

**PhD-Seminar: Experimental Research in Financial Accounting: Syllabus**  
**Shankar Venkataraman**  
**July 23-26, 2018**

The objective of this seminar is to develop your ability to critically evaluate and conduct experimental research in financial accounting. The readings for the seminar will cover topics related to financial accounting. This seminar will focus on a Judgment and Decision Making (JDM) based approach to experimental research. Unlike experiments in the *experimental economics* paradigm that draw on theories from economics, JDM research draws mostly on theories from psychology. Although the theory for the papers we will look at comes from psychology, the motivation for the papers, particularly in financial accounting, usually comes from empirical-archival work. To conduct impactful financial accounting experiments, it is important to know the empirical-archival literature. We will focus mostly on papers published in the last three years or so (including working papers). The background readings may contain older papers. For those of you taking this seminar for credit, successful completion will be based on satisfactorily completing the following components.

**Course Evaluation Components**

Class presentations and discussion	50%
Research proposal and presentation	50%

***Overall Structure of the Seminar***

We meet for a total of eight sessions over four days. Six of these sessions will be spent discussing papers and two sessions will be devoted to student presentations. Each of the six sessions will be approximately 3 hours long and the two student presentation sessions will be approximately 2 hours long. For the paper-discussion sessions, read the first two papers in the reading list for each session carefully. The majority of the class time will be devoted to these two papers. However, the background readings are also important and, in many cases, integral to understanding the first two papers better. At the very least, you should be familiar with the content of the other readings.

***Class Presentation, Class Participation***

For each of the two main papers, one student will be assigned to lead the discussion as an *advocate* and one student will take on the role of a *critic*. Students will be assigned these roles multiple times over the seminar regardless of whether or not they are taking the course for credit. An advocate will spend around 10 minutes presenting the paper without being interrupted. An advocate is expected not just to summarize the paper, but make a strong case for why the paper should be published (if it is a working paper) and how it adds to our knowledge (if it is already published). A critic should prepare a 15-minute presentation critiquing the paper (there is no such thing as a *perfect* paper) but unlike the advocate, the critic can be interrupted (in fact, I

would be disappointed if the critic is not interrupted). Specifics of advocate and critic assignments will be announced in advance of the first session.

Making students take on the role of an advocate and a critic is a practice I borrow from my PhD training (more specifically, Lisa Koonce's seminar at UT Austin) and one that I find very useful whenever I read a paper. The best advice on "how to read a paper" comes from a blog posting by Rob Bloomfield. I cannot paraphrase / improve on what he says, so his advice is reproduced in full below (again, notice the similarity to the advocate and the critic theme).

*"There is an old Jewish saying: According to Rabbi Bunim of P'shiskha, everyone should have two pockets, each containing a slip of paper. On one should be written: **I am but dust and ashes**, and on the other: **For my sake was the world created**. From time to time we must reach into one pocket, or the other. The secret of living comes from knowing when to reach into each.*

*Several times I have shared this saying with doctoral students, advising them on how to read research papers. One secret of reading research is to read every paper twice. Read first with humility: the authors have spent untold hours studying an issue and crafting their arguments, and you must be humble enough (you are but dust and ashes) to devote your efforts to learning from them. But read again with the pride: you have been trained to evaluate and improve upon the work, and you must be proud enough to provide constructive criticism and point out directions for future work (for your sake was the world created)."*

Follow this advice. Students are expected to read the papers carefully before class, and engage in meaningful discussion in class.

### ***Research Proposal***

You will present a proposal that examines an accounting issue using an experiment. Because our seminar is for only four days, I expect that you will present a proposal that you have been thinking about for some time. It would be helpful to me if I could get a draft of your proposal ahead of the seminar. I do not expect these to be polished proposals. Also, do not feel constrained to restrict yourself to financial accounting topics. Managerial accounting / auditing ideas are welcome as long as they use an experiment (either JDM / experimental econ.) to test the research question. Your proposal should not be more than 3 pages long, but it should address the following questions:

1. What is the problem / question that you seek to address?
2. Why is this question important / interesting?
3. How do you plan on addressing your research question?
4. What do you expect to find and why?

