

**University of Washington
School of Business**

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**Accounting 596
Ph.D. Seminar
Market Based Financial Accounting Research
Spring 2006
Balmer 308 MW 3.30-5.20**

I. Objectives of Course

The objective of this course is to develop your ability to critically evaluate and conduct empirical research on (1) the role of accounting information in security valuation; and (2) market-based assessments of the usefulness and limitations of alternative accounting measurements and disclosures. Important elements of this include developing:

- (1) An appreciation for the role of theory in applied work.
- (2) An understanding of research designs commonly used in accounting and finance research.
- (3) The necessary skills to design and conduct empirical research.
- (4) Skills to identify a marketable project.

II. Conduct of Course

For the most part, the course will be conducted using a seminar format. Therefore, you are expected to take an active part in discussing and evaluating the readings assigned for each class session. In general, the class discussions will be centered around two papers each session. The first paper listed is the one on which we focus most of our attention. Dave or Terry will lead the class for the first five sessions and let you guys take over afterwards. A brief handout of your presentation should be distributed to the class at the start of class. This handout will help you and the other class participants review the paper for the comprehensive exams. We will assign session leaders in the first week.

We also plan to distribute a list of topics and papers that we will not cover in the class. The objective of this exercise is two fold. First, the capital markets area is vast and we had to make choices regarding what should and should not be included in the syllabus.

Second, the list is a good starting point to probe further into any of the areas covered, should you be interested in pursuing those areas for a term paper or a thesis.

A final thought on copying papers. Terry will try his best to get the papers copied and delivered to your mailbox such that you have adequate time to get through the papers. Occasionally, he may ask one of you to make copies of papers, at the department's expense, for all of us. All you have to do is to leave the paper with the appropriate form at the copy center in MKZ.

III. Course Requirements & Grading

1. Class leader – 15%
2. Class participation on other class days – 15%
2. Final Examination (time and format to be determined.) – 25%
3. Take home paper review – 20%
4. Research proposal due on the last day of class – 25%

A one page outline of your research proposal is due in class on Wednesday May 17. The outline should include your research question, motivation for the question (why is it worth our while to ask the question), the incremental contribution that the project will make to extant literature, a sketch of the empirical design, the data required to test the question, and the expected findings. The research proposal submitted on the last day of class would amplify each of these issues in greater detail and should be between 5 and 10 pages in length.

Acctg 596 –Reading List
Ph.D. Market-Based Financial Accounting Seminar
Spring 2006

Class 1. March 27, Monday - Terry

S.P. Kothari, “Capital Market Research in Accounting,” Journal of Accounting and Economics (2001, Sept), 105-232.

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

Class 2. March 29, Wednesday - Terry

Ball and Brown, “An Empirical Evaluation of Accounting Income Numbers,” Journal of Accounting Research (Autumn 1968), pp. 159-178.

Beaver, Clarke and Wright, “The Association Between Unsystematic Security Returns and the Magnitude of Earnings Forecast Errors,” Journal of Accounting Research (Autumn 1979), pp. 316-340.

Class 3. April 3, Monday - Terry

Beaver, “The Information Content of Annual Earnings Announcements,” Supplement to The Journal of Accounting Research (1968), pp. 67-92.

Patell, J. “Corporate Forecasts of Earnings Per Share and Stock Price Behavior: Empirical Tests,” Journal of Accounting Research (1976) Autumn, pp. 246-76

Class 4. April 5, Wednesday - Terry

Brown, S.J. and J.B. Warner “Measuring Security Price Performance,” Journal of Financial Economics (1980), Sept. pp. 205-258

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

Class 5. April 10, Monday - Terry

Peterson, M., “Estimating Standard Errors in Finance Panel Data Sets: Comparing Approaches,” Working paper (September 2005), Northwestern

Class 6. April 12, Wednesday - Terry

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

Collins, D. and Kothari, S.P., "An Analysis of the Intertemporal and Cross-Sectional Determinants of Earnings Response Coefficients," Journal of Accounting and Economics (July 1989), pp. 143-181.

Class 7. April 17, Monday

Kothari, S.P. and R. Sloan, "Information in Prices about Future Earnings: Implications for Earnings Response Coefficients," Journal of Accounting and Economics 15, (1992), 143-171.

Lundholm, R. and L. Myers, "Bringing the Future Forward: The Effect of Disclosure on the Returns-Earnings Relation," Journal of Accounting Research (June 2002), pp.809-840.

