

Empirical Research in Financial Accounting I
Stern School of Business, New York University
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READ THIS!

Course Purpose: The goal of this course is to help you begin the process of becoming an empirical accounting researcher capable of identifying interesting, important, and researchable topics in financial reporting (i.e., financial accounting and related mandatory and voluntary disclosures), formulating testable hypotheses about those topics, and empirically testing those hypotheses using valid, powerful, and otherwise well-chosen research designs and empirical methods. As the first such course in the accounting Ph.D. program at Stern, I will put particular emphasis on helping you understand and develop intuition regarding the research design methodologies and empirical methods commonly used in empirical financial accounting research.

I will also try to help you learn how to identify topics for your own research, although this identification is ultimately your responsibility. You should take this responsibility seriously and spend time and effort to do throughout your program and career, starting now. There are various ways to identify research topics; the approach that is both most common and most relevant to a first Ph.D. course is to read papers and identify questions that the authors do not address that interest you and, ideally, for which you have some comparative advantage of background or skills. Talk about your ideas with faculty, fellow students, etc...

The thing that drew me to accounting research almost 30 years ago was how accounting is tightly interwoven with economic decision-making and performance by individuals, firms, industries, and the overall economy. This makes the possibilities for meaningfully creative and satisfyingly concrete applied empirical accounting research virtually inexhaustible.

Accounting as an empirical research discipline essentially began in the late 1960s, notably with the Ball and Brown (1968) and Beaver (1968) papers we will discuss early in the course. The volume and variety of empirical research has exploded in recent years, due to factors such as the standardization of empirical research methods, the timely and widespread distribution of working papers through SSRN, and the training of successive generations of accounting researchers. There is no way to cover the volume and variety of this research in a single course. I have tried to select general topics and specific papers for class discussion that give a sense for this research. I have also included in this (very fat) course outline lists of papers on topics I do not plan to cover in the course to give you a sense for this research. As students, you have to dive into this expanding body of research. An ability to read papers and a sense for the literature as a whole comes with time, effort, and thought.

Sessions: I have attached a list of possible sessions, with readings, that number more than 13. We will definitely do sessions 1 through 3. I will choose the remainder based on class interests. I will rotate some sessions from year to year.

Meeting Time: The course will meet Wednesday 1-4 in the accounting conference room. We will take a short break in the middle of each session.

Course Requirements:

1. All participants in the course are required to read and think about the main papers (denoted by ***) assigned for the session and to contribute actively to class discussion. Skimming or reading review or other significant background papers is also desirable, particularly for the student leading the session (see #2 below). I have aimed for 3 main papers for each session, although sometimes there are more. I have also aimed for a mix of older/classic and recent papers. The early portion of the course include more classic papers and the later part of the course more recent papers.

2. All sessions after the first (which I will lead), will be led by one of the accounting students taking the course for credit, with no more than one session assigned every three weeks. Students sitting in on the course may be assigned sessions, depending on the number of students taking the course for credit. Students may trade the responsibility for sessions based on their interests. The session leader's job is not to summarize the papers, but to evaluate and/or pose questions regarding the critical aspects of the paper: topic choice, hypotheses, research design, sample, empirical methods, etc... The session leader should focus on issues such as the importance of the topic, the testability of the hypotheses, the validity and power of the research design, the interpretability of the empirical results. There will often be alternative explanations for empirical results. The session leader should discuss what questions the authors asked and successfully answered, what related questions they did not ask and/or successfully answer, and what interesting and researchable questions are suggested for future research. The session leader need not discuss the assigned papers equally or even sequentially, but rather should use judgment as to the relative importance of the papers and the linkages between the papers.

I include a potential format you might use in summarizing each paper in a separate section below. This format is a modified version of one given to me by Mary Brooke Billings.

