

# **Empirical Research in Accounting**

## **ACC 386K.3 – Spring 2021**

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**Office Hours:** By appointment

**Class Hours:** Tuesdays 3:30-6:30 PM

Zoom link: <https://utexas.zoom.us/j/94253898063>

### **Course Summary**

This course surveys recent empirical-archival accounting research published in top journals over the last few years, with a primary focus on financial reporting topics. I have three objectives. The first is to give you broad exposure to the current state of the literature. If you plan to do archival work, this is critical. Even if you do not, the studies we read will make you a more informed scholar and can help motivate your own research.

Second, I would like for you to gain an appreciation for both the strengths and weaknesses of archival studies published in top journals. On the weaknesses front, pointing out flaws in other studies is an important part of the research process, and we can try to avoid these weaknesses in our own research. However, I would also like you to identify and appreciate the strengths of the studies that we read. While the review process is not perfect, studies published in top journals are, on average, the best in our field.

Third, I would like you to practice and improve your idea generating process. Being able to develop interesting and testable new research questions is the most important skill in our profession. It is a skill that can be improved through practice.

### **Course Materials**

All studies that we will read and discuss are available online through UT library subscriptions (while on the UT network). Working papers can be downloaded for free from SSRN. I provide full references later in the syllabus.

### **Class Sessions**

All sessions will be in seminar format (i.e., there is no formal lecture). Preliminarily, I have three papers assigned for each session. The first two papers will have students assigned to them in the “Summary” and “Critique” roles (discussed below). The third paper will not have formal roles assigned. Our coverage of this third paper will depend upon how much time we spend on the first two. After I see how the first two sessions go, I will decide whether, going forward, two versus three papers seems like the right mix. For the first two sessions, please read all three papers.

For each of the first two papers, the student assigned to the Summary role will spend 3-5 minutes summarizing: 1) the research question, 2) the motivation for the research question, 3) the basic design, and 4) the main findings and conclusions. There is no need to discuss every robustness test or cross-sectional cut of the data. The summary should be at a high level such that a fellow

PhD student that has not read the paper could get the gist of the paper from your summary. A written version of the summary will be turned in (see below).

At this point, I will open the floor to any clarifying questions aimed at understanding, at a basic level, what the study is doing. I want to make sure we are all on the same page before we dive into critiques of the study. If your question is essentially a critique in disguise, I will ask that we defer this question until later.

After this, the student in the Critique role will begin leading the discussion. In this role, you control the flow of the discussion, so you can bring up items as you like. Focus on big-picture issues first such as: 1) is the research question clear and well-motivated? 2) does the research design make sense? 3) are there any concerns about construct validity? 4) are there significant confounding factors or alternative explanations? 5) How does the paper add to our knowledge, etc. Try to bring up at least one strength of the paper. The discussion will flow organically from the points you raise and we will likely go off track along the way; that's fine, just make sure to try to bring the group back when necessary and that you bring up all of these issues you identified in your read of the paper. A written version of the critique will be turned in (see below).

After the student in the Critique role has finished bringing up their discussion points, we will open the floor up to any additional comments/critiques. After that, we can talk about any extensions to the study that might be pursued and/or connections to, or contradictions with, other studies.

### **Assignments**

There will be five major types of assignments upon which you will be assessed:

- 1) Summary/Critique roles –there will be both in-class (described above) as well as written components. For the Summary role, you will turn in via Canvas a one-page document that summarizes the four requirements mentioned above. You can supplement the text with Libby boxes if you like, but the text should fit on one page. I will make these summaries available to all students to use as a reference for this class and beyond (e.g., comp studying). For the Critique role, you will also turn in via Canvas the discussion points you raised in class. This should be a maximum of two pages (one page is fine). Both of the written assignments should be turned in by 12:00 pm Tuesday, before class.
- 2) New Ideas – Starting the 2<sup>nd</sup> week of class, you will turn in via Canvas by 5:00pm on Friday a two-page (max) document with two research ideas. These ideas can be extensions of papers we talked about in class or new ideas related to papers we talked about in class. If you are struggling for content, you can also submit new ideas unrelated to anything we talked about in class, but I generally prefer a connection to course material. The ideas should be in What/Why/How format. I will put a sample document on Canvas as a guide.

