

Bentley University
Course Syllabus
Financial Accounting Research Seminar (PACC 1601)
Spring 2017

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Class Location	Adamian Academic Center 242
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Office Hours	Fridays 5pm-6pm and by appointment.
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Required Text and Supplemental Materials:

Required and supplemental reading materials are available through the Bentley Library.

Suggested Reading Materials:

- Scott, William R. *Financial Accounting Theory* (7th ed.) Toronto: Pearson, 2015.
- Kennedy, Peter. *A Guide to Econometrics* (6th ed.) Wiley-Blackwell, 2008.
- Strunk, William and E. B. White. *The Elements of Style* (4th ed.) Needham Heights, MA: Longman, 2000.
- Zinsser, W. *On Writing Well* (7th ed.) New York, NY: HarperCollins Publishers, 2006.

Course Description:

This course covers a selection of topics in the area of financial accounting research. We will analyze topics with the goal of learning how to consume, critique, and produce financial accounting research. The course is designed to focus on each area through the lens of a select number of studies. Our attempt to cover a vast and growing literature through a handful of papers will, at best, scratch the surface. Nevertheless, an in-depth analysis of the key papers in the area and our in-class discussions will help you develop a solid understanding of the primary questions addressed in each field and help you learn the methods employed in the respective areas.

The knowledge that we acquire by studying the papers will be instrumental as you think about research questions that interest you and develop your own research agenda. Ultimately, the course's objective is to help you become familiar with various streams of research in the financial accounting literature and at the end contribute to the development of your research focus, which in turn will extend prior research.

Capital markets research relies heavily on the use of numerous databases (e.g., Compustat, CRSP, IBES) and requires practical knowledge of various econometric methods and techniques. Hands-on experience, in my opinion, is an important part of the process of learning how to produce accounting research. We will, therefore, invest time

and effort to become familiar with the databases and develop our SAS and Stata programming skills. In order to maximize the benefit of the time spent in-class you will also complete a number of implementation assignments.

Learning Objectives:

1. Acquire a solid understanding of the empirical financial accounting literature.
2. Develop an understanding of your level of interest in various streams of the literature.
3. Learn how to access and manipulate commonly used databases in the field.
4. Practice critically evaluating financial accounting research.
5. Write a research proposal that has the potential to develop into a publication at a prestigious journal.

Course Requirements

Class Presentations and Article Analysis:

Each week, we will have two or three required readings and a number of additional suggested readings. Please read all assigned papers at least two times and be prepared to discuss them. You will present one of the papers during the seminar and other students will participate to contribute to an active and stimulating in-class discussion. In addition, please evaluate each article and submit your write-up on Blackboard by noon on the day of class. The written discussion should be double-spaced, typed in 12-point font with one-inch margins and less than or equal to five pages in length. For the article you are presenting, you are welcome to submit your slides instead. You can use the notes feature to add additional points and discussions. I will review your article analyses without grading them.

I recommend that you use the guidelines below to develop your class discussions and article analysis write-ups:

Motivation:

1. How does this paper fit the “big picture” issue/question in the accounting literature?
2. Do you think this paper has the potential to change the way we think about any issue in the area of financial accounting?
3. Does the paper address a question that is of interest to practitioners, regulators or standard-setters?

Research questions:

1. What are they?
2. Are the research questions important?
3. Identify the three most relevant previous (or contemporaneous) papers. Discuss how the research questions in the current study extend the prior studies that you identified. Please be specific.

Hypotheses:

1. What are they? Summarize the underlying theory.
2. Does the theory make sense? Are there alternative theories?
3. Are the null hypotheses realistic?
4. Are there alternative hypotheses?

Execution:

1. What is the sample? How (and why) did the author/s select it?
2. Research design:
 - a. What methods do the authors use?
 - b. Are the methods appropriate to test the hypotheses?

- c. What are the dependent and independent variables? How do the authors measure them?
- d. Do you think the variables measure what they intend to measure? Are there better ways to measure the same construct?
- e. Are there construct validity concerns?
- f. Is there an omitted variable problem?
- g. Is there sample selection bias?
- h. Are there credible reasons to suspect bias in the tests?