The session leader:

- a. may (but need not) make an appoint to talk to me after having read the papers but prior to the class;
- b. should prepare materials (Powerpoint presentation, notes, or write-up) appropriate given the assigned papers;
- c. should make copies of the papers and all materials you prepare; if you give these materials to my secretary Ben Sugimori with sufficient lead time, he will make the copies;
- d. should lead the discussion of the assigned papers in a sequence that makes sense, drawing out the linkages among the assigned papers and also any other papers that we have covered in class. Linkages may pertain to historical evolution of the literature, to alternative research designs, samples, statistical methods, etc...

Clear and persuasive communication, both orally and in writing, is a critical component to success in academics. You should exert effort and care to develop your communication skills in this class and throughout your program.

I will ask questions, make comments, and occasionally lecture where I deem necessary or appropriate to convey the material. I will correct you when you make incorrect statements. You should learn to take criticism in stride, because as an academic you will get a lot of it over the course of your career. It is better to put your ideas out there than to hold them in to avoid criticism. This is a profession where number of wins, particularly big wins, matters far more than winning percentage.

3. In the last class, I will assign you a working paper for you to write a referee report. The referee report should evaluate the significance of the paper's contribution to the literature, the testability of the hypotheses, the validity of the research design, and the power of the empirical methods. It should include a clear recommendation to the editor to accept, allow revise and resubmit, or reject the paper.
4. You must complete a proposal for an empirical research paper by yourself or with one or two of your classmates. The proposal must allow for empirical test using actual data that is available in some fashion. You are encouraged to seek out the advice of faculty here or elsewhere that are knowledgeable about the topic. See below for some suggestions as to how to identify a topic.

The schedule or required dates for your proposal are:

- a. Topic identified, with 2 page, clearly written description submitted as to what the topic is and why it is important and researchable using actual data: December 21, 2011.
- b. Clearly written proposal (including introduction, literature review, hypotheses, and description of research design) of no more than 30 double-spaced pages completed: March 30, 2012.

These dates are hard. Failure to meet the first date will result in your grade changing from incomplete pass (IP) to incomplete fail (IF). Failure to meet the second date will result in an F grade and the need to retake the course.

Relationship to summer paper requirement: There is a required first-year “summer paper” requirement instead of an empirical paper for this course. Your proposal for this course is intended to be one possible basis for your summer paper, but you may choose a different basis for an empirical paper (e.g., from April Klein’s course this spring), or you may choose to write a theory paper (e.g., from Tim Baldenius’ course this spring). If empirical, your summer paper must involve the analysis of actual data. If the data is hand collected or inherently restricted by your topic choice, the sample may be small as long as it allows for reasonable inferences. The summer paper must include an appropriate set of specification tests and sensitivity analyses.

The summer paper is due on September 14, 2012. This date is also hard. You will present this paper to me, to the other students in the class, and to any other students or faculty I can corral for this purpose later in that month.

Grading: Your grade will be determined as follows.

Class participation as non-session leader: 25%

Performance as session leader: 25%

Referee report: 25%

Proposal: 25%

Clear writing of the referee report and proposal are expected, and lack of clarity will be penalized. I suggest you obtain, read, and internalize Strunk and White, The Elements of Style, or some similar book on writing well. The only real way to learn write better is to write a lot and edit your work with care.

I expect you to perform adequately on all four dimensions. I will grade you roughly as follows. A, strong performance; B adequate performance; C inadequate but completed performance; F nonperformance. Remember, you must maintain a B average to remain in good standing in the Ph.D. program.