I would like you to assign your idea a score from 1 to 3. A “3” is a great idea that you think has a good chance of being publishable in a top journal. A “1” is an idea that you

think will not be publishable, because it perhaps lacks contribution or may be difficult to execute. A “2” is an idea in between that you are unsure about. It is OK if your submitted ideas are not all 3’s – 1’s and 2’s are OK, particularly if I think your self-assessment is accurate. In addition to generating new ideas, it is important to be able to decide which of your ideas are truly promising.

- 3) Review Reports – During the semester I will give you two new working papers related to the papers we have discussed. You are to write a 3-to-5-page review report where you give the hypothetical journal Editor a recommendation on whether the study should be published in a top journal. You should critically evaluate both the strengths and weaknesses of the paper. I will put a sample document in Canvas as a guide.
- 4) Class Participation – Regardless of whether you are assigned a specific role for a paper, all students are expected to read the assigned papers and constructively contribute to the discussion in class.
- 5) Proposal – At the end of the semester you will submit a 20-page max (double spaced, normal font) archival research proposal based upon an original research question. This idea can be based upon an idea you submitted as part of the weekly assignment if you wish. Ideally, the idea should have some connection to the course material, although I will not impose this as an absolute requirement.

The submitted proposals should look like a “real” paper. The introduction should spell out the research question, motivate why that question is important, briefly sketch out the design, and then state how the findings contribute to the existing literature (the contribution can be conditional on the findings). The only thing that will be missing is the results. Section 2 should adequately review the prior literature (which will typically be much deeper than what we have time to cover in class) and develop testable hypotheses. Section 3 should spell out the research design in detail and identify how the hypotheses will be tested. This section should also identify clearly how all variables will be measured empirically and identify the data source (e.g., the database or how hand collection will work).

## **Grading**

Course grades are determined by the following weighted average:

<u>Component</u>	<u>Percent</u>
Summary/Critique	20%
Idea Submissions	20%
Review Reports	20%
Class Participation	20%
Proposal	<u>20%</u>
Total	100%

### **Roles by Session**

Session	Summary 1	Critique 1	Summary 2	Critique 2
1	Rui	Minjae	Yiying	Mandy
2	Dorothy	Kaitlyn	Molly	Rui
3	Minjae	Yiying	Mandy	Dorothy
4	Kaitlyn	Molly	Rui	Minjae
5	Yiying	Mandy	Dorothy	Kaitlyn
6	Molly	Rui	Minjae	Yiying
7	Mandy	Dorothy	Kaitlyn	Molly
8	Rui	Minjae	Yiying	Mandy
9	Dorothy	Kaitlyn	Molly	Rui
10	Minjae	Yiying	Mandy	Dorothy
11	Kaitlyn	Molly	Rui	Minjae
12	Yiying	Mandy	Dorothy	Kaitlyn
13	Molly	Rui	Minjae	Yiying
14	Mandy	Dorothy	Kaitlyn	Molly

### **Assigned Papers by Session**

On the next page you will see the papers assigned for each session. There are three main papers for each session – they are listed in bold. Again, for the first two sessions, read all three (there are no formal roles assigned to the third paper). After the first two sessions, I will decide whether two or three papers seems right in terms of coverage.

For some papers, I have listed background predecessor papers and/or contemporaneous related papers. I do not expect you to read these papers in detail, but you can if you would like more exposure to a particular topic or you are struggling to understand the context of a paper we are discussing. If you are critiquing a paper, it is often helpful to be aware of the significant predecessor papers that set the stage for the paper in question. If you would like to get the most out of the course as possible, having a working familiarity of the main findings of these background or related papers is ideal.

## **1/19/21 - Session 1: Investor reaction to accounting information**

1. Beaver, W. H., McNichols, M. F., & Wang, Z. Z. (2020). **Increased market response to earnings announcements in the 21st century: An Empirical Investigation.** *Journal of Accounting and Economics*, 69(1), 101244.

