



Accounting Department

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Ph.D. Seminar

Market-Based Research in International Accounting, Part I: Foundations & Basic Concepts

October 17-19, 2016, University of Zurich

Course Overview and Objectives:

Market-based research in international accounting uses cross-border comparisons and within-country analyses exploiting the unique features of the local institutional environment to study how public and private institutions affect the properties and uses of accounting information. More recent studies go beyond descriptive analyses and attempt to better understand how economic institutions affect the role of accounting information in capital markets, financing decisions, and corporate governance.

The course consists of two parts: in Part I, we cover the foundations and discuss some of the basic concepts of international accounting research. Specifically, the topics of Part I cover voluntary disclosure, the relation between disclosure and cost of capital, cross-listing and bonding, financial intermediaries, and dividend payout policies. In Part II, we apply these concepts to specific areas (e.g., IFRS adoption, securities regulation). Note that it is suggested but not required that students attend both parts of the course in sequence.

The objective of the course is to develop your ability to critically evaluate and conduct empirical research in an international context. In particular, you should get (1) an appreciation for the role of theory in applied work, (2) an understanding of research designs commonly used in international accounting research, and (3) the necessary skills to design and conduct empirical research in a cross-border setting. Overall, this course provides an overview of this fast evolving area, and discusses economic hypotheses, research methods, data issues, and limitations to this type of research.

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 course session. In general, the class discussions will be centered around two papers per session, and we

will dedicate about half the time to each paper. I expect you to be familiar with the required readings.

For each paper, I will assign one or more discussion leaders who will (jointly) prepare a two-page summary before the course starts. In addition, your task as a discussion leader consists of briefly summarizing the paper, highlighting the contribution, and pointing out/discussing some critical research design choices. This presentation should take no more than 25 minutes. I will of course help you with that task. The course language is English.

On top of the required readings, I have indicated additional reading material for each class. This is just a small selection of papers that I find important or closely related to the topic of the session. We will not have the time to cover those papers in detail, but I expect you to skim the content of the papers to get a basic sense for the results and the research approach. This will help you to put the main readings into a broader context, and also serves as a good starting point to probe further into any of the areas covered.

Moreover, I will offer students the opportunity to present their own work during one of the sessions. This allows you to improve your presentation skills and receive feedback on your work. Ideally, we would have two student presentations in a workshop-style format (45 minutes each) over the course of the three days. If interested, please, contact the course administrator in advance to discuss the details.

I will also dedicate special time to the discussion of the structure of Ph.D. programs, and the process and prospects of the academic job market in Europe and the U.S.

Course Requirements:

In preparation of the course:

- Carefully work through the required readings with a focus on the research question, the contribution to the literature, and the research design.
- Skim the additional readings to get a basic sense for the research question.
- Prepare a two-page summary of the assigned paper to be distributed before class.
- Compute, for as many years as possible, the implied cost of capital for a company and a valuation model of your choice (to be handed in at the start of the course).

During the course:

- Lead the class discussion of the assigned paper.
- Contribute to class discussions when you are not the leader.
- Be prepared to work on a data exercise using a statistical software package of your choice (e.g., SAS, STATA)

After termination of the course:

- Write a journal-style referee report together with a letter to the editor. I will distribute the paper to be reviewed during the last session. You have one week to complete this task.

Summary of Course Schedule:

Session I (October 17, 10:30-12:00 am): Overview

Lecture on “Opportunities and Challenges in International Capital Markets Research.” (Luzi Hail).

Session II (October 17, 1:00-3:00 pm): Voluntary Disclosures

Required readings:

Healy, P., A. Hutton and K. Palepu. (1999). “Stock Performance and Intermediation Changes Surrounding Sustained Increases in Disclosure.” *Contemporary Accounting Research* 16, 485–520.

Serafeim, G. (2011). “Consequences and Institutional Determinants of Unregulated Corporate Financial Statements: Evidence from Embedded Value Reporting.” *Journal of Accounting Research* 49, 529–571.

Additional readings:

Balakrishnan, K., M. Billings, B. Kelly and A. Ljungqvist. (2014). “Shaping Liquidity: On the Causal Effects of Voluntary Disclosure.” *Journal of Finance* 69, 2237–2278.

Bradshaw, M., B. Bushee and G. Miller. (2004). “Accounting Choice, Home Bias, and U.S. Investment in Non-U.S. Firms.” *Journal of Accounting Research* 42, 795–841.

Beyer, A., D. Cohen, T. Lys and B. Walther. (2010). “The Financial Reporting Environment: Review of the Recent Literature.” *Journal of Accounting and Economics* 50, 296–343.

Hail, L. (2011). “Discussion of Consequences and Institutional Determinants of Unregulated Corporate Financial Statements: Evidence from Embedded Value Reporting.” *Journal of Accounting Research* 49, 573–594.

Kothari, S.P., S. Shu and P. Wysocki. (2009). “Do Managers Withhold Bad News?” *Journal of Accounting Research* 47, 241–276.

