University of Zurich[UZH]

Chair of Managerial Accounting

University of Zurich
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Spring Term 2022 (FS 2022)

Doctoral Seminar "Analytical Research in Financial Accounting with focus on Voluntary Disclosure"

Course schedule and reading list

1) Session schedule

Session	Day	Time	Location
1	Monday, 25.04.2022	10:30 – 12:00	PLM-F-103/104
2	Monday, 25.04.2022	14:00 – 15:30	PLM-F-103/104
3	Monday, 25.04.2022	16:00 – 17:30	PLM-F-103/104
4	Tuesday, 26.04.2022	10:30 – 12:00	KO2-G-275
5	Tuesday, 26.04.2022	14:00 – 15:30	KO2-G-275
Research Seminar	Tuesday, 26.04.2022	16:15 – 17:45	PLM-F-103/104
6	Wednesday, 27.04.2022	10:30 – 12:00	KOL-E-18
7	Wednesday, 27.04.2022	13:30 – 15:00	KOL-E-18
8	Wednesday, 27.04.2022	15:30 – 17:00	KOL-E-18

On Tuesday, 26.04.2022, 16:15-17:45 Professor Guttman (NYU) will present his latest research paper in the Department's Research Seminar in Accounting, Auditing & Governance (AAG). The talk is considered as a part of the doctoral seminar, see:
https://www.business.uzh.ch/en/research/professorships/managerialaccounting/lehre/aag.html

2) Seminar content and reading list

This seminar develops tools from information economics to study model of voluntary disclosure. In order to provide the required background and context for voluntary disclosure, we will start by studying a simple signaling model (Spence 1973). We will also study a simple Microstructure model (Glosten and Milgrom 1985).

Sessions 1+2: Signaling

We will study in detail Spence (1973) model of costly job market signaling. This basic model serves as a basis to many, more advanced, signaling models. The basic model will facilitate our study of fundamental concepts in signaling models, including single crossing property, and equilibrium refinements that aim at selecting among multiple equilibria.

Required Readings

- Chapter 3 in "Contract Theory" by Bolton and Dewatripont, MIT Press, 2005, Signaling.

Session 3: Market Microstructure

To better understand how stock prices are determined in a rational expectations market and what is the value of private information to agents, we will study three mechanisms for security pricing in rational expectations settings. Most of you have studied the classical noisy rational expectation model of Grossman and Stiglitz (1980), which derives the clearing price in a market for a risky asset as well as the equilibrium in the market for information, in which strategic traders can choose whether to acquire information and become informed, or whether to save the information acquisition cost and remain uninformed. You have also studied the fundamental market microstructure models of Kyle (1985), who studies how the price is set by a market-maker who only observes the total order flow, which is the aggregation of the demand of a strategic informed investor and non-strategic noise traders.

We will study another very common market microstructure model, by Glosten and Milgrom (1985). In this paper, they study a stylized model in which adverse selection gives rise to a bid-ask spread. In particular, the model studies how a market maker sets the bid and the ask prices (following a buy and a sell order respectively) when trading against a trader, when the market maker does not know whether the trader is informed or uninformed. Given the time constraint, we will focus only on the single period/round analysis of the paper.

All of these three models demonstrate the value that investors obtain from having private information, which is fundamental to accounting research.

Required Readings

- L. Glosten and P. Milgrom, Bid, ask and transaction prices in a specialist market with heterogeneously informed traders, Journal of Financial Economics, 1985. (Focus on the single period analysis of the paper)

Sessions 4-8: Voluntary Disclosure

Studies in the early 80’s (Milgrom 1981, Grossman 1981, Grossman and Hart 1980) demonstrated that when the payoff of a privately informed agent/firm (the sender) is monotone in the receiver’s (market) beliefs about the sender’s type (and in addition: disclosure is costless and verifiable/truthful, and there are no other frictions) - full disclosure prevails as the unique equilibrium. The intuition for this “unraveling result” is straightforward and parallels the intuition for Akerlof’s (1970) market for lemons.

The subsequent theoretical literature on voluntary disclosure has been focusing on settings in which one (or more) of the premises of the unraveling result does not hold, and as a result, partial disclosure may occur in equilibrium. We will start by studying static settings in which disclosure is costly (e.g., due to proprietary costs), pioneered by Verrecchia (1983) and Jovanovic (1982), and settings in which the market is uncertain whether the sender is endowed with private information, pioneered by Dye (1985). In these two settings, the equilibrium is characterized by a disclosure threshold. We will also study settings in which disclosure is not verifiable and the sender/firm can manipulate the report, at a cost, and a setting in which additional information can arrive from exogenous sources. Finally, as is more representative of corporate disclosure environment, we may study dynamic settings in which the sender/firm may be endowed with multiple pieces of private information, over multiple periods of time.

Required Readings

- Verrecchia, Discretionary Disclosure, Journal of Accounting and Economics, 5, 179-194, 1983.
- Dye, Disclosure of Nonproprietary Information, Journal of Accounting Research 23, 123–145, 1985.
- Jung and Kwon, Disclosure when the market is unsure of information endowment of managers, Journal of Accounting Research 26, 146–153, 1988.
- Beyer and Guttman, Voluntary Disclosure, Manipulation and Real Effects, Journal of Accounting Research 50, 2012.
- Frenkel, Guttman and Kremer, The effect of exogenous information on voluntary disclosure and market quality, Journal of Financial Economics, 2020.

Additional optional reading

- Jovanovic, Truthful Disclosure of Information, Bell Journal of Economics 13 (1):36–44, 1982.
- Einhorn and Ziv, Intertemporal Dynamics of Corporate Voluntary Disclosures, Journal of Accounting Research, 46 (3), 2008.
- Acharya, DeMarzo and Kremer, Endogenous Information Flows and the Clustering of Announcements, American Economic Review 101 (7), 2011.
- Guttman, Kremer and Skrzypacz, Not Only What but Also When – A Theory of Dynamic Voluntary Disclosure, American Economic Review 104 (8), 2014.
- Beyer, Cohen, Lys and Walther, The Financial Reporting Environment: Review of the Recent Literature, Journal of Accounting and Economics, 2010.
- Shin, Disclosures and Asset Returns, Econometrica, 71, pp. 105-133, 2003.

3) Course Requirements

Grading (3 ECTS) is based on:

1. Take home Final Exam (problem sets).

2. For each of the six papers from the required reading, write a short summary of the paper. In your summary, please try to address the following questions:
    - What is the main research question?
    - What is the setting of the model (players, timeline, objective functions an additional assumptions)?
    - What is the main result of the paper?
    - What do you think is the main contribution of the paper (to the extent that you know the relevant literature)?
    - Which of the assumptions you believe are just simplifying assumptions and which are critical (for either tractability or to obtain the main result)?
    - What in your view is the weakness of the paper (if any)?