### Background:

Landsman, W. R., & Maydew, E. L. (2002). Has the information content of quarterly earnings announcements declined in the past three decades?. *Journal of Accounting Research*, 40(3), 797-808.

Francis, J., Schipper, K., & Vincent, L. (2002). Expanded disclosures and the increased usefulness of earnings announcements. *The Accounting Review*, 77(3), 515-546.

Collins, D. W., Li, O. Z., & Xie, H. (2009). What drives the increased informativeness of earnings announcements over time?. *Review of Accounting Studies*, 14(1), 1-30.

2. Blankespoor, E., Dehaan, E., Wertz, J., & Zhu, C. (2019). **Why do individual investors disregard accounting information? The roles of information awareness and acquisition costs.** *Journal of Accounting Research*, 57(1), 53-84.

*Related:* Allee, K. D., DeAngelis, M. D., & Moon Jr, J. R. (2018). Disclosure "Scriptability". *Journal of Accounting Research*, 56(2), 363-430.

3. Arif, S., Marshall, N. T., Schroeder, J. H., & Yohn, T. L. (2019). **A growing disparity in earnings disclosure mechanisms: The rise of concurrently released earnings announcements and 10-Ks.** *Journal of Accounting and Economics*, 68(1), 101221.

## **1/26/21 - Session 2: Voluntary disclosure (part 1)**

1. Bushee, B. J., Gow, I. D., & Taylor, D. J. (2018). **Linguistic complexity in firm disclosures: Obfuscation or information?** *Journal of Accounting Research*, 56(1), 85-121.

### Background:

Li, F. (2008). Annual report readability, current earnings, and earning persistence. *Journal of Accounting and Economics*, 45(2-3), 221-247.

Guay, W., Samuels, D., & Taylor, D. (2016). **Guiding through the fog: financial statement complexity and voluntary disclosure.** *Journal of Accounting and Economics*, 62(2-3), 234-269.

2. Zhou, F. S., & Zhou, Y. (2020). **The Dog that Did Not Bark: Limited Price Efficiency and Strategic Nondisclosure.** *Journal of Accounting Research*, 58(1), 155-197.

### Background:

Milgrom, P. R. (1981). Good news and bad news: Representation theorems and applications. *The Bell Journal of Economics*, 380-391.

Grossman, S. J. (1981). The informational role of warranties and private disclosure about product quality. *The Journal of Law and Economics*, 24(3), 461-483.

3. **Bao, D., Kim, Y., Mian, G. M., & Su, L. (2019). Do managers disclose or withhold bad news? Evidence from short interest. *The Accounting Review*, 94(3), 1-26.**

Background: Kothari, S. P., Shu, S., & Wysocki, P. D. (2009). Do managers withhold bad news?. *Journal of Accounting research*, 47(1), 241-276.

Related: Baginski, S. P., Campbell, J. L., Hinson, L. A., & Koo, D. S. (2018). Do career concerns affect the delay of bad news disclosure? *The Accounting Review*, 93(2), 61-95.

## **2/2/21 - Session 3: Voluntary disclosure (part 2)**

1. **Glaeser, S. (2018). The effects of proprietary information on corporate disclosure and transparency: Evidence from trade secrets. *Journal of Accounting and Economics*, 66(1), 163-193.**

Related: Li, Y., Lin, Y., & Zhang, L. (2018). Trade secrets law and corporate disclosure: Causal evidence on the proprietary cost hypothesis. *Journal of Accounting Research*, 56(1), 265-308.

2. **Lin, Y., Mao, Y., & Wang, Z. (2018). Institutional ownership, peer pressure, and voluntary disclosures. *The Accounting Review*, 93(4), 283-308.**

Background:

Young, A. (2018). Will the Real Specification Please Stand Up? A Comment on Andrew Bird and Stephen Karolyi. *Econ Journal Watch*, 15(1), 35.

