. “Textual Analysis in Accounting and Finance: A Survey,” Journal of Accounting Research 54 (4): pp. 1187-1230.

Loughran and McDonald. 2011. “When is a liability not a liability? Textual analysis, dictionaries, and 10-Ks,” The Journal of Finance 66 (1): pp. 35-65.

Hoberg and Phillips. 2010. “Product market synergies and competition in mergers and acquisitions: A text-based analysis,” The Review of Financial Studies 23, pp. 3773-3811.

Supplemental readings:

Hoberg and Phillips. 2016. “Text-based network industries and endogenous product differentiation.” Journal of Political Economy 124 (5).

Li. 2008. “Annual report readability, current earnings, and earnings persistence,” Journal of Accounting and Economics 45, pp.221-247.

Miller, G., and Skinner, D. 2015. “The Evolving Disclosure Landscape: How Changes in Technology, the Media, and Capital Markets are Affecting Disclosure,” Journal of Accounting Research 53 (2): pp.221-239.

Research Proposal – Dec 5

Final Exam – Dec 9