Possible Template for Summarizing Papers as Class Leader (from Mary Brooke Billings, Expanded to Emphasize Validity Issues)

1. What is the research question? Be concise; you usually should be able to do this in a few sentences.
2. Why is the research question important? Summarize each potential contribution of the paper in a sentence. Order the potential contributions in terms of their significance.
3. Describe the research question in more detail.
 - a. Theory. Tell the “story” that generates the authors’ hypotheses. Be concise; you usually should be able to do this in a paragraph.
 - b. Key related literature. Identify the three most relevant prior or contemporaneous papers to the study.
 - c. Hypotheses. List the hypotheses. Did the authors phrase them in a way that allows for empirical test?
 - d. What are the primary theoretical constructs involved in the theory/hypotheses?
4. Describe the research design methodology and empirical methods.
 - a. Identify the sample and primary data sources and discuss statistical conclusion and external validity issues.
 - b. Identify the empirical constructs used to capture the theoretical constructs and discuss construct validity issues.
 - c. Empirical Analyses. Describe in detail how the authors empirically test each hypothesis. Identify the key research design decisions. Discuss statistical conclusion and internal validity issues.
5. Results. Describe the findings in the paper, both those that conform to the hypotheses and those that do not. Evaluate whether and how the results convincingly support the story.
6. Step back and summarize the contributions of the paper in a paragraph.
7. Identify at least one specific, researchable question related to the paper’s contributions.

Suggestions for How to Identify Research Topics:

1. With each and every research paper you read in this and other courses, ask what questions the authors did not address and whether they are both important and researchable empirically or otherwise.

Relationship to Friday accounting research seminars and pre-workshop: There will be a pre-workshop at approximately 10 prior to most of the 11 pm Friday research seminars (excepting Fridays near the end of terms) where you will discuss the paper with a (rotating) faculty member who has expertise and interest in the area. Prior to the pre-workshop you will: (1) read the paper, (2) write down at least one question to ask the speaker, and (3) write down one question unanswered by the paper, preferably one that is logically and practically researchable. Discuss your questions re #3 with the faculty member.

2. Skim through recent issues of the top accounting journals—*Journal of Accounting and Economics* (JAE), *Journal of Accounting Research* (JAR), *The Accounting Review* (TAR), and *Review of Accounting Studies* (RAST)—for topics that spur your interest. Most or all of these journals have websites where you can see papers that are accepted but not yet published.
3. At a minimum, sign up for SSRN subscriptions to the Financial Accounting working paper “journals” (there are many other potentially relevant journals). Peruse the abstracts in each e-mail and read the papers if they spur your interest.
4. Devote time and effort to your research practicum, particularly if the faculty member you are working with actively involves you in a research project. My observation as incoming Ph.D. program head is that our most successful students typically have had successful research practica. The students that have trouble finding dissertation topics typically are ones who have not.
5. Talk to faculty, particularly those that work in your area of interest. You do not have to be assigned to a faculty member for a research practicum to work with that faculty member. One of the strengths of our department is our faculty’s variety of interests.
6. Talk to other students in the class and other Ph.D. students. They are your colleagues. If you work together, you will rise together. My observation as incoming Ph.D. program head is that the Ph.D. students here support each other. I hope that you will continue that tradition.

My availability: My office door is open as long as I am not otherwise engaged. I am not a chatter, however. Come by when you need me and use my time efficiently.

The comprehensive exam: In August 2013, you will have to take and pass the accounting comprehensive exam. A nontrivial portion of that exam will relate to material covered in this course. Thirty years ago, I found a good way to study for my comprehensive exam and to understand the papers was to iterate as follow.

1. Take notes on each paper as you read it.
2. Take notes on each paper as it is discussed in class.
3. Synthesize 1 and 2 into a coherent set of notes after class or at the end of the term. Don't wait for the comprehensive exam to do this, as you will forget significant points the longer you wait.

These notes will form an efficient basis for your studying for the comprehensive exam when the time comes.

Some generally useful background readings that are not included in the readings for the individual sessions. All are worth reading at some point.

Beaver, *Financial Reporting: An Accounting Revolution*, 3rd Edition, Prentice-Hall, Englewood Cliffs, New Jersey, 1989.

Lev. On the Usefulness of Earnings and Earnings Research: Lessons from Two Decades of Empirical Research. *Journal of Accounting Research* 27, 1989: 153-192.

