

Economics of Accounting

Course Outline

Course type	Lecture and discussion
Assessment type	Oral discussions / Discussion leadership in at least one lecture
Time	Thursday, 4:00 – 6:00pm

This course considers the use of accounting information in markets and hierarchies. In particular, the focus is on the use of accounting information for performance evaluation and as a signal in the managerial labor market. We will consider the historical origins, key seminal papers, and current state of the art publications, with a particular emphasis on career concerns.

In the lecture, we first consider basic concepts of managerial and financial accounting on the basis of Christensen/Feltham „Economics of Accounting,” Volumes I and II. Thereafter, seminal papers and current working papers around the theme career concerns are analyzed and discussed. The main goal of the course is a well-grounded and profound examination of current research questions and relevant methods. In this context, the participants will present and debate published studies or recent working papers.

Below, in addition to the papers covered in the course, I also list a set of papers as basic readings that might be helpful in understanding the fundamentals and expectations of analytical accounting research but also some related shortcomings and potential pitfalls.

General overview:

1. Basic decision-facilitating role of information
2. Basic decision-influencing role of information
3. Performance evaluation
4. Private agent information
5. Career concerns
 - a. Fundamentals
 - b. Disclosure regime
 - c. Aggregate reporting
 - d. Effort allocation and job design
 - e. Benchmarking
 - f. Screening and Sorting

The analysis of a chosen working paper can be continued and deepened, especially with regard to the critical acclaim, in the lecture “Seminar in Economics of Accounting.”

Schedule

No.	Date	Content	Readings
<i>Introduction</i>			
1	Oct. 20 th	Introduction to analytical accounting	Feltham & Demski (1970) Gjesdal (1981) Lambert (2001)
<i>Basics</i>			
2	Oct. 27 th	Basic decision-facilitating role of information	CF, Ch. 2 & 3
3	Nov. 3 rd	Basic decision-influencing role of information	CF, Ch. 4 & 17
4	Nov. 10 th	Performance evaluation	CF, Ch. 18 & 19
5	Nov 24 th	Private agent information	CF, Ch. 22 & 23
<i>Career Concerns</i>			
6	Dec. 1 st	Fundamentals	Dewatripont et al. (1999a, b) Gibbons & Murphy (1992)
7	Dec. 8 th	Disclosure regimes	Autrey et al. (2007) Kaarboe & Olsen (2008)
8	Dec. 15 th	Aggregate reporting	Arya & Mittendorf (2011) Autrey et al. (2010) Dasgupta & Prat (2008)
9	Jan. 19 th	Effort allocation and job design	Demers & Wang (2010) Kaarboe & Olsen (2006)
10	Jan. 26 th	Benchmarking	Dikolli et al. (2011) Göx & Heller (2008) Albuquerque et al. (2009) Cadman & Carter (2011) Lemmon et al. (2007)
11	Feb. 2 nd	Screening and Sorting	Banker et al. (2010) Dutta (2008) Ray (2011) Carter et al. (2010)

Text Book

Christensen, P.O. and G.A. Feltham (2003) *Economics of Accounting, Vol. I: Information in Markets.*

Christensen, P.O. and G.A. Feltham (2005) *Economics of Accounting, Vol. II: Performance Evaluation.*

Basic Readings

Christensen, J. (2011) "Good Analytical Research," *European Accounting Review* 20, 41-51.

Cochrane, J.H. (2005) "Writing Tips for Ph.D. Students," Working Paper.

- Demski, J.S. (2007) "Is Accounting an Academic Discipline?" *Accounting Horizons* 21, 153-157.
- Fellingham, J.C. (2007) "Is Accounting an Academic Discipline?" *Accounting Horizons* 21, 159-163.
- Merchant, K.A. (2009) "Paradigms in Accounting Research: A View from North America," Talk given at the European Accounting Association Annual Meeting, Tampere/Finland.
- Ohlson, J. (2009) "On Successful Research," Working Paper.
- Zimmerman, J.L. (1989) "Improving a Manuscript's Readability and Likelihood of Publication," *Issues in Accounting Education* 4, 458-466.