Bird, A., & Karolyi, S. A. (2016). Do institutional investors demand public disclosure?. *The Review of Financial Studies*, 29(12), 3245-3277.

Bird, A., & Karolyi, S. A. (2017). Governance and Taxes: Evidence from Regression Discontinuity (Retracted). *The Accounting Review*, 92(1), 29-50.

3. **Park, J., Sani, J., Shroff, N., & White, H. (2019). Disclosure incentives when competing firms have common ownership. *Journal of Accounting and Economics*, 67(2-3), 387-415.**

## **2/9/21 - Session 4: Accruals and cash flows**

1. Lewellen, J., & Resutsek, R. J. (2019). Why do accruals predict earnings? *Journal of Accounting and Economics*, 67(2-3), 336-356.

Background: Sloan, R. G. (1996). Do stock prices fully reflect information in accruals and cash flows about future earnings?. *Accounting review*, 289-315.

2. Nallareddy, S., Sethuraman, M., & Venkatachalam, M. (2020). Changes in accrual properties and operating environment: Implications for cash flow predictability. *Journal of Accounting and Economics*, 101313.

Background:

Dechow, P. M., Kothari, S. P., & Watts, R. L. (1998). The relation between earnings and cash flows. *Journal of accounting and Economics*, 25(2), 133-168.

Bushman, R. M., Lerman, A., & Zhang, X. F. (2016). The changing landscape of accrual accounting. *Journal of Accounting Research*, 54(1), 41-78.

3. Ball, R., & Nikolaev, V. V. (2020). FASB was right: Earnings beat cash flows when predicting future cash flows. *Chicago Booth Research Paper*, (20-23).  
[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3689802](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3689802)

## **2/16/21 - Session 5: Reporting regulation and real effects**

1. Christensen, H. B., Floyd, E., Liu, L. Y., & Maffett, M. (2017). The real effects of mandated information on social responsibility in financial reports: Evidence from mine-safety records. *Journal of Accounting and Economics*, 64(2-3), 284-304.

Related: Glaeser, S., & Guay, W. R. (2017). Identification and generalizability in accounting research: A discussion of Christensen, Floyd, Liu, and Maffett (2017). *Journal of Accounting and Economics*, 64(2-3), 305-312.

2. Hope, O. K., & Lu, H. (2020). Economic consequences of corporate governance disclosure: Evidence from the 2006 SEC regulation on related-party transactions. *The Accounting Review*, 95(4), 263-290.
3. Rauter, T. (2020). The effect of mandatory extraction payment disclosures on corporate payment and investment policies abroad. *Journal of Accounting Research*, 58(5), 1075-1116.

## **2/23/21 - Session 6: Audit**

1. Jiang, J., Wang, I. Y., & Wang, K. P. (2019). Big N auditors and audit quality: New evidence from quasi-experiments. *The Accounting Review*, 94(1), 205-227.

Background: DeFond, M., Erkens, D. H., & Zhang, J. (2017). Do client characteristics really drive the Big N audit quality effect? New evidence from propensity score matching. *Management Science*, 63(11), 3628-3649.

2. **Cunningham, L. M., Li, C., Stein, S. E., & Wright, N. S. (2019). What's in a name? Initial evidence of US audit partner identification using difference-in-differences analyses. *The Accounting Review*, 94(5), 139-163.**
3. **Barua, A., Lennox, C., & Raghunandan, A. (2020). Are audit fees discounted in initial year audit engagements?. *Journal of Accounting and Economics*, 69(2-3), 101282.**

### **3/2/21 - Session 7: Tax**

1. **Balakrishnan, K., Blouin, J. L., & Guay, W. R. (2019). Tax aggressiveness and corporate transparency. *The Accounting Review*, 94(1), 45-69.**

Background:

Frank, M. M., Lynch, L. J., & Rego, S. O. (2009). Tax reporting aggressiveness and its relation to aggressive financial reporting. *The Accounting Review*, 84(2), 467-496.

Desai, M. A., & Dharmapala, D. (2006). Corporate tax avoidance and high-powered incentives. *Journal of Financial Economics*, 79(1), 145-179.