Watts and Zimmerman, *Positive Accounting Theory*, Prentice-Hall, Englewood Cliffs, New Jersey, 1986.

Watts and Zimmerman. "Positive accounting theory: A ten year perspective." *Accounting Review* 65, 1990: 131-156.

Fields, Lys, and Vincent. Empirical research on accounting choice, *Journal of Accounting and Economics*, 2001, 255-307.

Kothari, Ramanna, Skinner, "Implications for GAAP from an Analysis of Positive Research in Accounting," *Journal of Accounting and Economics* (2010): 246-286.

Lambert, "Discussion of 'Implications for GAAP from an Analysis of Positive Research in Accounting,'" *Journal of Accounting and Economics* (2010): 287-295.

1) Introduction to Empirical Financial Accounting Research and Research Design

Background Readings on Empirical Financial Accounting Research as of 2001-2002 (no similarly broad surveys have been written since these, likely due to the large volume and variety of research in the past 10 years, as is evident from the length of this course outline. However, see the fairly broad review paper on anomalies and fundamental analysis by Richardson, Tuna, and Wysocki (JAE 2010) in the “Two Accounting Anomalies” session):

***Kothari, “Capital Market Research in Accounting,” *Journal of Accounting and Economics*, September, 2001: 105-232.

***Lee, “Market Efficiency and Accounting Research: A Discussion of ‘Capital Market Research in Accounting’ by S.P. Kothari,” *Journal of Accounting and Economics* September, 2001: 233-253.

***Beaver, “Perspectives on Recent Capital Market Research,” *The Accounting Review*, April 2002: 453-474.

Readings on Research Design:

***Cook and Campbell, Quasi-Experimentation: Design and Analysis Issues for Field Settings, (Houghton Mifflin, 1979), especially Chapter 2 (on validity), but Chapters 1 (on the philosophy of science related to causality inferences), 3 and 5 (on various specific types of research designs), and 8 (on randomized experiments) are good to read as well. You are welcome to borrow this book from me, but it is worth purchasing. (There is a more recent version/evolution of this book, Shadish, Cook, and Campbell, Experimental and Quasi-Experimental Designs for Generalized Causal Inference that I have not read but that appears to contain much of the same material in a different sequence.)

Friedman, M., “The Methodology of Positive Economics,” *Essays in Positive Economics*. (Chicago: University of Chicago Press, 1953): 3-43.

Kinney, W. R., “Empirical Accounting Research Design for Ph.D. Students,” *The Accounting Review* (April 1986): 338-350.

Koonce, L., N. Seybert, and J. Smith, “Causal Reasoning in Financial Reporting and Voluntary Disclosure,” *Accounting, Organizations, and Society*, In Press, 2011 (available on AOS website or SSRN).

There are several papers debating the success of empirical research in economics in the spring 2010 issue of the *Journal of Economic Perspectives*. Much of this debate applies to empirical accounting research. They are worth reading at some point.

2) Earnings Event Studies I: Existence and Magnitude of Directional Stock Price Reaction to Earnings, including Specification of Abnormal Returns and Unexpected Earnings

Classic Studies:

***Ball and Brown, "An Empirical Evaluation of Accounting Income Numbers", *Journal of Accounting Research*, Autumn, 1968.

***Beaver, Clarke, and Wright, "The Association between Unsystematic Security Returns and the Magnitude of Earnings Forecast Errors, *Journal of Accounting Research*, Autumn, 1979.

Chambers and Penman, "Timeliness of Reporting and the Stock Price Reaction to Earnings Announcements," *Journal of Accounting Research*, Spring 1984: 21-47.

This paper primarily includes returns variance tests similar to Beaver (1968), which we will discuss in the next session, as well as returns drifts tests we will discuss later in the course. The most relevant results for this session (in Section 3.2, Tables 4 and 5) pertain to the effects of reporting earnings before (sooner) or after (later) the expected reporting date on directional stock price response to earnings announcements.