Results:

1. What are the paper's main findings? What do we learn?
2. Are the documented statistical associations economically meaningful? Please be specific in your discussion here.
3. Do you think the author/s interpret the results correctly?
4. Are there alternative explanations for the same findings?
5. Do the results fully answer the research questions?

Extensions:

1. Develop, at a minimum, one researchable question that extends the study.

Attendance and Participation:

Classes will start promptly at the scheduled time. Please make every effort to be on time. Please turn off all **cell phones** at the beginning of the class. In addition, active class participation is required. The participation grade is a subjective but neutral assessment of the quality and quantity of your class contributions.

Implementation Exercises:

The implementation exercises will ask you to obtain data, manipulate, and analyze it, and report your results. In general, we will use SAS for data management and Stata for econometric analysis. The deliverables for the implementation exercises are your code, data files, and write-up with results.

The primary goal of the implementation exercises is to help you learn how to learn to code. I, therefore, encourage you to acquire help from any resource that you have access to (e.g., ATC, web resources). Seeking help from classmates, however, is prohibited. This restriction is in place because consulting with a classmate will lead you to skip all the intermediate steps and get you straight to the final answer. Such an approach will help you quickly complete the assignment but will not help you achieve future programming goals.

Research Proposals:

This component of the course requires that you develop an original research idea and write a proposal. Your paper should be double-spaced with one-inch margins, typed in 12-point font, and be 13-18 pages in length. The final deliverable will consist of all sections in a full paper excluding those that relate to the interpretation of the results: introduction, hypotheses development, research design, data plans and conclusions. Below is a list of items that your proposal should cover at a minimum:

Introduction (3-4 pages):

1. What is your research question?
2. Why is it important?
3. What do you expect to find?

4. How does your analysis extend prior research?

Hypotheses development (5-6 pages):

1. What are the economic arguments or theories that relate to your research question?
2. What are the hypotheses you plan to test?
3. Under which circumstances or conditions would you expect to fail to reject your null hypotheses?
4. Are there alternative hypotheses?

Research design (3-4 pages):

1. How do you plan to test your hypotheses?
2. What methods will you use?
3. What kind of econometric issues (e.g., multicollinearity, endogeneity, omitted variables problem) do you expect to encounter?
4. Is there an opportunity to perform a quasi-experiment to test your hypotheses?

Data plans (1-2 pages):

1. How will you obtain the data?
2. How will you ensure that the data is accurate (e.g., free of error)?
3. What will you do to clean the data?

Conclusions (1-2 pages)

1. What are the benefits of conducting the proposed analyses for theory and practice?
2. Are there any limitations?

Final Exam:

We will have a closed book exam at the end of the semester.

Make Up Policy and Late Submissions:

No makeup exams will be given without a valid written medical excuse or unforeseen emergency. Travel plans, vacations, interviews etc. do not constitute a valid reason.

Please submit all assignments before the due date. The penalty for late submission is five percent for each day after the due date. With the exception of emergencies (e.g. death, major illness), I will not consider extension requests for assignments.

Grading/Evaluation:

Component	Weight
Presentations	20
Participation	20
Implementation exercises	20
Research proposal	20
Final exam	20
Total	100%

Writing:

It is very rare that a person is so skilled at writing that he or she need not invest more time to improve it. I recommend that you continuously work to develop your writing skills. It will help you become a better writer and thinker. I suggest reading books on writing and practicing. Most importantly, however, I strongly encourage you to allocate an hour of your day, every day, to writing. While doing this, please keep a log of your daily progress (i.e., date, number of words you wrote, time, etc.). This will motivate you and keep you on track.

Finally, the Writing Center offers one-on-one tutoring to students of all years and skill levels. Located on the lower level of the Bentley library (room 023), the Writing Center provides a welcoming and supportive environment in which you can work on writing from any class or discipline. Writers are encouraged to visit at all stages of the writing process; they can come with a draft, an outline, or just some initial thoughts and questions. Staffed by highly skilled student tutors, the Writing Center is open six days a week. Drop-ins are welcome, but appointments are encouraged and can be made online at bapps.bentley.edu or by phone at 781.891.3173. For hours and additional information, visit our website at bentley.edu/writing-center.