2. **Drake, K., Hamilton, R., & Lusch, S. J. (2020). Are declining effective tax rates indicative of tax avoidance? Insight from effective tax rate reconciliations. *Journal of Accounting and Economics*, 101317.**

Background: Dyreng, S. D., Hanlon, M., Maydew, E. L., & Thornock, J. R. (2017). Changes in corporate effective tax rates over the past 25 years. *Journal of Financial Economics*, 124(3), 441-463.

3. **Yost, B. P. (2018). Locked-in: The effect of CEOs' capital gains taxes on corporate risk-taking. *The Accounting Review*, 93(5), 325-358.**

### **3/9/21 - Session 8: Earnings news and traditional/social media**

1. **Bonsall IV, S. B., Green, J., & Muller III, K. A. (2020). Market uncertainty and the importance of media coverage at earnings announcements. *Journal of Accounting and Economics*, 69(1), 101264.**

Background: Drake, M. S., Guest, N. M., & Twedt, B. J. (2014). The media and mispricing: The role of the business press in the pricing of accounting information. *The Accounting Review*, 89(5), 1673-1701.



2. Lawrence, A., Ryans, J., Sun, E., & Laptev, N. (2018). **Earnings announcement promotions: A Yahoo Finance field experiment**. *Journal of Accounting and Economics*, 66(2-3), 399-414.

Related: Engelberg, J. (2018). Discussion of “earnings announcement promotions: A Yahoo Finance field experiment”. *Journal of Accounting and Economics*, 66(2-3), 415-418.

3. Bartov, E., Faurel, L., & Mohanram, P. S. (2018). **Can Twitter help predict firm-level earnings and stock returns?**. *The Accounting Review*, 93(3), 25-57.

Background: Blankespoor, E., Miller, G. S., & White, H. D. (2014). **The role of dissemination in market liquidity: Evidence from firms' use of Twitter™**. *The Accounting Review*, 89(1), 79-112.

### **3/23/21 - Session 9: Litigation and financial reporting**

1. Bourveau, T., Lou, Y., & Wang, R. (2018). **Shareholder litigation and corporate disclosure: Evidence from derivative lawsuits**. *Journal of Accounting Research*, 56(3), 797-842.

Background: Rogers, J. L., & Van Buskirk, A. (2009). Shareholder litigation and changes in disclosure behavior. *Journal of Accounting and Economics*, 47(1-2), 136-156.

2. Houston, J. F., Lin, C., Liu, S., & Wei, L. (2019). **Litigation risk and voluntary disclosure: Evidence from legal changes**. *The Accounting Review*, 94(5), 247-272.
3. Cazier, R. A., Merkley, K. J., & Treu, J. S. (2020). **When are firms sued for qualitative disclosures? Implications of the safe harbor for forward-looking statements**. *The Accounting Review*, 95(1), 31-55.

### **3/30/21 - Session 10: Analysts**

1. Engelberg, J., McLean, R. D., & Pontiff, J. (2020). **Analysts and anomalies**. *Journal of Accounting and Economics*, 69(1), 101-149.

Related: Hou, K., Xue, C., & Zhang, L. (2020). Replicating anomalies. *The Review of Financial Studies*, 33(5), 2019-2133.

2. Pacelli, J. (2019). **Corporate culture and analyst catering**. *Journal of Accounting and Economics*, 67(1), 120-143.
3. Lourie, B. (2019). **The revolving door of sell-side analysts**. *The Accounting Review*, 94(1), 249-270.

Related: Gu, Z., Li, Z., Yang, Y. G., & Li, G. (2019). Friends in need are friends indeed: An analysis of social ties between financial analysts and mutual fund managers. *The Accounting Review*, 94(1), 153-181.

#### **4/6/21 - Session 11: Banks and financial reporting**

1. **Wheeler, P. B. (2019). Loan loss accounting and procyclical bank lending: The role of direct regulatory actions. *Journal of Accounting and Economics*, 67(2-3), 463-495.**

Background:

Beatty, A., & Liao, S. (2011). Do delays in expected loss recognition affect banks' willingness to lend?. *Journal of accounting and economics*, 52(1), 1-20.