Two Representative Recent Studies:

Callen, Livnat, and Segal, "The Impact of Earnings on the Pricing of Credit Default Swaps," *The Accounting Review*, September 2009: 1363-1394.

***De Franco, G., M. H. F. Wong, Y. Zhou, "Accounting Adjustments and the Valuation of Financial Statement Note Information in 10-K Filings," *The Accounting Review* (September 2011).

Background Readings Related to Event Study Methodology and Possible Inferences:

Patell, "The API and the Design of Experiments", *Journal of Accounting Research*, 1979.

Ohlson, "The Theory and Value of Earnings and an Introduction to the Ball-Brown Analysis," *Contemporary Accounting Research*, Fall, 1991: 1-19.

Antle, Demski, and Ryan, "Multiple Sources of Information, Valuation, and Accounting Earnings", *Journal of Accounting, Auditing, and Finance*, Fall, 1994: 675-696.

Background Readings Related to Nonlinearity:

Freeman, R., and S. Tse, "A nonlinear model of security price responses to unexpected earnings," *Journal of Accounting Research* Vol. 30 No.2 (Autumn 1992): 185-209.

Cheng, C.S., Hopwood, W., and McKeown, J., 1992, Nonlinearity and specification problems in unexpected earnings response regression model, *The Accounting Review* 67 (3), 579-598.

Background Reading Related to Changes in Systematic Risk at Earnings Announcements:

Ball, R., and S.P. Kothari, "Security Returns around Earnings Announcements," *The Accounting Review*, (1991): 718-738.

Savor, P., and M. Wilson, Earnings Announcements and Systematic Risk, Working Paper, University of Pennsylvania, March 2011.

3) Earnings Event Studies II: Existence and Magnitude of Absolute Stock Price and Trading Volume Reactions, with Development of Parametric Statistics

***Beaver, "The Information Content of Annual Earnings Announcements", *Journal of Accounting Research*, (Supplement, 1968).

***Patell, "Corporate Forecasts of Earnings per Share and Stock Price Behavior: Empirical Tests", *Journal of Accounting Research*, (Autumn, 1976).

There is an incorrect assumption (about zero serial correlation of estimated abnormal returns) in Patell's derivative of test statistics in this paper that is corrected in equation (7) in Atiase, 1985, "Predisclosure Information, Firm Capitalization, and Security Price Behavior around Earnings Announcements," *Journal of Accounting Research* (Spring, 1985): 21-36.

Bamber, L., O. Barron, and T. Stober, "Trading Volume and Different Aspects of Disagreement Coincident with Earnings Announcements," *The Accounting Review* (October 1997): 575-597.

***Bamber, L., O. Barron, and D. Stevens, "Trading Volume around Earnings Announcements and Other Financial Reports: Theory, Research Design, Empirical Evidence, and Directions for Future Research," *Contemporary Accounting Research* (Summer, 2011).

Garfinkel, J., "Measuring Investors' Opinion Divergence," *Journal of Accounting Research* (December 2009)

This paper is mostly about proxies for opinion divergence, including trading volume, but there is some analysis of changes in these proxies around earnings announcements.

McNichols, M. and J.G. Manegold "The effect of the information environment on the relationship between financial disclosure and security price variability." *Journal of Accounting and Economics*, (1983):49-74.

Landsman, W. and E. Maydew, "Has the Information Content of Quarterly Earnings Announcements Declined over the Past Three Decades?" *Journal of Accounting Research*, 2002.

Some Theory on Trading Volume

Verrecchia, "On the Relationship between Volume Reaction and Consensus of Investors: Implications for Interpreting Tests of Information Content", *Journal of Accounting Research*, (1981).

McNichols and Trueman, "Public Disclosure, Private Information Collection, and Short Term Trading", *Journal of Accounting and Economics*, (January, 1994).

