

FINANCIAL ACCOUNTING Ph.D. SEMINAR Fall 2017

Feng Gao (fgao@business.rutgers.edu)

Office: NB – 4137 100 Rock

Carolyn Levine (clevine@business.rutgers.edu)

Office: NWK – 921 1 WP

Class times: Fridays 1-3:50.

Class location: NWK and NB

COURSE DESCRIPTION

This course provides an introduction into research in financial accounting. The primary objective of this seminar is to expose students to ongoing and emerging financial accounting issues and to acquaint them with various research methodologies used in empirical financial accounting research.

COURSE MATERIALS

- The syllabus lists the papers we will cover; all are available online (either from the author's website or Rutgers's library site)
- Slides will be posted on blackboard (blackboard.rutgers.edu) and your official Rutgers email account regularly.

LEARNING GOALS AND OBJECTIVES

- This course is designed to help students develop skills and knowledge in financial accounting research.
- Students who complete this course will be able to critically read, understand, and analyze academic papers in a variety of financial accounting areas.
- Students develop these skills and knowledge through reading papers, presenting papers, and participating in class discussions.

PREQUISITES

This course is designed for 2nd year (and higher) Ph.D. students.

ACADEMIC INTEGRITY

Students are responsible for understanding the RU Academic Integrity Policy (http://academicintegrity.rutgers.edu/files/documents/AI_Policy_2013.pdf). I will strongly enforce this Policy and pursue *all* violations. All written submissions must be your own work; you must carefully cite and quotes reliance on earlier papers and language where necessary. Do not try to pass off others' writing as your own. See business.rutgers.edu/ai for more details.

ATTENDANCE AND PREPARATION POLICY

Please read or at least skim all of the papers prior to class, and take notes in the margins. This way, you will be able to ask questions and follow the lecture.

For the student presentation papers, you must read each carefully, and prepare three questions (to be submitted each week) about the paper.

CLASSROOM CONDUCT

Typically, Carolyn or Feng will present during the first 60-90 minutes of class. There may be a theoretical model and an application for each topic, or two applications. The topics and readings are listed below in the class schedule. Students are expected to read each of the papers prior to every class. Papers can be accessed electronically from the library website, SSRN or from the authors' personal websites. Feel free to interrupt at any time with questions or comments. Although there are "lectures," you should treat them as academic seminars.

The second half of each weekly class will be student led discussions. One student will be assigned as the "author" of the paper, and will present the paper to the class. This presentation may use slides, or may be more informal but the role of the author is to describe the (a) research question and the theoretical underpinnings (b) the research methodology and assumptions (c) the data and (d) the results and interpretation. The other students in the class will be seminar participants. Each student will be required to submit three to five questions about the paper prior to class, and should feel comfortable interrupting the "author" during his/her presentation. Part of your grade will depend on your participation in these roles.

EXAM DATES AND POLICIES

There are no exams. Instead, you will have referee reports and research project milestones, discussed below.

REFeree REPORTS

When we have outside presenters, you will be expected to thoroughly read their papers and provide a written referee report.

High quality and timely referee reports are essential to the performance of any journal. You will be asked to referee papers throughout your career, and you will be (implicitly) evaluated (by the editor) based on the quality of your reports. You might skim the paper first to get an idea of the big picture, and then read it more carefully to make detailed comments. Make notes in the margins or underline/highlight important issues. Often times, seminar participants will mark up papers and give the more informal markups directly to the author who is presenting. It is important to leave out any nastiness. Authors should be able to learn how to improve their paper

from your report, whether or not it has a chance for publication in the journal for which you are refereeing.

Begin the report with a (short, one to two paragraph) summary of the research question and the findings. Then, discuss whether the author has made a contribution, whether there are problems in the analysis or issues that need clarification or further work. Since this is not an official request from a journal, you need not provide a publication recommendation (i.e., accept/revise/reject)

Typically, referee reports have the following structure

- Summary and contribution
- Major Comments
 - This section is where you raise the major questions and concerns about the paper. If the analysis is incomplete, point it out. If it needs to be more general, make suggestions and requirements for how the authors could extend or improve the paper. An example of one paragraph (from a sample referee report that I wrote)