Academic Honesty and Fair Use of Copyright Materials:

“Learning is a privilege that demands responsibility. At Bentley, students and faculty are members of an academic community that support integrity both inside and outside the classroom. The expectation at Bentley is that students will take advantage of the opportunity for intellectual development and, in doing so, will conduct themselves in a manner consistent with the standards of academic integrity. When these standards are violated or compromised, individuals and the entire Bentley community suffer. Students who engage in acts of academic dishonesty not only face university censure but also may harm their future educational and employment opportunities.”

The full policy can be found at: <http://www.bentley.edu/centers/alliance/academic-integrity> Students are responsible for familiarizing themselves with and understanding the academic honesty guidelines presented in the [Student Handbook](#). All course materials, including library reserves, if any, are for teaching purposes for this course during this term only. You may not reproduce these materials to distribute outside of class. Please see [Fair Use of Copyright Materials](#) for more information.

Other Information:

Bentley University abides by Section 504 of the Rehabilitation Act of 1973 and the Americans with Disabilities Act of 1990 which stipulate no student shall be denied the benefits of an education solely by reason of a disability. If you have a hidden or visible disability which may require classroom accommodations, please make an appointment with the Senior Assistant Director of Disability Services, Stephanie S. Brodeur, within the first 4 weeks of the semester. The Office of Disability Services is located in the Callahan/University Police Building (POL, 2nd Floor, 781.891.2004). The Senior Assistant Director of Disability Services is responsible for managing accommodations and services for students with disabilities.

Students with English as a Second Language

The ESOL Center offers writing and English language support to students who are English Speakers of Other Languages (ESOL). Our faculty tutors specialize in working with multilingual writers and can provide feedback and strategies on writing for all course and career-related writing. You're welcome to come in for help at any stage of the writing process, from the brainstorming and organizing point through the drafting stage. In

addition, you can receive support related to Power Point slide review, source documentation, oral presentations, pronunciation, and conversation fluency and enrichment.

The ESOL Center is located on the lower level of the Bentley Library, room 026. Day and evening appointments can be scheduled through bentleyesol.mywconline.net or by dropping by the ESOL Center to see if a tutor is available. Because of the high demand for appointments, however, we encourage scheduling a time in advance whenever possible.

The Bentley Honor Code applies in this course

You can find the entire academic integrity policy on Blackboard. As recently revised, any infraction that is sanctioned requires filing of an academic incident report. The policy may be accessed at the following link: <http://www.bentley.edu/centers/alliance/academic-integrity>.

Tentative Class and Assignment Schedule:

The schedule below and reading assignments are tentative. There may be changes or additions. Please keep informed of any changes announced during the semester. Should a class be canceled due to inclement weather, or other unforeseen circumstances, the assignment due that day will be due the next class. This applies to any scheduled examinations also.

Week 1 – January 20th, 2017

Topic:

Course introduction and overview of accounting research

Reading assignments:

- Kothari, S.P. 2001. Capital markets research in accounting. *Journal of Accounting and Economics* 31 (1-3): 105-231. Note: This is a lengthy paper. Please plan accordingly.
- Lee, C. 2001. Market efficiency and accounting research: A discussion of 'Capital market research in accounting' by S.P. Kothari. *Journal of Accounting and Economics* 31 (1-3): 233-253.

Additional reading assignments:

- Fama, E.F., L. Fisher, M.C. Jensen and R. Roll 1969. The adjustment of stock prices to new information. *International Economic Review* 10: 1-21.
- Brown, S.J. and J.B. Warner 1985. Using daily stock returns: The case of event studies. *Journal of Financial Economics* 14: 3-31.
- Barber, B. and J. Lyon 1997. Detecting long-run abnormal stock returns: The empirical power and specification of test statistics. *Journal of Financial Economics* 43: 341-372.

Week 2 – January 27th, 2017

Topic:

Usefulness of accounting information.

Reading assignments:

- Ball, R. and P. Brown 1968. An empirical evaluation of accounting numbers. *Journal of Accounting Research* 6 (2): 159-178.
- Beaver W.H., 1968. The information content of annual earnings announcements. *Journal of Accounting Research* 6: 67-92.