Background Readings Related to Alternatives to Parametric Statistics in Patell (1976):

Schipper and Thompson, "The Impact of Merger-Related Regulations on the Shareholders of Acquiring Firms", *Journal of Accounting Research* (Spring, 1983).

Balachandran and Chandra, "A Synthesis of Alternative Testing Procedures for Event Studies", *Contemporary Accounting Research* (1989).

Background Readings on Clustering/Dependence of Observations:

Foster, G., "Intra-Industry Information Transfers Associated with Earnings Releases," *Journal of Accounting and Economics* (December 1981).

Brown and Warner, "Measuring Security Price Performance", *Journal of Financial Economics*, (September, 1980).

Brown, S., and J. Warner, "Using Daily Stock Returns: The Case of Event Studies," *Journal of Financial Economics* (March 1985) 3-31.

Beaver, "Econometric Properties of Alternative Security Return Methods", *Journal of Accounting Research*, (Spring, 1981).

Bernard, V.L. Cross-sectional dependence and problems in inference in market-based accounting research. *Journal of Accounting Research* 25, 1 (Spring 1987): 1-48.

Peterson, "Estimating Standard Errors in Finance Panel Data Sets: Comparing Approaches," *Review of Financial Studies* (2007).

Gow, Ormazabal, and Taylor, "Correcting for Cross-Sectional and Time-Series Dependence in Accounting Research," *The Accounting Review*, March 2010: 483-512.

Clustering of observations through time and/or across firms (e.g., industries) is a generally important statistical issue throughout empirical accounting research, which often uses panel data.

4) **Anticipation of Earnings Announcements in Option Prices and Market Microstructure Effects related to the Market Reaction to Earnings**

Earnings announcements in option prices:

Patell, J. M., and M. A. Wolfson. 1979. "Information Releases Reflected in Call Option Prices." *Journal of Accounting and Economics* 1: 117-140

***Patell, J. M., and M. A. Wolfson. 1981. "The Ex Ante and Ex Post Price Effects of Quarterly Earnings Announcements Reflected in Option and Stock Prices." *Journal of Accounting Research* 19: 434-458.

Lee and Amin. 1997. "Option Trading, Price Discovery, and Earnings News Dissemination." *Contemporary Accounting Research* 14: 152-192.

***Barth and So. 2011. "Earnings Announcements and Non-Diversifiable Risk." Working paper, Stanford University. On SSRN

Microstructure Effects:

Patell and Wolfson, "The Intraday Speed of Adjustment of Stock Prices to Earnings and Dividend Announcements", *Journal of Financial Economics*, 1984.

***Lee, Mucklow, and Ready, "Spreads, depths, and the impact of earnings information: An intraday analysis," *Review of Financial Studies* 6(2) (1993) 345-374.

Krinsky, I., and J. Lee, "Earnings Announcements and the Components of the Bid-Ask Spread," *Journal of Finance* (September 1996).

Zhang, "The Effect of High-Frequency Trading on Stock Volatility and Price Discovery," Working paper, Yale University, 2010. (This paper is not related to earnings announcements, but it is a recent example of papers on the effects of algorithmic trading.)

A Few Classic Microstructure Papers in Finance:

Glosten and Milgrom, "Bid, Ask, and Transactions Prices in a Specialist Market with Heterogeneously Informed Traders", *Journal of Financial Economics* (1985).

Kyle, "Continuous Auctions and Insider Trading", *Econometrica* (November, 1985).

Diamond and Verrecchia, "Disclosure, Liquidity, and the Cost of Capital", *Journal of Finance* (1991).

5) Determinants of Earnings Response Coefficients

Easton and Zmijewski, "Cross-Sectional Variation in the Stock Market Response to Accounting Earnings Measurements", *Journal of Accounting and Economics* (July, 1989).