General Readings

- Feltham, G.A. and J.S. Demski (1970) "The Use of Models in Information Evaluation," *The Accounting Review* 45, 623-640.
- Gjesdal, F. (1981) "Accounting for Stewardship," *Journal of Accounting Research* 19, 208-231.
- Lambert, R.A. (2001) "Contracting Theory and Accounting," *Journal of Accounting and Economics* 32, 3-87.

Literature on "Career concerns"

A) Analytical Studies

- Arya, A. and B. Mittendorf (2011) "The Benefits of Aggregate Performance Metrics in the Presence of Career Concerns," *Management Science* 57, 1424-1437.
- Autrey, R.L., S.S. Dikolli, and D.P. Newman (2007) "Career Concerns and Mandated Disclosure," *Journal of Accounting and Public Policy* 26, 527-554.
- Autrey, R.L., S.S. Dikolli, and P. Newman (2010) "Performance Measure Aggregation, Career Incentives, and Explicit Incentives," *Journal of Management Accounting Research* 22, 115-131.
- Banker, R.D., S. Li, and J.M. Plehn-Dujowich (2010) "Screening versus Sorting in a Principal-Agent Model with Moral Hazard and Adverse Selection," Working Paper.
- Dasgupta, A. and A. Prat (2008) "Information Aggregation in Financial Markets with Career Concerns," *Journal of Economic Theory* 143, 83-113.
- Demers, E. and C. Wang (2010) "The Impact of CEO Career Concerns on Accruals Based and Real Earnings Managements," Working Paper.
- Dewatripont, M., I. Jewitt, and J. Tirole (1999a) "The Economics of Career Concerns, Part I: Comparing Information Structures," *Review of Economic Studies* 66, 183-198.

- Dewatripont, M., I. Jewitt, and J. Tirole (1999b) "The Economics of Career Concerns, Part II: Application to Missions and Accountability of Government Agencies," *Review of Economic Studies* 66, 199-217.
- Dikolli, S.S., C. Hofmann, and T. Pfeiffer (2011) "Relative Performance Evaluation and Peer-Performance Summarization Errors," *Review of Accounting Studies* (forthcoming).
- Dutta, S. (2008) "Managerial Expertise, Private Information, and Pay-Performance Sensitivity," *Management Science* 54, 429-442.
- Gibbons, R. and K. J. Murphy (1992) "Optimal Incentive Contracts in the Presence of Career Concerns: Theory and Evidence." *The Journal of Political Economy* 100, 468–593.
- Göx, R.F. and U. Heller (2008) "The Dual Role of Peer Groups in Executive Pay: Relative Performance Evaluation Versus Benchmarking," Working Paper.
- Kaarboe, M. O. and E. T. Olsen (2006) "Career Concerns, Monetary Incentives and Job Design," *The Scandinavian Journal of Economics* 108, 299-316.
- Kaarboe, M. O. and E. T. Olsen (2008) "Distorted Performance Measures and Dynamic Incentives," *Journal of Economics & Management Strategy* 17, 149–183.
- Ray, K. (2011) "Sorting Effects of Performance Pay," Working Paper.

B) Empirical Studies

- Albuquerque, A.M., G. De Franco, and R.S. Verdi (2009) "Peer Choice in CEO Compensation," Working Paper.
- Carter, M.E., F. Franco, and I. Tuna (2010) "Premium Pay for Executive Talent: An Empirical Analysis," Working Paper.
- Cadman, B. and M.E. Carter (2011) "Compensation Peer Groups and their Relation with CEO Pay," Working Paper.
- Lemmon, M.L., J.M. Bizjak, and L. Naveen (2007) "Does the Use of Peer Groups Contribute to Higher Pay and Less Efficient Compensation?" *Journal of Financial Economics*, forthcoming.