Ettredge, Michael, Kwon, Soo Young, Smith, David, and Zarowin, Paul, "The Impact of SFAS No. 131 Business Segment Data on the Market's Ability to Anticipate Future Earnings," The Accounting Review 2005 (forthcoming)

Class 8. April 19, Wednesday

Hayn, C., "The Information Content of Losses," Journal of Accounting and Economics (September 1995), pp. 155-192

Burgstahler, D., W.R. Kinney, Jr. and Roger Martin, "Earnings Surprise Materiality as Measured by Stock Returns," Journal of Accounting Research, (December 2002), 1297-1329.

Class 9. April 24, Monday

Basu, S., "The Conservatism Principle and the Asymmetric Timeliness of Earnings," Journal of Accounting & Economics (December, 1997), pp. 3-37.

Heltzer, W., "Conservatism and book-tax differences," Working paper (January 2006), University of Chicago.

Givoly D. and C. Hayn, "The Changing Time-Series Properties of Earnings, Cash Flows and Accruals: Has Financial Reporting Become More Conservative?" Journal of Accounting and Economics (June 2000), pp. 287-320.

Class 10. April 26, Wednesday

Dechow, P., "Accounting Earnings and Cash Flows as Measures of Firm Performance: The Role of Accounting Accruals," Journal of Accounting and Economics (July 1994), pp. 3-42.

Bowen, R., G. Biddle and J. Wallace. "Does EVA beat Earnings? Evidence on Associations with Stock Returns and Firm Values," Journal of Accounting and Economics (Dec. 1997, pp. 301-306).

Class 11. May 1, Monday

Sloan, R. "Do Stock Prices Fully Reflect Information in Accruals and Cash Flows About Future Earnings?" Accounting Review (July 1996) pp. 289-316.

To be named.

Class 12. May 3, Wednesday

Bernard, V. and J. Thomas, "Evidence That Stock Prices Do Not Fully Reflect the Implications of Current Earnings for Future Earnings," Journal of Accounting and Economics (December 1990), pp. 305-340 (read and discuss both BT papers together).

Bernard, V. and J. Thomas, "Post-Earnings-Announcement Drift: Delayed Price Response or Risk Premium," Supplement: Journal of Accounting Research, (1989), pp. 1-48.

Ball, R. and Bartov, E., "How Naïve is the Stock Markets' Use of Earnings Information," Journal of Accounting & Economics, (June, 1996), pp. 319-337.

Class 13. May 8, Monday

Ball, R. and Bartov, E., "How Naïve is the Stock Markets' Use of Earnings Information," Journal of Accounting & Economics, (June, 1996), pp. 319-337.

Burgstahler, D., J. Jiambalvo and T. Shevlin, "Do stock prices fully reflect the implications of special items for future earnings," Journal of Accounting Research, (June 2002), 585-612.

Class 14. May 10, Wednesday

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

Feltham, G. and J. Ohlson, "Valuation and Clean Surplus Accounting for Operating and Financial Activities," Contemporary Accounting Research (Spring 1995), pp. 689-732.

Class 15. May 15, Monday

Kallapur, S., and Kwan, S., "The Value Relevance and Reliability of Brand Assets Recognized by U.K. Firms," The Accounting Review (January 2004), pp. 151-172.

Aboody, D, Barth, M., and Kasznik, R., "SFAS 123 Stock-Based Compensation Expense and Equity Market Values," The Accounting Review, (April 2004).

Class 16. May 17, Wednesday

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

Botosan, C., and Plumlee, M., "Assessing Alternatives Proxies for Expected Risk Premium," The Accounting Review, (January 2005), 21-53.

Class 17 May 22, Monday

Francis, J, Lafond, R., Olsson, P., and Schipper, K., "The Market Pricing of Accruals Quality," Journal of Accounting and Economics 39(2) (2005). forthcoming.

Chen, Shuping, Shevlin, Terry and Tong, Yen Hee, "Do Dividend Changes Reflect Changes in the Pricing of Information Risk?" Working paper, University of Washington, 2005.

Class 18. May 24, Wednesday

Francis, J. and Schipper, K., "Have Financial Statements Lost Their Relevance?" Journal of Accounting Research (1999 Autumn), pp. 319-352.

Brown, S., Lo, K., and Lys, T., "Use of R² in Accounting Research: Measuring Changes in Value Relevance over the Last Four Decades," Journal of Accounting and Economics (1999), 83-115.

Class 19. May 29, Monday No Class-Memorial Day

Class 20. May 31, Wednesday - Terry

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.

Beaver, W.H. "Perspective on Recent Capital Market Research," Accounting Review (April 2002), pp. 453-474.