***Collins and Kothari, "An Analysis of Intertemporal and Cross-Sectional Determinants of Earnings Response Coefficients", *Journal of Accounting and Economics* (July, 1989).

Kormendi and Lipe, "Earnings Innovations, Earnings Persistence and Stock Returns," *Journal of Business*, (July 1987), pp. 323-345.

Lipe, R. 1986. The information contained in the components of earnings. *Journal of Accounting Research* 24: 37-64.

Lipe, "The Relation Between Stock Returns and Accounting Earnings Given Alternative Information", *The Accounting Review* (January, 1990).

Freeman, Ohlson, and Penman, "Book Rate-of-Return and Prediction of Earnings Changes: An Empirical Investigation", *Journal of Accounting Research* (Autumn, 1982).

Easton, P. and T. Harris. 1991. Earnings as an explanatory variable for returns. *Journal of Accounting Research*: 19-36.

***Easton, P., T. Harris and J. Ohlson, "Aggregate Accounting Earnings Can Explain Most of Security Returns: The Case of Long Return Intervals," JAE June/Sept 1992.

***Hayn, C., "The Information Content of Losses," *Journal of Accounting and Economics*, September 1995: 155-192.

*** Billings, Cedergren, and Ryan, NYU working paper. September 2011.

Billings, "The Option Market's Anticipation of Information Content in Earnings Announcements," *Review of Accounting Studies*, forthcoming.

6) Linear Valuation Models and Value-Relevance Studies

Ohlson Models:

Garman and Ohlson, "Information and the Sequential Valuation of Assets in Arbitrage-Free Economies," *Journal of Accounting Research*, Autumn, 1980: 420-440.

***Ohlson, "Earnings, Book Value and Dividends in Security Valuation," *Contemporary Accounting Research*, Spring 1995: 661-688.

Feltham and Ohlson, "Valuation and Clean Surplus Accounting for Operating and Financial Activities," *Contemporary Accounting Research*, Spring 1995: 689-732.

Feltham and Ohlson, "Uncertainty Resolution and the Theory of Depreciation Measurement," *Journal of Accounting Research*, 1996.

Bernard, "The Feltham-Ohlson Framework: Implications for Empiricists," *Contemporary Accounting Research*, April 1995, 733-747.

Selected Value-Relevance Studies (A huge literature):

Inflation:

Beaver, W., A. Christie, and P. Griffin, "The Information Content of SEC Accounting Series Release No. 190," *JAE*, August 1980.

Pensions:

Barth, M., "Relative Measurement Errors Among Alternative Pension Asset and Liability Measures," *AR*, July 1991.

Barth, M., W. Beaver, and W. Landsman, "The Market Valuation Implications of Net Periodic Pension Cost Components," *JAE*, March 1992.

Intangible Assets:

***Lev, B., and T. Sougiannis. 1996. "The Capitalization, Amortization, and Value-Relevance of R&D." *Journal of Accounting and Economics* 22: 107-138.

Aboody and Lev, "The Value-Relevance of Intangibles: The Case of Software Capitalization", *Journal of Accounting Research*, Supplement, 1998: 161-191.

Barth, Clement, Foster, and Kaznik, "Brand Values and Capital Market Valuation," *Review of Accounting Studies*, 1998, 41-68.

Executive Compensation:

Aboody, D., M. E. Barth, and R. Kasznik. 2004. "SFAS 123 Stock-based Compensation Expense and Equity Market Values." *The Accounting Review* 79: 251-275

Fair Values:

Barth, "Fair Value Accounting: Evidence from Investment Securities and the Market Valuation of Banks" *AR*, January, 1994.

Barth, Beaver, and Landsman, "Value-Relevance of Banks' Fair Value Disclosures under SFAS No. 107" *AR* (October, 1996).

Dirty Surplus:

Landsman, W., B. Miller, K. Peasnell, S. Yeh, "Do Investors Understand Really Dirty Surplus," *The Accounting Review*, (2011): 237-258.