I also think the paper misses many interesting aspects of disclosure. First, why doesn't disclosure allow the firm to be a Stackelberg leader? If that were the case, then there would be some tradeoff which would encourage firms that have positively correlated output to also want to disclose. How do the authors envision the commitment to a disclosure policy? Why isn't disclosure determined after observing the realization? Is it that disclosure is sticky? If that is the case, then there should be costs of disclosure if the correlations are expected to change over time. What, if any, are the penalties to being a "low discloser?"
- Minor Comments
 - This section includes small details, questions that can be easily addressed within the context of the existing data and framework, typos and other small points. An example (taken from a referee report I wrote about a different paper)
 - Another missing citation is Hayes (1998).
 - The main specification (p. 14) is not numbered, but referred to as (2) later in the paper.
 - Table 5 does not have raw returns (p.20)

RESEARCH PROJECT

The goal is for each student to have a running start on his/her (original) summer research paper. To that end, we will require submission of several milestones along the way. The due dates are listed in the course schedule and details for each are listed below. Please adhere to the page limits.

1. Suggestion of a topic (as specific as you can be, but you may select one of the 10-12 broad areas we are going to discuss if you do not have a topic in mind). **1 page.**
 - a. Do a careful literature search to ensure that your topic has not be fully researched (i.e., the idea must have a component of originality)

- b. List the reasons this area/topic interests you.
 - c. Suggest three or four papers in this area that you would like to read to better acquaint yourself with the topic.
2. Literature review. **5 pages.**
- a. Using the papers you suggest along with the list that we individualize for you, write a summary of each paper. Discuss the contributions of the paper.
 - b. Propose some ways you could expand on each of these papers (it may be the addition of a single variable, an alternative approach to measuring the variables of interest, or any other changes that would make the paper different and better).
 - c. Discuss how your topic (now, hopefully better fleshed out and more specific) fits into this line of research.
3. Research topic proposal. **5 pages**
- a. What is the research question? Incorporate the feedback you have received on part (c) of the second milestone.
 - b. How will you address the question? What methodology will you use (be as specific as possible! A good answer would begin like “I will estimate a model which examines whether trading volume increases with the number of discretionary public disclosures as the independent variable,” NOT “I will run OLS.”
 - c. How will your paper contribute to the existing literature?
4. Research design and Data (no page limit)
- a. What are the variables you need? Why are these good proxies for the underlying economics?
 - b. What are the control variables you need?
 - c. What will your econometric or analytical approach be?
 - d. Where will you get the data? An answer like “WRDS” is completely unacceptable. We are looking for specifically how you will measure each variable

GRADING POLICY

Course grades are based on your participation, scores on the required submissions (see Research Project section and below) and presentations in the class.

We may have guest presenters from our faculty (or senior Ph.D. students). On those dates, there will be no student led discussions, but instead, students will be required to write a referee report for the paper that is presented. The faculty member will evaluate the quality of those reports, and inform us which were most helpful for them in revising their papers. The last part of your grade will depend on these evaluations.

COURSE SCHEDULE: The material on the schedule will stay constant, but the order of classes may change, due to last minute inclusions of seminars. The location of the class will be in the location of the seminar (unless there is a conflict for AIS and accounting students; then the class will be in NWK)

	<u>Date</u>	<u>Topic</u>	<u>Items Due</u>
1	8-Sep	TOPIC 1: DEMAND FOR ACCOUNTING REGULATION LEVINE LECTURE ONLY [NEWARK]	
2	15-Sep	FACULTY PRESENTATION: MOFFITT TOPIC 2: EVENT STUDIES: LEVINE LECTURE ONLY [NEWARK]	REFEREE REPORT due
3	22-Sep	TOPIC 7: ESTIMATING TREATMENT EFFECT USING EXOGENOUS SHOCK GAO LECTURE & STUDENT LED DISCUSSION [NEW BRUNSWICK]	
4	29-Sep	TOPIC 8: USING INSTRUMENT VARIABLES GAO LECTURE & STUDENT LED DISCUSSION [NEW BRUNSWICK]	MILESTONE 1
5	6-Oct	TOPIC 3: VOLUNTARY DISCLOSURE LEVINE LECTURE AND STUDENT LED DISCUSSION [NEWARK]	
6	13-Oct	TOPIC 9: REGRESSION DISCONTINUITY GAO LECTURE & STUDENT LED DISCUSSION, [TBD]	
7	20-Oct	TOPIC 4: ACCOUNTING METHOD CHOICES LEVINE LECTURE & STUDENT LED DISCUSSION [NEWARK]	MILESTONE 2
8	27-Oct	TOPIC 6: THE ROLE OF AUDITORS LEVINE LECTURE AND SENIOR STUDENT PRESENTATION: CALABRESE [NEWARK]	REFEREE REPORT due
9	3-Nov	TOPIC 5: INFORMATION ASYMMETRY LEVINE LECTURE AND STUDENT LED DISCUSSION [NEWARK]	
10	10-Nov	TOPIC 10: MATCHING AND SELECTION GAO LECTURE & STUDENT LED DISCUSSION [NEW BRUNSWICK]	
11	17-Nov	TOPIC 11: CSR RESEARCH GAO LECTURE & STUDENT LED DISCUSSION, [TBD]	MILESTONE 3
12	24-Nov	THANKSGIVING BREAK – no class	
13	1-Dec	STUDENT MILESTONE PRESENTATIONS GAO [TBD]	
14	8-Dec	STUDENT MILESTONE PRESENTATIONS [NEWARK]	MILESTONE 4