### **Session I: New Media (July 23, 2018)**

- Clor-Proell, S., R. D. Guggenmos, and K. M. Rennekamp. 2017. Mobile Devices and Investment Apps: The Effects of Push Notification, Information Release, and the Fear of Missing Out. *Working paper, Cornell University*.
- Grant, S. M., F. D. Hodge, and R. K. Sinha. 2018. How Disclosure Medium Affects Investor Reactions to CEO Bragging, Modesty, and Humblebragging. *Forthcoming, Accounting, Organizations, and Society*.
- Blankespoor, E., G. S. Miller, and H. D. White. 2014. The Role of Dissemination in Market Liquidity: Evidence from Firms' use of Twitter. *The Accounting Review* 89 (1): 79-112.
- Elliott, W. B., B. T. Gale, and S. M. Grant. 2017. Navigating through the Crowd: How do Features of Social Media Platforms Influence Investor Judgments? *Working paper, University of Illinois*.
- Sezer, O., F. Gino, and M. I. Norton. 2017. Humblebragging: A Distinct—and Ineffective—Self-Presentation Strategy. *Forthcoming, Journal of Personality and Social Psychology*.
- Libby, R., R. Bloomfield, and M. W. Nelson. 2002. Experimental Research in Financial Accounting. *Accounting, Organizations, and Society* 27 (8): 775-810.

### **Session II: Language (July 23, 2018)**

- Rennekamp, K. M. 2012. Processing Fluency and Investors' Reactions to Disclosure Readability. *Journal of Accounting Research* 50 (5): 1319-1354.
- Asay, S. H., R. Libby, and K. M. Rennekamp. 2018. Firm Performance, Reporting Goals, and Language Choices in Narrative Disclosures. *Forthcoming, Journal of Accounting and Economics*.
- Bonsall, S. B., A. J. Leone, B. P. Miller, and K. M. Rennekamp. 2017. A Plain English Measure of Financial Reporting Readability. *Journal of Accounting and Economics* 63 (2-3): 329-357.
- Li, F. 2010. Textual Analysis of Corporate Disclosure: A Survey of the Literature. *Journal of Accounting Literature* 29: 143-165.
- Novemsky, N., R. Dhar, N. Schwarz, and I. Simonson. 2007. Preference Fluency in Choice. *Journal of Marketing Research* 50 (5): 1319-1354.
- Chen, M. K. 2013. The Effect of Language on Economic Behavior: Evidence from Savings Rates, Health Behaviors, and Retirement Assets. *American Economic Review* 113 (2): 690-731.

### **Session III: Earnings Management (July 24, 2018)**

- Asay, S. H. 2018. Horizon-Induced Optimism as a Gateway to Earnings Management. *Contemporary Accounting Research* 35 (1): 7-30.
- Hewitt, M., F. D. Hodge, and J. Pratt. 2017. The Effects of the Method of Earnings Management and its Underlying Motive on Shareholders' Assessments of Cash Flows, Trust in Managers, and Investment Decisions. *Working Paper, University of Arizona*.
- Ahearne, M. J., J. P. Boichuk, C. J. Chapman, and T. J. Steenburgh. 2016. Real Earnings Management in Sales. *Journal of Accounting Research* 54 (5): 1233-1266.
- Ball, R. 2013. Accounting Informs Investors and Earnings Management is Rife: Two Questionable Beliefs. *Accounting Horizons* 27 (4): 847-853.
- Kim, J., Y. Kim, and J. Zhou. 2017. Languages and Earnings Management. *Journal of Accounting and Economics* 63 (2-3): 288-306.
- Dechow, P. M., and D. J. Skinner. 2000. Earnings Management: Reconciling the Views of Accounting Academics, Practitioners, and Regulators. *Accounting Horizons* 14 (2): 235-250.
- Libby, R., K. M. Rennekamp, and N. Seybert. 2015. Regulation and the Interdependent Roles of Managers, Auditors, and Directors in Earnings Management and Accounting Choice. *Accounting, Organizations, and Society* 47: 25-42.

