

IBUS 6323
TOPICS IN INTERNATIONAL ACCOUNTING RESEARCH
CAPITAL MARKETS SEMINAR IN ACCOUNTING
COLLEGE OF BUSINESS ADMINISTRATION
THE UNIVERSITY OF TEXAS AT EL PASO
FALL 2022

Contact Information

Instructor: Adam Esplin, Ph.D., Assistant Professor of Accounting
Office: 257 Business Administration Building
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Office Hours: Tuesdays: 1:00 pm to 3:00 pm
Class Time: Tuesdays: 9:00 am to 11:50 am, COBA room 307

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

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.

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	20%
Replication	20%
Research Proposal	30%.

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, double spaced. 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 14 (midnight) – Referee report due
November 25 (midnight) – Replication due
December 9 (midnight) – Research proposal due

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](#).

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 Precaution Statement

If you have tested positive for COVID-19, you are encouraged to report your results to covidaction@utep.edu, so that the Dean of Students Office can provide you with support and help with communication with your professors. It is important to follow all instructions that you receive as part of the diagnosis, including isolation and staying at home until a negative test is produced.

If you experience COVID-19 symptoms, please follow the isolation protocol by staying at home and getting tested as soon as possible. If the test is negative but you are still seeking accommodations, please contact the Dean of Students Office for guidance in a timely manner. Your instructor will work with the Dean of Students Office to determine the extent of any such accommodations.

We strongly encourage you to think and act proactively in all matters related to COVID-19 and your academic endeavors. The Center for Disease Control and Prevention recommends that people in areas of substantial or high COVID-19 transmission wear face masks when indoors in groups of people. The best way that Miners can take care of miners is to get the vaccine. If you still need the vaccine, it is widely available in the El Paso area, and will be available at no charge on campus during the first week of classes. For more information about the current rates, testing, and vaccinations, please visit epstrong.org.

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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 23

Organizational meeting and discussion of research framework

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

Kinney; The Kinney Three Paragraphs (and More) for Accounting Ph.D. Students. Accounting Horizons 1 December 2019; 33 (4): 1-14.

Ball and Brown. Ball and Brown (1968): A Retrospective. The Accounting Review 1 January 2014; 89 (1): 1-26.

Supplemental Reading:

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 – Aug 30

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.

Supplemental Reading:

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

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

Day 1 – Sep 6

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.

Jones. 1991. Earnings management during import relief investigations. Journal of Accounting Research 29, 193–228.

Burgstahler, D., Dichev, I. , 1997. Earnings management to avoid earnings decreases and losses. Journal of Accounting and Economics 24, 99–126.

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 13

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

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

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.

Supplemental Reading:

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

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

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 20

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

Samuels, Taylor, and Verrecchia. 2021. "The Economics of Misreporting and the Role of Public Scrutiny" Journal of Accounting and Economics, 71:1.

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 27

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

Li, Mai, Shen, and Yan. 2021 Measuring Corporate Culture Using Machine Learning, The Review of Financial Studies, 34:7 pp. 3265–3315.

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

Supplemental reading:

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

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 4

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.

Huang, Roychowdhury, and Sletten; Does Litigation Deter or Encourage Real Earnings Management? The Accounting Review 1 May 2020; 95 (3): 251–278.

Supplemental reading:

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.

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 – Due Oct 14

Mispricing and Market Anomalies - Oct 18

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-based tests of the market pricing 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 25

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

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.

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 1

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 8

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

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

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

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 15

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

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.

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.

Supplemental Reading:

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.

Replication – Due Nov 25

Textual Analysis of Narrative Disclosure – Nov 29

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.

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

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 – Due Dec 9