Additional reading assignments:

- Amir, E., and B. Lev. 1996. Value-relevance of nonfinancial information: The wireless communications industry. *Journal of Accounting & Economics* 22: 3-30.
- Aboody, D., and B. Lev. 1998. The value relevance of intangibles: The case of software capitalization. *Journal of Accounting Research* 36: 161-191.
- Francis, J. and K. Schipper 1999. Have financial statements lost their relevance? *Journal of Accounting Research* 37: 319-352.

Week 3 – February __, 2017

Topic:

Earnings response coefficients.

Reading assignments:

- Kormendi R. and Lipe R., 1987. Earnings innovations, earnings persistence, and stock returns. *Journal of Business* 60: 323-345.
- Collins D.W. and Kothari S.P., 1989. An analysis of intertemporal and cross-sectional determinants of earnings response coefficients. *Journal of Accounting and Economics* 11: 143-181.

Additional reading assignments:

- Atiase R.K., Bamber L.S., 1994. Trading volume reactions to annual accounting earnings announcements. *Journal of Accounting and Economics* 17: 309-329.
- Lipe R. 1990. The relation between stock returns and accounting earnings given alternative information. *The Accounting Review* 65: 49-71.
- Nichols, D. C. and J. M. Wahlen 2004. How do earnings numbers relate to stock returns? A review of classic accounting research with updated evidence. *Accounting Horizons* 18 (4): 263-286.

Assignment:

- Submit implementation exercise #1.

Week 4 – February 10th, 2017

Topic:

Post-earnings-announcement drift.

Reading assignments:

- Bernard, V. L. and J. K. Thomas 1989. Post-earnings-announcement drift: Delayed price response or risk premium? *Journal of Accounting Research* 27: 1-36.
- Zhang, Y. 2008. Analyst responsiveness and the post-earnings-announcement drift. *Journal of Accounting and Economics* 46: 201-215.
- Ng, J., T. O. Rusticus and R. S. Verdi 2008. Implications of transaction costs for the post-earnings announcement drift. *Journal of Accounting Research* 46: 661-696.

Additional reading assignments:

- Foster, G., C. Olsen and T. Shevlin 1984. Earnings releases, anomalies, and the behavior of security returns. *The Accounting Review* 59(4): 574-603.
- Bernard, V. L. and J. K. Thomas 1990. Evidence that stock prices do not fully reflect the implications of current earnings for future earnings. *Journal of Accounting and Economics* 13: 305-340.
- Livnat, J. and R. R. Mendenhall 2006. Comparing the post-earnings announcement drift for surprises calculated from analyst and time series forecasts. *Journal of Accounting Research* 44: 177-205.

Week 5 – February 17th, 2017

Topics:

Other market anomalies.

Reading assignments:

- Sloan, R. G. 1996. Do stock prices fully reflect information in accruals and cash flows about future earnings? *The Accounting Review* 71: 289-315.
- Balakrishnan, K., E. Bartov and L. Faurel 2010. Post loss/profit announcement drift. *Journal of Accounting and Economics* 50: 20-41.

Additional reading assignments:

- Hong H., T. Lim, and J.C. Stein 2000. Bad news travels slowly: Size, analyst coverage, and the profitability of momentum strategies. *Journal of Finance* 55: 265-295.
- Hirshleifer, D., K. Hou, S. H. Teoh and Y. Zhang 2004. Do investors overvalue firms with bloated balance sheets? *Journal of Accounting and Economics* 38: 297-331.
- Lakonishok J., A. Shleifer and R. W. Vishny 1994. Contrarian investment, extrapolation, and risk. *Journal of Finance* 49: 1541-1578.

Assignment:

- Submit implementation exercise #2.

Week 6 – February 24th, 2017

Topics:

Earnings management.

Reading assignments:

- Dechow, P. 1994. Accounting earnings and cash flows as measures of firm performance: The role of accounting accruals. *Journal of Accounting and Economics* 18: 3-42.
- Dechow, P. M. and I. D. Dichev 2002. The quality of accruals and earnings: The role of accrual estimation errors. *The Accounting Review* 77: 35-59.
- Roychowdhury, S. 2006. Earnings management through real activities manipulation. *Journal of Accounting and Economics* 42: 335-370.

