OBJECTIVE
The primary objective of this course is to enable you to develop research skills that are necessary to investigate research questions involving financial accounting information and the capital markets. These research skills include a) the ability to identify research questions of interest to academics, practitioners, managers, and policy makers; b) the ability to design tests from which defendable inferences may be drawn about the relationships specified in the research questions; and c) the ability to successfully argue that your research has changed beliefs by placing your findings in the context of prior research.

STRUCTURE
The course is structured in seminar format. The primary tools of the course are reading, writing, lecture, and discussion of the capital markets-based accounting research literature. Students are expected to thoroughly read the assigned readings before class and to be prepared to discuss the readings in detail.

EVALUATION
Students will be evaluated as follows:

<table>
<thead>
<tr>
<th>Evaluation Category</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Class Participation</td>
<td>33.3%</td>
</tr>
<tr>
<td>Research Proposal</td>
<td>33.3%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>33.3%</td>
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</table>

Class Participation, including presentation and discussion of assigned readings
Each class involves assigned readings. You should read thoroughly the assigned readings before each class and be prepared to discuss the readings in detail during class. To organize and structure our approach to participation, everyone is expected to participate fully in the discussion of all of the assigned readings. Evaluation will be based on your contribution to the discussion of the readings each day. Your contribution each day should consist of comments and questions about each paper assigned for that day, including making links to other papers in the course. Daily participation in discussions will be judged on the basis of quality of comments, questions and ideas, and not simply on the quantity of comments. There is much to be gained by rigorously challenging the ideas in the assigned readings and the ideas that will be put forth in class. Class discussion should be demanding and lively.

To guide your thinking about the paper, identify:
The research question (WHAT)

WHY the study is important

HOW the question is being addressed (i.e., the method which includes sampling, variable definitions, and statistical model)

The key findings

Ways to improve or extend the study

Research Proposal

You are required to design an empirical capital markets-based study of an accounting research question. By the end of the course you should expect to have written an empirical research proposal, complete with motivation, literature review, hypotheses, and the design of the data analysis. These papers will serve as the basis for the final exam.

Final Exam

A final exam will be administered at the end of the course. The exam will be a take-home referee report on one or more of the research proposals written by your classmates.

Readings

A list of readings for class discussion appear on the following pages.

Readings to reference as we proceed through the course (I will suggest when you should read these as we proceed through the course):


Watts, R., “Conservatism in Accounting Part I: Explanations and Implications,” Accounting Horizons (September 2003), 189-205.

Watts, R., “Conservatism in Accounting Part II: Evidence and Research Opportunities,” Accounting Horizons (December 2003), 287-301.
READINGS LIST FOR CLASS DISCUSSION

(Readings marked with an asterisk (*) represent the main focus of class discussion. You should also spend enough time with the other readings to understand the motivation, basic design, and findings of the study. I will provide guidance on these other papers as we proceed through the course.)

PART I: EARNINGS AND ACCOUNTING NUMBERS AS INFORMATION

Session 1: In the beginning….


Session 2: Methodological Issues


Session 3: Methodological Issues (continued)


Session 4: Volume analysis


*Other approaches to identifying “information content”*


*Methodological issues in volume studies:*


**Session 5: Determinants of the association between earnings and returns**


**Related methodological issues:**


**Session 6: Determinants of the association between earnings and returns (continued)**


**Session 7: Determinants of the association between earnings and returns: Timing issues**


Session 8: Intertemporal Change in Value Relevance


*Francis, J. and Schipper, K., "Have Financial Statements Lost Their Relevance?" *Journal of Accounting Research* (Autumn 1999), pp. 319-352.


Related methodological issues:


Session 9: The information content in cash flows vs. earnings


Related methodological issues:


PART II. ACCOUNTING NUMBERS AS ECONOMIC MEASUREMENTS

Session 10: Empirical tests of the Feltham-Ohlson framework


**Background:**


**PART III. THE FAITH IS SHAKEN: THE DEGREE OF MARKET EFFICIENCY DEBATE**
Session 11: Market efficiency: Post-earnings announcement drift


**Session 12: Market efficiency: Other tests**

Fama “Market Efficiency, Long-term Returns, and Behavioral Finance” (1988)


Session 13: The accrual anomaly


Session 14: The accrual anomaly (continued)


Session 15: Earnings Quality


Session 16: Cost of capital


Accounting Studies 8 (December 2003): 399-431.


OTHER AREAS IN CAPITAL MARKETS RESEARCH

International


**Auditing**


Botosan, C., W. Kinney, and Z. Palmrose working paper 2007

**SEC Regulation**


**Determinants of the association between earnings and returns: Size, analyst following, and institutional ownership**


Ayers, B. and R. Freeman, “Why Do Large Firms’ Prices Anticipate Earnings Earlier than Small Firms’ Prices?” *Contemporary Accounting Research* (Summer 2000), 191-212.


**Sell-Side Analyst Forecasts (including accuracy relative to time series forecasts)**


**Market Reactions to Analysts’ Forecasts**


Meeting or Beating Market Earnings Expectations
Bartov, E., D. Givoly and C. Hayn, “The Rewards to Meeting or Beating Earnings Expectations,”
Journal of Accounting & Economics (June 2002), 173-204.


Institutional Investors


Insiders


The value relevance of specific accounting measures and disclosures


**Voluntary disclosure**

*Are Voluntary Disclosures Credible? The Information Content of Management Earnings Forecasts*


**Variation in Management Forecast Credibility: Forecast precision**

**Variation in Management Forecast Credibility: Supplementary explanations and statements**


**Variation in Management Forecast Credibility: Prior forecast credibility**


**Voluntary Disclosure Incentives: Legal Liability**


**Voluntary Disclosure Incentives: Information Asymmetry**


**Voluntary Disclosure Incentives: External Financing**


**Voluntary Disclosure Incentives: Compensation**


**Voluntary Disclosure Incentives: Proprietary Costs**

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**The Association Between Voluntary Disclosure and Corporate Control**


**Expectations Management (via Public Forecasts) and Earnings Management**


**Conference Calls, Information Intermediaries, and Market Efficiency**


**Disclosure Regulation Effects**


**The Impact of Disclosure on Firm Value and Cost of Capital**


**The Effects of Disclosure on the Relationship Between Earnings and Returns**


Francis, J., K. Schipper, and L. Vincent. “Earnings disclosures and the increased usefulness of earnings
