



Swiss Doctoral Program Network in Accounting Research

Fall Term 2019

Doctoral Course: “Economics of Communication”

by Phillip Stocken (Dartmouth College)

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Ordinarius

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Session Schedule

Session	Day	Time	Room
1	Mon, Dec 2, 2019	10:15 -11.45	
2	Mon, Dec 2, 2019	13:15 -14.45	
3	Mon, Dec 2, 2019	15:00-16.30	
4	Tue, Dec 3, 2019	10:00-11.30	
Research Seminar	Tue, Dec 3, 2019	12.30-13.45	
5	Wed, Dec 4, 2019	10:15 -11.45	
6	Wed, Dec 4, 2019	13:15 -14.45	

Objective:

This doctoral course is explores the communication of communication with a particular emphasis on communication of accounting information in financial markets and product markets. The course focuses on the modeling of communication as a persuasion game or as a cheap talk game, as these message structures naturally describe communication within these setting; the cost does not address costly signaling. The course considers both the foundational papers that introduced this message structures and then more recent accounting applications. A theme in this this course is to examine the most fundamental aspects of each model so that the modeling choices and solution techniques can be more easily applied within the context of different, and possibly unrelated, settings.

Structure of the course:

The sessions are structured to develop research ideas that can form the basis of a research paper. Each session will have three elements:

- First, the professor will place the paper/s within the context of the literature and emphasize the key features of the model in the paper/s.
- Second, students will be required to address the assignment for each of the sessions. During a session, the professor will choose a student (or a student group) to present their solution to the assignment to the class. The assignments may require simplifying the model in the paper to focus on its key elements or answering questions on the session paper/s. The presenting student (or student group) will also answer questions that other students might pose.
- Third, in a seminar format, the class will suggest and discuss possible theoretical or empirical applications or theoretical extensions of the model to address an issue within the accounting domain. The professor will moderate the discussion and evaluate student participation in this discussion.

Session topics and reading list:

Persuasion Games

Session 1: Communication games – Introduction to Persuasion games

We outline the voluntary disclosure literature starting with the widely cited papers by Dye (1985), Jung and Kwon (1988) and Verrecchia (1983).

Readings:

- Stocken: “Strategic Accounting Disclosure”, *Foundation and Trends in Accounting*, 2012; Section 1 and Section 2.

Assignment:

- Read the assignment “Introduction to Persuasion Games - October 29, 2019” and answer the questions therein.

Session 2: Communication games – Persuasion games with general preferences

We extend persuasion game models to environments where players have more general preference structures that are more descriptive of the intuitional environment.

Readings:

- Morgan, Hummel, and Stocken: “A Model of Voluntary Managerial Disclosure”, March 8, 2018.

Assignment:

- Read the assignment “A Model of Voluntary Managerial Disclosure – Questions – October 29, 2019” and answer the questions therein.
- Identify and discuss possible theoretical or empirical applications or theoretical extensions of the persuasion game model to address an issue within the accounting domain

Cheap-talk Games

Session 3: Communication games – Introduction to cheap talk games

We discuss Crawford & Sobel's seminal cheap-talk paper.

Readings:

- Crawford and Sobel (1982), "Strategic Information Transmission", *Econometrica* 50(6), 1431.
- Stocken: "Strategic Accounting Disclosure", *Foundation and Trends in Accounting*, 2012; Section 3.

Assignment:

- Read the assignment "Introduction to Cheap-talk Games - October 29, 2019" and answer the questions therein.

Session 4: Communication games – Introduction to cheap talk games (continued)

Illustrate an application of Crawford and Sobel's model in an accounting setting. Use the cheap-talk framework to analyze communication in accounting settings in which a sender has coarse information.

Readings:

- Fischer and Stocken (2001), "Imperfect Information and Credible Communication." *Journal of Accounting Research* 39(1), 119.

Assignment:

- Identify and discuss possible theoretical or empirical applications or theoretical extensions of the cheap-talk model to address an issue within the accounting domain

Public Communication

Session 5: Communication in duopoly games

Aspects of models on communication in duopoly games appear in many theory papers. These models are useful building blocks when modeling the interaction between firms.

Readings:

- Darrough (1993), "Disclosure Policy and Competition: Cournot vs. Bertrand" *Accounting Review* 68(3), 534.

Session 6: Public Dialogue between market participants

Bilateral communication is a fruitful direction as it moves beyond simple sender–receiver games that have been widely studied. Examine public communication between managers and analysts within a duopoly setting.

Readings:

- Jiang and Stocken: “Public Communication between Managers and Analysts” (October , 2019)

Assignment:

- Read the assignment “Public Communication between Rival Managers and Analysts - October 14, 2019” and answer the questions therein.
 - Identify and discuss possible theoretical or empirical applications or theoretical extensions of a model of bi-lateral communication within the accounting domain
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