Additional reading assignments:

- Kothari, S. P., A. J. Leone, and C. E. Wasley 2005. Performance matched discretionary accrual measures. *Journal of Accounting & Economics* 39: 163-197.
- Burgstahler, D. and Dichev, I., 1997. Earnings management to avoid earnings decreases and losses. *Journal of Accounting & Economics* 24: 99-126.
- Durtschi, C. and P. Easton. 2005. Earnings management? The shapes of the frequency earnings metrics are not evidence ipso facto, *Journal of Accounting Research* 43: 557-592.

Week 7 – March 3rd, 2017

Topic:

Asymmetries in reporting.

Reading assignments:

- Hayn, C. 1995. The information content of losses. *Journal of Accounting and Economics* 20(2): 125-153.
- Basu, S. 1997. The conservatism principle and the asymmetric timeliness of earnings. *Journal of Accounting and Economics* 24(1): 3-37.
- Kothari, S.P., S. Shu, and P.D. Wysocki 2009. Do managers withhold bad news? *Journal of Accounting Research* 47(1): 241-275.

Additional reading assignments:

- Givoly, D., C.K. Hayn and A. Natarajan 2007. Measuring reporting conservatism. *The Accounting Review* 82(1): 65-106.
- Skinner, D. 1994. Why firms voluntarily disclose bad news? *Journal of Accounting Research* 32(1): 38-60.
- Hwang, L.S., C.L. Jan and S. Basu 1996. Loss firms and analysts' earnings forecast errors. *Journal of Financial Statement Analysis* 1(2): 18-30.

Assignment:

- Submit implementation exercise #3.

Week 8 – March 17th, 2017

Topic:

Behavioral research in financial accounting.

With special guest: Kerri-Ann Sanderson

Reading assignments:

- Elliott, W. B., J. L. Hobson, and K. E. Jackson 2011. Disaggregating management forecasts to reduce investors' susceptibility to earnings fixation. *The Accounting Review* (86): 185-208.
- Clor-Proell, S. 2009. The effects of expected and actual accounting choices on judgments and decisions. *The Accounting Review* (September): 1465-1493.
- Elliott, W. B., F. D. Hodge and L. M. Sedor 2012. Using online video to announce a restatement: Influences on investment decisions and the mediating role of trust. *The Accounting Review* 87 (2): 513-535.

Additional reading assignments:

- Libby, R., R. Bloomfield and M. Nelson 2002. Experimental Research in Financial Accounting. *Accounting, Organizations and Society* (27): 775-810.
- Barton, J., G. S. Berns and A. M. Brooks 2014. The neuroscience behind the stock market's reaction to corporate earnings news. *The Accounting Review* 89 (6): 1945-1977.
- Koonce, L., and M. Mercer 2005. Using psychology theories in archival financial accounting research. *Journal of Accounting Literature* (24): 175-214.

Week 9 – March 23rd, 2017 (Thursday)

Topic:

Research Proposal Development

Reading assignments:

- Cochrane, John H. 2005. "Writing Tips for Ph.D. Students." University of Chicago. https://faculty.chicagobooth.edu/john.cochrane/research/papers/phd_paper_writing.pdf

Assignment:

- Submit implementation exercise #4.
- Individual meetings to discuss research proposals (at my office).
 - 2-3pm
 - 3-4pm
 - 4-5pm

Week 10 – March 31st, 2017

Topic:

Sell-side analysts' forecasts.

Reading assignments:

- Clement, M. B. 1999. Analyst forecast accuracy: Do ability, resources, and portfolio complexity matter? *Journal of Accounting & Economics* 27: 285-303.
- Bartov, E., D. Givoly and C. Hayn 2002. The rewards to meeting or beating earnings expectations. *Journal of Accounting and Economics* 33: 173-204.
- Frankel, R., S. P. Kothari and J. Weber 2006. Determinants of the informativeness of analyst research. *Journal of Accounting and Economics* 41: 29-54.

