

**Course Number: 26:010:651    Course Title: Accounting Theory 1**  
**Title & Name of Instructor    Professor Suresh Govindaraj**  
**Term and Year: Fall 2017**  
**Office Building & Room Number: 1, Washington Park Room, Room #934**  
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## **COURSE MATERIALS**

Although the course material is primarily based on journal articles, the following books should prove to be useful as references.

1. Campbell, Lo, MacKinlay, *The Econometrics of Financial Markets*, Princeton: 1997.
2. Copeland, T.E., and J.F. Weston, *Financial Theory and Corporate Policy*, Addison-Wesley Publishing Company, 2005.
3. Cochrane J.C., *Asset Pricing*, Princeton University Press, 2005.
4. Huang C.F., and R.H. Litzenberger, *Foundations for Financial Economics*, Prentice Hall. 1988.
5. Pennacchi, George, *Asset Pricing*, Pearson Publishing, 2008.

### **Journals (some of the common ones):**

AER- American Economic Review  
CAR- Contemporary Accounting Research  
Econometrica  
Economic Theory  
JAAF- Journal of Accounting, Auditing & Finance  
JAE- Journal of Accounting & Economics  
JAR-Journal of Accounting Research  
JF- Journal of Finance  
JFE- Journal of Financial Economics  
JFQA: Journal of Financial and Quantitative Analysis  
JET- Journal of Economic Theory  
JBE-Quarterly Journal of Business and Economics  
Management Science  
RAST- Review of Accounting Studies  
TAR- The Accounting Review

- Check Blackboard ([blackboard.rutgers.edu](http://blackboard.rutgers.edu)) and your official Rutgers email account regularly.

## LEARNING GOALS AND OBJECTIVES

The objective of this course is to introduce doctoral students from diverse fields to different mathematical models in the accounting, finance, and taxation literature. Classic and current models from asset pricing, information, contracting and incentives, taxation will be discussed. While the course will be mathematically rigorous in its essence, it will tend to focus quite a bit on the modeling intuition and insights.

## PREQUISITES

Students registered for this class are expected to have taken the required Accounting, Finance, Microeconomics, and Statistics classes at the graduate level Please talk to me if you have any concerns.

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## EXAM DATES AND POLICIES

**There will be a final take home examination.** Specific details of the final examination will be announced in the last class session before the examination date.

**During exams, the following rules apply:**

- If you have a disability that influences testing procedures, provide me an official letter from the Office of Disability Services at the start of the semester.

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## GRADING

Your grade will be based on your performance on the final examination.

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## TOPICS, READINGS, ASSIGNMENTS

### 1. Preferences and Utility Theory

Preferences with Uncertain Returns  
Utility functions and their properties  
Risk Aversion and Risk Premia  
Stochastic Dominance and Applications

### 2. Value of Information

Statistical versus Economic Notions  
Public Information versus Private Information

### 3. Models of Capital Markets

Market Efficiency Concepts  
Arbitrage  
Complete Markets  
Incomplete Markets

#### **4. Models of Asset Pricing (including Derivatives) in Discrete and Continuous Time with Full Information and Complete Markets**

Single Period Model  
Multiperiod Discrete time Model  
Continuous time Models  
Accounting Based Model  
Habit Based Models

#### **5. Asset Pricing with Asymmetric Information**

Rational Expectations Model

#### **6. Incentives and Contract Design**

Principal Agent Problem in Discrete Time  
Principal Agent Problem in Continuous Time

#### **7. Models of Taxation**

Introduction to Taxes  
Valuing Deferred Taxes

## **STANDARD RUTGERS BUSINESS SCHOOL POLICIES**

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### **ACADEMIC INTEGRITY**

Students are responsible for understanding the RU Academic Integrity Policy

([https://slwordpress.rutgers.edu/academicintegrity/wp-content/uploads/sites/41/2014/11/AI\\_Policy\\_2013.pdf](https://slwordpress.rutgers.edu/academicintegrity/wp-content/uploads/sites/41/2014/11/AI_Policy_2013.pdf))

I strongly support this policy. On all examinations and assignments, students must abide by the RU Honor Pledge, which states, “On my honor, I have neither received nor given any unauthorized assistance on this examination or assignment.” See [business.rutgers.edu/ai](https://business.rutgers.edu/ai) for more details.

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### **ATTENDANCE AND PREPARATION POLICY**

-Barring unforeseen circumstances, I expect to be teaching all scheduled class sessions. Similarly, barring unforeseen circumstances or religious observances, I expect all my students to attend every class session. If I am to be absent, the EMBA office, or I will send you notice via email and Blackboard as far in advance as possible. If you are to be absent, report your absence in advance at <https://sims.rutgers.edu/ssra/>. If your absence is due to religious observance, a Rutgers-approved activity, illness, or family emergency/death and you seek makeup work, also send an email with full details and supporting documentation [within 10 days of your first absence

- For weather emergencies, consult the campus home page. If the campus is open, class will be held.

- I expect to arrive on time for each class and I expect the same of you. I expect my class sessions and lectures to take up all the allotted time, and I would expect you to attend the full session in every class. I expect you will have a valid reason if you come in late or have to leave a class early, I expect you will come fully prepared for classes and expect you to participate fully.

### **CLASSROOM CONDUCT**

I expect you to be considerate to your classmates and the professor, follow class decorum, and make the learning experience to be both positive and rewarding.

### **GRADING POLICY**

Your final grade is not subject to negotiation. If you have any questions, please submit your written request to me within one week of receiving your final grade and provide all due supporting documentation. If your case merits a revision of grade, I will gladly correct it. I cannot and will not adjust grades based on consequences, such as hurt pride, lost scholarships, lost tuition reimbursement, lost job opportunities, or dismissals. Do not ask me to do so. According to the policies of the University, it is not honest to attempt to influence faculty in an effort to obtain a grade that you did not earn.

## **SUPPORT SERVICES**

If you need accommodation for a *disability*, obtain a Letter of Accommodation from the Office of Disability Services. The Office of Disability Services at Rutgers, The State University of New Jersey, provides student-centered and student-inclusive programming in compliance with the Americans with Disabilities Act of 1990, the Americans with Disabilities Act Amendments of 2008, Section 504 of the Rehabilitation Act of 1973, Section 508 of the Rehabilitation Act of 1998, and the New Jersey Law Against Discrimination. <https://ods.rutgers.edu>

If you are a military *veteran* or are on active military duty, you can obtain support through the Office of Veteran and Military Programs and Services. <http://veterans.rutgers.edu/>

If you are in need of *mental health* services, please use our readily available services.

[Rutgers University-Newark Counseling Center: <http://counseling.newark.rutgers.edu/>]

[Rutgers Counseling and Psychological Services – New Brunswick: <http://rhscaps.rutgers.edu/>]

If you are in need of *physical health* services, please use our readily available services.

[Rutgers Health Services – Newark: <http://health.newark.rutgers.edu/>]

[Rutgers Health Services – New Brunswick: <http://health.rutgers.edu/>]

If you are in need of *legal* services, please use our readily available services: <http://rusls.rutgers.edu/>

If you are in need of additional *academic assistance*, please use our readily available services.

[Rutgers University-Newark Learning Center: <http://www.ncas.rutgers.edu/rlc>

Rutgers University-Newark Writing Center: <http://www.ncas.rutgers.edu/writingcenter>]

[Rutgers University-New Brunswick Learning Center: <https://rlc.rutgers.edu/>]