Topic 1: The demand for accounting regulation

Akerlof, G. (1970) THE MARKET FOR "LEMONS": QUALITY UNCERTAINTY AND THE MARKET MECHANISM. The Quarterly Journal of Economics, 84 (3): 488-500.

Lev, B. (1988). Toward a theory of equitable and efficient accounting policy. The Accounting Review, Vol LXIII (1). 1-22.

Amir, E. (1993). The Market Valuation of Accounting Information: The Case of Postretirement Benefits other than Pensions. The Accounting Review. 68 (4).703-724.

Urooj Khan, Bin Li, Shivaram Rajgopal, and Mohan Venkatachalam (2017) Do the FASB's Standards add Shareholder Value?. The Accounting Review In-Press.

Topic 2: Event Studies

MacKinlay, A. C. (1977) Event Studies in Economics and Finance. Journal of Economic Literature. XXXV: 13–39.

Li Z., Shroff, P., Venkataraman, R. and I. Zhang. (2011). Causes and consequences of goodwill impairment losses. Review of Accounting Studies 16: 745-778.

Haggard K., Howe, J., Lynch, A. (2015) Do baths muddy the waters or clear the air? Journal of Accounting and Economics. 59: 105–117.

Topic 3: Voluntary (Accounting) Disclosure

Rogers, J. and Stocken, P. (2005) Credibility of Management Forecasts. Accounting Review 80(4), 1233.

Einhorn, E. and A. Ziv (2012). Biased Voluntary Disclosure, Review of Accounting Studies.

Ball, R., Jayaraman, S. and Shivakumar, L. (2012) Audited financial reporting and voluntary disclosure as complements: A test of the Confirmation Hypothesis. Journal of Accounting and Economics. 53. 136-166.

STUDENT PRESENTATION PAPER: Shroff, N., Sun, A., White, H. and W. Zhang. (2013) Voluntary Disclosure and Information Asymmetry: Evidence from the 2005 Securities Offering Reform. Journal of Accounting Research. 51 (5). 1299-1343.

Topic 4: Accounting Method Choices

Nikolaev, V. (2009) Debt Covenants and Accounting Conservatism. Journal of Accounting Research, Vol. 48, No. 1.

Survey Paper: Fields, Lys and Vincent. (2001) Empirical research on accounting choice. *Journal of Accounting and Economics*. 255-307.

Clor-Proell, S (2009) The Effects of Expected and Actual Accounting Choices on Judgments and Decisions, *The Accounting Review* 84,5. 1465-1493.

STUDENT PRESENTATION PAPER: Bartov E. and Mohanram, P. Does Income Statement Placement Matter to Investors? The Case of Gains/Losses from Early Debt Extinguishment. *The Accounting Review* 89,6, 2014, pp.2021-2055

Topic 5: Information Asymmetry (Insider Trading) and Market Microstructure

Kyle, A.(1985) Continuous Auctions and Insider Trading. *Econometrica*. 1985. 53 (6). 1315-1335.

Levine, C.B. and Smith, M. (2003) Information Dissemination by Insiders in Equilibrium. *Journal of Financial Markets*, January (2003) pp. 23---47.