Declining Value Relevance over Time?:

Collins, D., E. Maydew, and S. Weiss, "Changes in the Value-Relevance of Earnings and Book Values over the Past Forty Years," *JAE*, December 1997.

Francis and Schipper, "Have Financial Statements Lost their Relevance?" *Journal of Accounting Research*, Autumn, 1999: 319-352.

Lev and Zarowin, "The Boundaries of Financial Reporting and How to Extend Them," *Journal of Accounting Research*, Autumn, 1999: 353-385.

Effect of Financial Health/Firm Shut-Down Option:

Burgstahler, D., and I. Dichev, "Earnings, Adaptation and Equity Value," *The Accounting Review* Vol. 72, No. 2 (April 1997): 187-215.

***Barth, M., W. Beaver, and W. Landsman, "Relative Valuation Roles of Equity Book Value and Net Income as a Function of Financial Health," *Journal of Accounting and Economics*, 1998: 1-34.

Background Readings on Statistical Issues:

Kothari, S. P., and J. L. Zimmerman. 1995. Price and Return Models. *Journal of Accounting and Economics* 20: 155-192.

Ryan, S., and P. Zarowin, "On the Ability of the Classical Errors in Variables Approach to Explain Earnings Response Coefficients and R^2 's in Alternative Valuation Models." *Journal of Accounting, Auditing, and Finance*, Fall 1995, pp. 767-786.

Beaver, W., "The Properties of Sequential Regressions and Multiple Explanatory Variables," AR, January 1987.

Barth and Clinch, Scale Effects in Capital Markets-Based Accounting Research, *Journal of Business, Finance, and Accounting* 2009. (See the references to this paper for the extensive prior literature addressing scaling in value-relevance.)

Background Readings on Value Relevance Studies Debate:

Gonedes, N., and N. Dopuch. 1974. "Capital Market Equilibrium, Information Production, and Selecting Accounting Techniques: Theoretical Framework and Review of Empirical Work." *Journal of Accounting Research* 12: 48-129.

Holthausen, R.W. and R.L. Watts, "The Relevance of the Value-Relevance Literature for Financial Accounting Standard Setting," *Journal of Accounting and Economics*, (2001, Sept), 3-75.

Barth, M., Beaver, W. and Landsman, W., "The Relevance of the Value Relevance Literature for Financial Accounting Standard Setting: Another View," *Journal of Accounting and Economics* (2001, Sept), 77-104.

7) Implied Cost of Capital and Growth via Residual Income Model or other Accounting-Based Approaches and Unconditional Conservatism

Miller, M., and F. Modigliani, "Some Estimates of the Cost of Capital to the Electric Utility Industry," AER, June 1966.

Penman, S., "The articulation of price-earnings ratios and market-to-book ratios and the evaluation of growth," *Journal of Accounting Research* 34(2) (Autumn 1996) 235-259.

***Penman, S., and F. Reggiani, "Returns to Buying Earnings and Book Value: Accounting for Growth and Risk," Working paper, Columbia University, 2009.

Gebhardt, W.R., C. M. C. Lee, B. Swaminathan. 2001. "Toward an Implied Cost-of-Capital." *Journal of Accounting Research* 39: 135-176.

Easton, P., G. Taylor, P. Shroff, and T. Sougiannis, 2002, "Using forecasts of earnings to simultaneously estimate growth and the rate of return on equity investment," *Journal of Accounting Research*, 40, 657-676.

Gode and Mohanram, "Inferring the Cost of Capital Using the Ohlson–Juettner Model," *Review of Accounting Studies*, 2003: 399-431.

Ohlson and Juettner-Nauroth. 2005. Expected EPS and EPS growth as determinants of value. *Review of Accounting Studies*: 349-365.

Easton, P., and Monahan, S., "An Evaluation of Accounting Based Measures of Expected Returns," *The Accounting Review*, April (2005).

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