LIMPERG INSTITUTE
PhD Seminar: Advanced Financial Accounting June 2015
Positive Accounting Theory: Reading List
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The research area discussed in this seminar falls into two closely related categories: (1) studies that investigate economic motivations for why firms choose particular accounting methods; (2) studies that consider boards of directors and corporate governance, in general, and (iii) a couple of miscellaneous topics such as endogeneity corrections and design issues we encounter in corporate finance type work.

Each of these literatures is vast and the best we can do is to stoke your interest in these areas so that you can pursue your own reading. Hence, I have attempted to give you a reading list. Although the reading list is considerable, it represents the set of papers that must be well known by all Ph.D. graduates in accounting.

Each session will have four parts. We will begin with a presentation of a paper that is central to the topic being discussed. One student will present the paper as if they are the author. That is, their aim will be to present the main ideas of the paper as if they were one of the original authors. They should be prepared to defend and explain all of its contents, and to respond to questions/comments/suggestions from the other participants in the seminar. This presentation may take up to 80 minutes, though time constraints may necessitate much shorter presentations.

The second session will be a critique of the key paper (also presented - with questions of clarification only - by one of the students). The main idea of this session will be to provide a list of reasons why the paper should be accepted/rejected for publication in one of the major accounting research journals. This presentation should take about 30 minutes. All students must submit a written recommendation to an editor of one of these journals recommending publication/re-submission/out-right rejection from publication.

The third session will be a presentation (also by a student) of a paper that is very closely related to the key paper. The emphasis of this presentation will be on the connection to the key paper and the contribution beyond the key paper. This presentation should take about 30 minutes. The final session (which will take about 60-90 minutes) will be a discussion of the related papers. In order to prepare for this session, students are required to prepare a literature review that describes each of the papers on the reading list and any other papers that are arguably closely related or central to the theme of the main paper. As with all literature reviews, this review should include a summary of the main points of each paper and a clear indication of the thread that connects the papers together.

Assessment will be allocated as follows:

(1) Presentation of key paper	15%
(2) Critique of key paper	15%
(3) Presentation of related paper	15%
(4) Literature review	15%
(5) Exam*	40%

(1) Assessments on the presentation of the key paper, the critique and the related paper will be based on rankings by classmates.

(2) The literature review must be handed in at the beginning of the day in which the papers will be discussed. My aim is to ensure that every student has carefully read every paper and thought carefully about the way they are connected. I realize that this is a time-consuming task. It is, however, essential to becoming prepared to embark on an academic career in accounting. Assessment will be based on the written literature review and participation in class discussion.

(3) The exam will be a one-week take-home in which students will be required to write a referee report in much the same spirit of the reports associated with the critiques during the course

(4) The exam should be handed in one week after the end of the course. I will assign the exam grade.

Topic 1: Contracting Theory (* key paper and ** represents key related paper)**

1. Jensen, M. C., and W. H. Meckling. “Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure,” Journal of Financial Economics 3, 4 (October 1976): 305-360.

2. ***Watts, R. L., and J. L. Zimmerman. “The Demand For and Supply of Accounting Theories: The Market for Excuses.” Accounting Review 52, 3 (April 1979): 273-305.

3. Watts, R. L., and J. L. Zimmerman. Positive Accounting Theory. (Englewood Cliffs: Prentice Hall, 1986), Chapter 10.

4. Watts, R. L., and J. L. Zimmerman. “Positive accounting theory: A ten year perspective.” Accounting Review 65 (1990): 131-156.

5. **Holthausen, R. W. and R. W. Leftwich, "The Economic Consequences of Accounting Choice", Journal of Accounting and Economics 5 (1983) 77-117. Through the end of Section 3 only.

6. Graham, John R., Campbell R. Harvey, and Shiva Rajgopal, “The economic implications of corporate financial reporting,” Journal of Accounting and Economics 40 (2005): 3-73.

7. Watts, R.L. 2003a. Conservatism in accounting part I: Explanations and Implications. Accounting Horizons 17: 207-221.

8. Watts, R.L. 2003b. Conservatism in accounting part II: Evidence and research opportunities. Accounting Horizons 17: 287-301.

9. Givoly, D. and C. Hayn, "The Changing Time-Series Properties of Earnings, Cash Flows and Accruals: Has Financial Reporting Become More Conservative?" Journal of Accounting & Economics (June 2000), 287-320.

Topic 2: How Do Boards Work?

1. ***Yermack, D., 1996, “Higher Market Valuation for Firms With a Small Board of Directors,” *Journal of Financial Economics* 40, 185-211.

2. **Charu G. Raheja. Determinants of board size and composition: A theory of corporate boards. Journal of Financial and Quantitative Analysis, 40:283–306, 2005

3. Klein, A., 2002, “Audit Committee, Board of Director Characteristics, and Earnings Management,” *Journal of Accounting and Economics* 33, 375-400.

4. Fich, E., and A. Shivdasani, 2006 “Are Busy Boards Effective Monitors?” Journal of Finance 61, 689-724.

5. Coles, J., N. Daniel, and L. Naveen, 2008, “Boards: Does One Size Fit All?” Journal of Financial Economics 87, 329-356.

6. Hazarika, S., J. Karpoff, and R. Nahata. 2012. "Internal corporate governance, CEO turnover, and earnings management," Journal of Financial Economics, Elsevier, vol. 104(1), pages 44-69.

7. DeFond, M. Hann, R., Hu, X., 2005. Does the Market Value Financial Expertise on the Audit Committees of Boards of Directors? Journal of Accounting Research Vol. 43, pp 154-194

8. Bebchuk, L., and A. Cohen, 2005, “The Costs of Entrenched Boards,” Journal of Financial Economics 78, 409-433.

9. Ahearn, K., and A. Dittmar, 2012, “The Changing of the Boards: The Value Effect of a Massive Exogenous Shock,” Quarterly Journal of Economics 127. 137-197.