Cheyneil, E. and Levine, C. Public Disclosures and Information Asymmetries: A theory of the mosaic. Working paper, 2016

STUDENT PRESENTATION PAPER: Patricia M. Dechow, Alastair Lawrence, James P. Ryans.(2016). SEC Comment Letters and Insider Sales. *THE ACCOUNTING REVIEW*. 91 (2). 401–439

Topic 6: The role of auditors

Lee, K. and Levine, C. (2017). Audit Partner Identification and Audit Quality. Working Paper

Aobdia, Daniel, Lin, Chan-Jane, and Petacchi, Reining. Capital Market Consequences of Audit Partner Quality. *Accounting Review*. Nov2015, Vol. 90 Issue 6, 2143-2176.

STUDENT PRESENTATION PAPER: Callaway Dee, Carol, Lulseged, Ayalew, and Tianming Zhang. Who Did the Audit? Audit Quality and Disclosures of Other Audit Participants in PCAOB Filings.

Topic 7: Estimating Treatment Effect Using Exogenous Shock

Gao, F; Wu, J. ; and Zimmerman, J. Unintended Consequences of Granting Small Firms Exemptions from Securities Regulation: Evidence from the Sarbanes-Oxley Act. *Journal of Accounting Research* 47, 459–506.

STUDENT PRESENTATION PAPER: Tang, Tony, 2009, Information asymmetry and firms' credit market access: Evidence from Moody's credit rating format refinement, *Journal of Financial Economics* 93, 325-351.

STUDENT PRESENTATION PAPER: Ramanna, K., and Roychowdhury, S. Elections and discretionary accruals: Evidence from 2004. *Journal of Accounting Research* 48, 445-475.

Topic 8: Endogeneity or Simultaneity: The Case for Using Instrument Variables and Heckman Selection models

Ball, R., Shivakumar, L., 2005. Earnings quality in UK private firms: comparative loss recognition timeliness. *Journal of Accounting and Economics* 39, 83–128.

STUDENT PRESENTATION PAPER: Barton, J. Waymire, G., 2004. Investor protection under unregulated financing reporting. *Journal of Accounting and Economics* 38, 65-116.

STUDENT PRESENTATION PAPER: Leftwich, R., 2004. Discussion of “Investor protection under unregulated financial reporting” (by Jan Barton and Gregory Waymire). *Journal of Accounting and Economics* 38, 117-128.

A youtube video below also helps review the material.

<https://sites.google.com/site/econometricsacademy/econometrics-models/instrumental-variables>

Topic 9: Local Randomization Using Regression Discontinuity

Cunat, V., Gine, M., and Guadalupe, M., 2012. The vote is cast: The effect of corporate governance on shareholder value. *Journal of Finance* 67, 1943-1977.

STUDENT PRESENTATION PAPER: Iliev, Peter, 2010, The effect of SOX Section 404: Costs, earnings quality, and stock prices, *Journal of Finance* 65(3), 1163-1196.

STUDENT PRESENTATION PAPER: Almeida, H. and Fos, V. and Kronlund, M. The Real Effects of Share Repurchases (June 18, 2015). Forthcoming, *Journal of Financial Economics* (JFE).

Topic 10: Matching and Selection

Dimitrov, V. and Gao, F. “Shareholder Activism and Trust: Evidence from Shareholder Proposals”. Working paper.

STUDENT PRESENTATION PAPER: Rajan, Raghuram G., and Luigi Zingales, 1998, Financial Dependence and Growth, *American Economic Review*, 88(3), 559-586.

STUDENT PRESENTATION PAPER: Cremers, M., Litov, L.P., Sepe, S.M. Staggered boards and long-term firm value, revisited. *Journal of Financial Economics* forthcoming.

Topic 11: CSR

Gao, F, Lisic, L., Zhang, I. 2014. "Commitment to social good and insider trading". *Journal of Accounting and Economics* 57, 149–175.

STUDENT PRESENTATION PAPER: Dhaliwal,D.S., Radhakrishnan,S., Tsang,A., Yang,Y.G., 2012. Nonfinancial disclosure and analyst forecast accuracy: international evidence on corporate social responsibility disclosure. *Accounting Review* 87, 723–759.

STUDENT PRESENTATION PAPER: Cheng, B., Ioannou, I., Serafeim, G. 20Kim, Y., Park, M.S., Benson, W. 2012. Is earnings quality associated with corporate social responsibility? *Accounting Review* 87, 761-796.

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/>