

Topics in Finance: Empirical Corporate Finance

2019-2020 Academic Year
Master of Research in Economics, Finance and Management

1. Description of the subject

- Topics in Finance
 - Total credits: 3 ECTS
 - Type of subject: Elective
 - Department of Economics and Business
 - Lecturer: Javier Gómez Biscarri
- Code: 32593
Workload: 75 hours
Term: 3rd

2. Teaching guide

• Introduction

This is a course that covers a number of topics in empirical corporate finance and empirical financial accounting. It is meant to expose students to the main research areas which use firm's financial information. It is a particularly useful course for students that wish to pursue an academic career in finance or accounting. The content of the course will change yearly depending on the professor assigned, so it can be taken in subsequent years.

The objectives **this year** are twofold: first, the course will introduce the main lines of empirical research on financial accounting, placing emphasis on the theories underlying the analyses and on how the theories were "taken to the data"; second, the course will link financial accounting research to the theory of corporate finance.

By the end of the course, the students should be familiar with the main areas of empirical financial accounting research and should know how these areas relate to empirical finance in general. Also, students will have been exposed to the standard methodologies and practices of empirical accounting researchers.

No specific background knowledge is required beyond that provided by the courses in previous quarters (especially, econometrics, financial econometrics and asset pricing)

and some basic knowledge of the structure of the financial statements of a firm. This course is intended for MRes students interested in empirical finance or accounting, but it is also suggested for students of the MSc in Economics and Finance who are thinking of pursuing a PhD in finance-related issues.

Teaching methodology

The first two sessions will present the content of the course, a review of the structure of the financial statements of the firm and a first lecture on methodological issues. The remaining eight sessions will follow a similar structure: each session will cover a topic of interest (see outline below) for which the professor will discuss the general literature on the topic (theories and empirics) and then there will be one-two presentations of specific papers done by the students. Special emphasis will be placed on the methodological issues that may be specific to each topic.

Contents

Week	Session	Topic
1	1	<ul style="list-style-type: none"> Introduction to the interplay between finance and accounting: the analysis of financial information
	2	<ul style="list-style-type: none"> Methodological issues in accounting /corporate finance research (1)
2	3	<ul style="list-style-type: none"> Methodological issues in accounting /corporate finance research (2)
	4	<ul style="list-style-type: none"> Stock prices, returns and earnings
3	5	<ul style="list-style-type: none"> Valuation models
	6	<ul style="list-style-type: none"> Market anomalies Value relevance studies
4	7	<ul style="list-style-type: none"> Earnings forecasts: Analysts and Managers' Forecasts
	8	<ul style="list-style-type: none"> Earnings management
5	9	<ul style="list-style-type: none"> International issues
	10	<ul style="list-style-type: none"> Bank accounting

Assessment and Grading System

Evaluation will be based on a group replication of an empirical paper (50% of the grade – details to be provided in the first week of class) and on an individual in-class presentation of one of the empirical papers in the reading list (50% of the grade – details to be provided in the first week of class).

🌟 **References (papers with a * will be presented in class, subject to enrollment)**

Week 1

- Introduction

Beaver, W.H., 2002. Perspectives on Recent Capital Market Research. *The Accounting Review* 77(2), 453-474.

Kothari, S.P., 2001. Capital Markets Research in Accounting. *Journal of Accounting and Economics* 31 (1-3), 105-253.

- Methodological issues (1)

Gow, I. D. and Larcker, D. F. and Reiss, P. C., 2016. Causal Inference in Accounting Research. *Journal of Accounting Research* 54(2), 477-523.

Week 2

- Methodological issues (2)

*Barth, M.E., Clinch, G., 2009. Scale Effects in Capital Markets-Based Accounting Research, *Journal of Business, Finance, and Accounting* 36(3-4), 253-288.

*Bernard, V., Thomas, J., 1989. Post-Earnings-Announcement Drift: Delayed Price Response or Risk Premium. *Journal of Accounting Research* 27(S), 1-48.

- Stock prices, returns and earnings

*Vuolteenaho, T., 2002. What drives firm-level stock returns? *Journal of Finance* 57(1), 233-264.

Ball, R., Kothari, S.P., Watts, R.L., 1993. Economic determinants of the relation between earnings changes and stock returns. *The Accounting Review* 68(3), 622-638.

Kothari, S.P., 1992. Price-earnings regressions in the presence of prices leading earnings. *Journal of Accounting and Economics* 15, 173-202.

Week 3

- Valuation models

*Ohlson, J., 1995. Earnings, book values, and dividends in equity valuation. *Contemporary Accounting Research* 11, 661-687.

Feltham, G.A., Ohlson, J.A., 1995. Valuation and clean surplus accounting for operating and financial activities. *Contemporary Accounting Research* 11, 689-732.

*Dechow, P.M., Hutton, A.P., Sloan, R.G., 1999. An Empirical Assessment of the Residual Income Valuation Model. *Journal of Accounting and Economics* 26(1-3), 1-42.

Richardson, G., Tinaikar, S., 2004. Accounting Based Valuation Models: What Have We Learned? *Accounting and Finance* 44(2), 223-255.