### **Session IV: Earnings Guidance (July 24, 2018)**

- Ying Wang, E., and H.-T. Tan. 2013. The Effects of Guidance Frequency and Guidance Goal on Managerial Decisions. *Journal of Accounting Research* 51 (3): 673-700.
- Tang, M., and S. Venkataraman. 2018. How Patterns of Past Guidance Provision Affect Investor Judgments: The Joint Effect of Guidance Frequency and Guidance Pattern Consistency. *Forthcoming, The Accounting Review*.
- Rupar, K. 2017. Significance of Forecast Precision: The Importance of Investors' Expectations. *Contemporary Accounting Research* 34 (2): 849-870.
- Bozanic, Z., D. T. Roulstone, and A. Van Buskirk. 2018. Management earnings forecasts and other forward-looking statements. *Journal of Accounting and Economics* 65 (1): 1-20.
- Hirst, D. E., L. Koonce, and S. Venkataraman. 2008. Management Earnings Forecasts: A Review and Framework. *Accounting Horizons* 22 (3): 315-338.
- Jun, H. 2013. A Literature Synthesis of Experimental Studies on Management Earnings Guidance. *Journal of Accounting Literature* 31(1): 49-70.
- Lev, B. 2011. How to Win Investors Over. *Harvard Business Review*. November, 53-62.

### **Session V: Format Effects (July 25, 2018)**

- Clor-Proell, S., L. Koonce, and B. White. 2016. How Do Experienced Users Evaluate Hybrid Financial Instruments? *Journal of Accounting Research* 54 (5): 1267-1296.
- Libby, R., and T. Brown. 2013. Financial Statement Disaggregation Decisions and Auditors' Tolerance for Misstatement. *The Accounting Review* 88 (2): 641-665.
- Hopkins, P. E. 1996. The Effect of Financial Statement Classification of Hybrid Financial Instruments on Financial Analysts' Stock Price Judgments. *Journal of Accounting Research* 34: 33-50.
- Libby, R., and S. A. Emmett. 2014. Earnings Presentation Effects on Manager Reporting Choices and Investor Decisions. *Accounting and Business Research* 44 (4): 410-438.
- Hirst, D. E., L. Koonce, and S. Venkataraman. 2007. How Disaggregation Enhances the Credibility of Management Earnings Forecasts. *Journal of Accounting Research* 45 (4): 811-837.
- Zhang, Y. C., and N. Schwarz. 2012. How and Why 1 Year Differs from 365 Days: A Conversational Logic Analysis of Inferences from the Granularity of Quantitative Expressions. *Journal of Consumer Research* 39 (2): 248-259.

### **Session VI: Policy Interventions (July 25, 2018)**

- Asay, S. H., and J. Hales. 2018. Disclaiming the Future: Investigating the Impact of Cautionary Disclaimers on Investor Judgments Before and After Experiencing Economic Loss. *Forthcoming, The Accounting Review*.
- Church, B. K., L. Dhooge, and S. Venkataraman. 2017. Juror Reaction to Tax-deductibility of Punitive Damage Awards: Experimental Evidence. *Working Paper, Georgia Institute of Technology*.
- Davis, A. K., D. A. Guenther, L. K. Krull, and B. M. Williams. 2016. Do Socially Responsible Firms Pay More Taxes? *The Accounting Review* 91 (1): 47-68.
- Kachelmeier, S. J., and R. R. King. 2002. Using Laboratory Experiments to Evaluate Accounting Policy Issues. *Accounting Horizons* 16 (3): 219-232.
- Dyregang, S. D., M. Hanlon, E. L. Maydew, and J. R. Thornock. 2017. Changes in corporate effective tax rates over the past 25 years. *Journal of Financial Economics* 124 (3): 441-463.
- Ackert, L., B. K. Church, S. Venkataraman, and P. Zhang. 2017. Conflicts of Interest and Accountability: Experimental Evidence. *Working Paper, Georgia Institute of Technology*.
- Loewenstein, G., C. R. Sunstein, and R. Golman. 2014. Disclosure: Psychology Changes Everything. *Annual Review of Economics* 6: 391-419.