10. Chhaochharia, V., and Y. Grinstein. 2009. CEO compensation and board structure. Journal of Finance 64: 231-261.

11. Guthrie, K., J. Sokolowsky, and K.M.Wan, 2012. CEO compensation and board structure revisited, Journal of Finance, forthcoming (this rebuts the above paper).

12. Chhaochharia, V., and Y. Grinstein. 2013. CEO Compensation and Board Structure – There is an Effect After All (Rebuttal of the rebuttal). Available athttp://www.afajof.org/SpringboardWebApp/userfiles/afa/file/The%20AFA/Useful%20Links/Response-to-CEO-Compensation-Board-Structure-Revisited.pdf.

Topic 3: Debt Contracting

1. Watts, R. L., and J. L. Zimmerman. Positive Accounting Theory. (Englewood Cliffs: Prentice Hall, 1986), Chapter 9. Skim this.

2. ***Leftwich, R. Accounting Information in Private Markets: Evidence from Private Lending Agreements. Accounting Review 58, 1 (January 1983): 23-42.

3. **Asquith, P., A. Beatty, and J. Weber. Performance Pricing in Bank Debt Contracts. Journal of Accounting and Economics 40 (2005): 101-128.

4. Beatty, A., J. Weber, and J. Yu. Conservatism and Debt. Journal of Accounting and Economics 45 (2008): 154-174.

5. Guay, W.R. Conservative Financial Reporting, Debt Covenants, and the Agency Costs of Debt. Journal of Accounting and Economics 45 (2008): 175-

6. Ball, R., R. Bushman, and F.P. Vasvari. The debt-contracting value of accounting information and loan syndicate structure. Journal of Accounting Research 46, 2 (2008): 247-287.

7. Frankel, R., C. Seethamraju, T. Zach. GAAP goodwill and debt contracting efficiency: Evidence from net worth covenants. Review of Accounting Studies 13 (2008): 87-118.

Topic 4: Endogeneity and Design Related Discussions

1. Larcker, D. F., and T. O. Rusticus. On the use of instrumental variables in accounting research. Journal of Accounting and Economics 49(3): 186–205.

2. Larcker, D. F., and T. O. Rusticus. Endogeneity in Accounting Research. European Accounting Review 16, 1 (2007): 207-215Lang, M., and R. Lundholm. "Corporate Disclosure and Analyst Behavior." The Accounting Review 71 (October 1996): 467-492.

3. ***Bertrand, M. and S. Mullainathan. Are CEOs rewarded for luck? The ones without principles are. Quarterly Journal of Economics, 116(3):901–32, 2001 (example of IV method).

4. B. D. Meyer. Natural and quasi-experiments in economics. Journal of Business and Economic Statistics, 13(2):151–61, 1995 (DiD).

5. **Bertrand, M. and S. Mullainathan. Enjoying the quiet life? Corporate governance and managerial preferences. Journal of Political Economy, 11(5):1043–75, 2003 (DiD).

6. Bertrand, M., E. Duflo, and S. Mullainathan. How much should we trust differences-in- differences estimates? The Quarterly Journal of Economics, 119(1):249–275, 2004 (DiD).

7. Chevalier, J. and G. Ellison. Risk taking by mutual funds as a response to incentives. Journal of Political Economy, 105(6):1167–1200, 1997 (Non parametric estimation)

8. Li, N. and N.R. Prabhala. Self-selection models in corporate finance. In B. Espen Eckbo, editor, Handbook of Corporate Finance. Elsevier, 2007.

9. Villalonga, B. and R.Amit. How do family ownership, control and management affect firm value? Journal of Financial Economics, 80(2):385–417, 2006 (self selection)

10. Himmelberg,C., R.G. Hubbard, and D.Palia. Understanding the determinants of managerial ownership and the link between ownership and performance. Journal of Financial Economics, 53(3):353–84, 1999 (Structural models).

11. Coles, J., M. L. Lemmon, and J. F. Meschke. Structural models and endogeneity in corporate finance: The link between managerial ownership and corporate performance. Journal of Financial Economics, 103(1):149 – 168, 2012 (structural models).

12. Angrist, D. and J.S. Pischke. The credibility revolution in empirical economics: How better research design is taking the con out of econometrics. Journal of Economic Perspectives, 24(2): 3–30, Spring 2010.

Topic 5: Pricing Earnings Quality

1. Sloan, R.G., 1996. “Do Stock Prices Fully Reflect Information in Accruals and Cash Flows about Future Earnings?” The Accounting Review 71: 289-315.

2. Richardson, Scott A, Richard G. Sloan, Mark T. Soliman, Irem Tuna, 2005, Accrual reliability, earnings persistence and stock prices, Journal of Accounting and Economics.

3. **Mashruwala, C., S. Rajgopal, and T. Shevlin, “Why Is the Accrual Anomaly Not Arbitraged Away? The Role of Idiosyncratic Risk and Transaction Costs,” Journal of Accounting & Economics (October 2006), 3-33.

4. Pontiff, J., “Costly Arbitrage and the Myth of Idiosyncratic Risk,” Journal of Accounting & Economics (October 2006), 35-52.

5. ***Francis, J., R. LaFond, P. Olsson, and K. Schipper, “The Market Pricing of Accruals Quality,” Journal of Accounting & Economics (June 2005), 295-327.

6. Core, J., W. Guay, and R. Verdi, “Is Accruals Quality a Priced Risk Factor?” Journal of Accounting & Economics, 46: 2-22.