- Market anomalies

Richardson, S., Tuna, I., Wysocki, P., 2010. Accounting Anomalies and Fundamental Analysis: A Review of Recent Research Advances. *Journal of Accounting and Economics* 50(2-3), 410-454. (see also the discussion by Lewellen, 2010).

*Sloan, R., 1996. Do stock prices fully reflect information in accruals and cash flows about future earnings? *The Accounting Review* 71, 289-315.

- Value relevance studies

Holthausen, R.W., Watts, R.L., 2001. The Relevance of the Value-Relevance Literature for Financial Accounting Standard Setting. *Journal of Accounting and Economics* 31(1-3), 3-75.

Collins D., Kothari S.P. (1989) An analysis of inter-temporal and cross-sectional determinants of earnings responsive coefficients. *Journal of Accounting and Economics* 11, 143–181

*Collins D., Maydew E., Weiss I. (1997) Changes in the value relevance of earnings and book value over the past forty years. *Journal of Accounting and Economics* 24, 39–67.

Barth, M., Beaver, W., Landsman, W., 2001. The Relevance of the Value Relevance Literature for Financial Accounting Standard Setting: Another View. *Journal of Accounting and Economics* 31(1-3), 77-104.

Week 4

- Earnings forecasts: Analysts and Managers' Forecasts

*Fried, D., Givoly, D., 1982. Financial Analysts' Forecasts of Earnings. *Journal of Accounting and Economics* 4 (2), 85-107.

*Kasznik, R., McNichols, M.F., 2002. Does Meeting Expectations Matter? Evidence from Analyst Forecast Revisions and Share Prices. *Journal of Accounting Research* 40(3), 727-760.

O'Brien, P., 1988. Analysts' forecasts as earnings expectations. *Journal of Accounting and Economics* 10(1), 53-83.

Bartov, E., Givoly, D., Hayn, C., 2002. The Rewards for Meeting or Beating Earnings Expectations. *Journal of Accounting and Economics* 33(2), 173-204.

- Earnings Management

Jones, J.J., 1991. Earnings Management During Import Relief Investigations. *Journal of Accounting Research* 29(2), 193-228.

Burgstahler, D., and I. Dichev, 1997. Earnings management to avoid earnings decreases and losses, *Journal of Accounting and Economics* 24, 99-126.

*Dechow, P.M., Sloan, R.G., Sweeney, A.P., 1995. Detecting Earnings Management. *The Accounting Review* 70 (1), 193-225.

Defond, M., Park, C.W., 1997. Smoothing income in anticipation of future earnings. *Journal of Accounting and Economics* 23(2), 115-139.

Degeorge, F., Patel, J., Zeckhauser, R., 1999. Earnings Management to Exceed Thresholds. *Journal of Business* 72(1), 1-33.

*Roychowdhury, S., 2006. Earnings Management through Real Activities Manipulation. *Journal of Accounting and Economics* 42 (3), 335-370.

Bartov, E., 1993. The Timing of Asset Sales and Earnings Manipulation. *The Accounting Review* 68(4), 840-855.

Healy, P. 1985. The effect of bonus schemes on accounting decisions. *Journal of Accounting and Economics* 7(1-3), 85-107.

Bergstresser, D., Philippon, T., 2006. CEO incentives and earnings management. *Journal of Financial Economics* 80(3), 511-529.

Week 5

- International issues

*Barth, M.E., Landsman, W.R., Lang, M.H., 2008. International Accounting Standards and Accounting Quality. *Journal of Accounting Research* 46(3), 467-498.

Ball, R., Kothari, S.P., Robin, A., 2000. The Effect of International Institutional Factors on Properties of Accounting Earnings. *Journal of Accounting and Economics* 29, 1–51.

Dikxhoorn, H.J., Sinning, K.E., 2010. A review and analysis of international accounting research in JIAAT: 2002-2010. *Journal of International Accounting, Auditing and Taxation* 19, 137-153.

Gómez Biscarri, J., López Espinosa, G., 2008. Accounting measures and international pricing models: Justifying accounting homogeneity. *Journal of Accounting and Public Policy* 27, 339–354

*Leuz, C., Nanda, D., Wysocki, P.D., 2003. Earnings Management and Investor Protection: An International Comparison. *Journal of Financial Economics* 69(3), 505-527.

- Bank accounting

*Ahmed, A., S. Thomas and C. Takeda, 1999. Bank loan loss provisions: a reexamination of capital management, earnings management and signaling effects. *Journal of Accounting and Economics* 28, 1-26.

Barth, M., Gomez-Biscarri, J., Kasznik, R., López-Espinosa, G. (2017) Bank Earnings and Regulatory Capital Management using Available for Sale Securities. *Review of Accounting Studies*, 2:4 (2017), 1761–1792.

Beatty, A., and S. Liao (2014) Financial Accounting in the Banking Industry: A Review of the Empirical Literature, *Journal of Accounting and Economics* 58, 339-383.

*Huizinga, H. and L. Laeven, 2012. Accounting discretion of banks during a financial crisis. *Journal of Financial Economics* 106, 614-634.