Additional reading assignments:

- Barth, M. E., R. Kasznik, and M. F. McNichols. 2001. Analyst coverage and intangible assets. *Journal of Accounting Research* 39: 1-34.
- Barron, O. E., D. Byard, C. Kile, and E. J. Riedl. 2002. High-technology intangibles and analysts' forecasts. *Journal of Accounting Research* 40: 289-312.
- Matsumoto D.A., 2002. Management's incentives to avoid negative earnings surprises. *The Accounting Review* 77: 483-514.

Week 11 – April 6th, 2017 (Class will begin at 12pm)

Topic:

Tax research

With special guests: Tracy Noga and Tim Rupert (Northeastern University)

Reading assignments:

- Kadous, K., A. M. Magro and B. C. Spilker 2008. Do effects of client preference on accounting professionals' information search and subsequent judgments persist with high practice risk? *The Accounting Review* 83 (1): 133-156.
- Falsetta, D., T. J. Rupert and A. M. Wright 2013. The effect of the timing and direction of capital gain tax changes on investment in risky assets. *The Accounting Review* 88 (2): 499-520.
- Blaylock, B., T. Shevlin and R. J. Wilson 2012. Tax avoidance, large positive temporary book-tax differences, and earnings persistence. *The Accounting Review* 87 (1): 91-120.

Additional reading assignments:

- Hanlon, M., and S. Heitzman 2010. A review of tax research. *Journal of Accounting and Economics* 50: 127-178.
- Dai, Z., E. Maydew, D. A. Shackelford and H. H. Zhang 2008. Capital gains taxes and asset prices: Capitalization or lock-in? *Journal of Finance* 63 (2): 709-742.

Week 12 – April 14th, 2017

Topic:

Sell-side analysts' stock recommendations.

Reading assignments:

- Bradshaw, M. T. 2004. How do analysts use their earnings forecasts in generating stock recommendations? *The Accounting Review* 79: 25-50.
- Altinkilic, O., and R. S. Hansen 2009. On the information role of stock recommendation revisions. *Journal of Accounting and Economics* 48(1): 17-36.
- Palmon, D. and A. Yezegel 2012. R&D intensity and the value of analysts' recommendations. *Contemporary Accounting Research* 29(2): 621-654.

Additional reading assignments:

- Barber, B., R. Lehavy, M. McNichols, and B. Trueman 2001. Can investors profit from the prophets? Security analyst recommendations and stock returns. *Journal of Finance* 56: 531-563.
- Abdolmohammadi, M., R. Simnett, J. C. Thibodeau, and A. M. Wright. 2006. Sell-side analysts' reports and the current external reporting model. *Accounting Horizons* 20: 375-389.
- Jegadeesh N., Kim W., 2006. Value of analyst recommendations: International evidence. *Journal of Financial Markets* 9: 274-309.
- Yezegel, A. 2015. Why do analysts revise their stock recommendations after earnings announcements? *Journal of Accounting and Economics* 59 (2-3): 163-181.

Week 13 – April 21st, 2017

Topic:

International accounting research.

Readings:

- Armstrong, C. S., M. E. Barth, A. D. Jagolinzer and E. J. Riedl 2010. Market reaction to the adoption of IFRS in Europe. *The Accounting Review* 85: 31-61.
- DeFond, M., M. Hung and R. Trezevant 2007. Investor protection and the information content of annual earnings announcements: International evidence. *Journal of Accounting and Economics* 43: 37-67.
- Barth, M., W. Landsman and M. Lang 2008. International accounting standards and accounting quality. *Journal of Accounting Research* 46: 467-498.

Additional reading:

- Ball, R., S. P. Kothari and A. Robin 2000. The effect of international institutional factors on properties of accounting earnings. *Journal of Accounting and Economics* 29: 1-51.
- Leuz, C., D. Nanda and P. D. Wysocki 2003. Earnings management and investor protection: An international comparison. *Journal of Financial Economics* 69: 505-527.
- Daske, H., L. Hail, C. Leuz and R. Verdi 2008. Mandatory IFRS reporting around the world: Early evidence on the economic consequences. *Journal of Accounting Research* 46: 1085-1142.

Assignment:

- Submit research proposals via Blackboard.
- Prepare for project presentations.

Week 14 – April 28th, 2017

Topic:

Research proposal presentations.

Week 15 – May 5th, 2017

Final examination.