Bushman, R. M., & Williams, C. D. (2015). Delayed expected loss recognition and the risk profile of banks. *Journal of Accounting Research*, 53(3), 511-553.

2. **Nicoletti, A. (2018). The effects of bank regulators and external auditors on loan loss provisions. *Journal of Accounting and Economics*, 66(1), 244-265.**
3. **Costello, A. M., Granja, J., & Weber, J. (2019). Do Strict Regulators Increase the Transparency of Banks?. *Journal of Accounting Research*, 57(3), 603-637.**

#### **4/13/21 - Session 12: Corporate governance**

1. **Huang, S., & Hilary, G. (2018). Zombie board: board tenure and firm performance. *Journal of Accounting Research*, 56(4), 1285-1329.**
2. **Brown, A. B., Dai, J., & Zur, E. (2019). Too busy or well-connected? Evidence from a shock to multiple directorships. *The Accounting Review*, 94(2), 83-104.**

Background: Shivdasani, A. (2006). Are busy boards effective monitors? *The Journal of Finance*, 61(2), 689-724.

3. **Lin, C., Officer, M. S., Schmid, T., & Zou, H. (2019). Is skin in the game a game changer? Evidence from mandatory changes of D&O insurance policies. *Journal of Accounting and Economics*, 68(1), 101225.**

Background: Chalmers, J. M., Dann, L. Y., & Harford, J. (2002). Managerial opportunism? Evidence from directors' and officers' insurance purchases. *The Journal of Finance*, 57(2), 609-636.

#### **4/20/21 - Session 13: Earnings management/manipulation**

1. Bird, A., Karolyi, S. A., & Ruchti, T. G. (2019). Understanding the “numbers game” *Journal of Accounting and Economics*, 68(2-3), 101242.

Background:

Burgstahler, D., & Dichev, I. (1997). Earnings management to avoid earnings decreases and losses. *Journal of accounting and economics*, 24(1), 99-126.

Degeorge, F., Patel, J., & Zeckhauser, R. (1999). Earnings management to exceed thresholds. *The Journal of Business*, 72(1), 1-33.

Ball, R. (2013). Accounting informs investors and earnings management is rife: Two questionable beliefs. *Accounting Horizons*, 27(4), 847-853.

2. Zakolyukina, A. A. (2018). How common are intentional GAAP violations? Estimates from a dynamic model. *Journal of Accounting Research*, 56(1), 5-44.
3. Ahmed, A. S., Li, Y., & Xu, N. (2020). Tick Size and Financial Reporting Quality in Small-Cap Firms: Evidence from a Natural Experiment. *Journal of Accounting Research*, 58(4), 869-914.

Related: Lee, C., & Watts, E. M. (2018). Tick size tolls: Can a trading slowdown improve price discovery? [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3263778](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3263778)

#### **4/27/21 - Session 14: Accounting quality**

1. Armstrong, C. S., Glaeser, S., & Kepler, J. D. (2019). Accounting quality and the transmission of monetary policy. *Journal of Accounting and Economics*, 68(2-3), 101265.

Related: Gallo, L. A., & Kothari, S. P. (2019). Discussion of “Accounting quality and the transmission of monetary policy”. *Journal of Accounting and Economics*, 68(2-3), 101262.

2. Bushee, B. J., Goodman, T. H., & Sunder, S. V. (2019). Financial reporting quality, investment horizon, and institutional investor trading strategies. *The Accounting Review*, 94(3), 87-112.

Background: Zhang, X. F. (2006). Information uncertainty and stock returns. *The Journal of Finance*, 61(1), 105-137.

3. Isidro, H., Nanda, D., & Wysocki, P. D. (2020). On the relation between financial reporting quality and country attributes: Research challenges and opportunities. *The Accounting Review*, 95(3), 279-314.

**5/4/21 – No class – Proposal due by 5:00 pm.**