Leuz, C. and P. Wysocki. (2016). “The Economics of Disclosure and Financial Reporting Regulation: Evidence and Suggestions for Future Research.” *Journal of Accounting Research* 54, 525–622.

Session III (October 18, 9:00-11:00 am): Disclosure and Cost of Capital, Part 1

Required readings:

- Botosan, C. (1997). "Disclosure Level and the Cost of Equity Capital." *The Accounting Review* 72, 323–349.
- Leuz, C. and R. Verrecchia. (2000). "The Economic Consequences of Increased Disclosure." *Journal of Accounting Research* 38, 91–124.

Additional readings:

- Francis, J., R. LaFond, P. Olsson and K. Schipper. (2004). "Costs of Equity and Earnings Attributes." *The Accounting Review* 79, 967–1010.
- Gebhardt, W., C. Lee and B. Swaminathan. (2001). "Toward an Implied Cost of Capital." *Journal of Accounting Research* 39, 135–176.
- Hail, L. (2002). "The Impact of Voluntary Corporate Disclosures on the Ex-Ante Cost of Capital for Swiss Firms." *European Accounting Review* 11, 741–773.
- Lambert, R., C. Leuz and R. Verrecchia. (2007). "Accounting Information, Disclosure, and the Cost of Capital." *Journal of Accounting Research* 45, 385–420.
- Sengupta, P. (1998). "Corporate Disclosure Quality and the Cost of Debt." *The Accounting Review* 73, 459–474.

Session IV (October 18, 1:00-3:00 pm): Disclosure and Cost of Capital, Part 2

Required readings:

- Hail, L. and C. Leuz. (2006). "International Differences in the Cost of Equity Capital: Do Legal Institutions and Securities Regulation Matter?" *Journal of Accounting Research* 44, 485–531.
- Lang, M., K. Lins and M. Maffett. (2012). "Transparency, Liquidity, and Valuation: International Evidence on When Transparency Matters Most." *Journal of Accounting Research* 50, 729–774.

Additional readings:

- Botosan, C. and M. Plumlee. (2005). "Assessing Alternative Proxies for the Expected Risk Premium." *The Accounting Review* 80, 21–53.
- Core, J., L. Hail and R. Verdi. (2015). "Mandatory Disclosure Quality, Inside Ownership, and Cost of Capital." *European Accounting Review* 24, 1–29.
- Easton, P. and S. Monahan. (2005). "An Evaluation of Accounting-Based Measures of Expected Returns." *The Accounting Review* 80, 501–538.
- Francis, J., I. Khurana and R. Pereira. (2005). "Disclosure Incentives and Effects on Cost of Capital around the World." *The Accounting Review* 80, 1125–1162.
- Hou, K., M. van Dijk and Y. Zhang. (2012). "The Implied Cost of Capital: A New Approach." *Journal of Accounting and Economics* 53, 504–526.

Session V (October 19, 9:00-11:00 am): International Cross-Listings

Required readings:

- Doidge, C., G. A. Karolyi and R. Stulz. (2004). “Why Are Foreign Firms Listed in the U.S. Worth More?” *Journal of Financial Economics* 71, 205–238.
- Hail, L. and C. Leuz. (2009). “Cost of Capital Effects and Changes in Growth Expectations around U.S. Cross-Listings.” *Journal of Financial Economics* 93, 428–454.

Additional readings:

- Bailey, W., G. A. Karolyi and C. Salva. (2006). “The Economic Consequences of Increased Disclosure: Evidence from International Cross-Listings.” *Journal of Financial Economics* 81, 175–213.
- Blouin, J., L. Hail and M. Yetman. (2009). “Capital Gains Taxes, Pricing Spreads, and Arbitrage: Evidence from Cross-Listed Firms in the U.S.” *The Accounting Review* 84, 1321–1361.
- Iliev, P., D. Miller and L. Roth. (2014). “Uninvited U.S. Investors? Economic Consequences of Involuntary Cross-Listings.” *Journal of Accounting Research* 52, 473–519.
- Karolyi, G. A. (2006). “The World of Cross-Listings and Cross-Listings of the World: Challenging Conventional Wisdom.” *Review of Finance* 10, 99–152.
- Lang, M., J. Smith Raedy and M. Higgins Yetman. (2003). “How Representative Are Firms That Are Cross-Listed in the United States? An Analysis of Accounting Quality.” *Journal of Accounting Research* 41, 363–386.

Session VI (October 19, 1:00-3:00 pm): Analysts and Dividend Payouts

Required readings:

- DeFond, M. and M. Hung. (2007). “Investor Protection and Analysts’ Cash Flow Forecasts around the World.” *Review of Accounting Studies* 12, 377–419.
- Hail, L., A. Tahoun and C. Wang. (2014). “Dividend Payouts and Information Shocks.” *Journal of Accounting Research* 52, 403–456.

Additional readings:

- Brav, A., J. Graham, C. Harvey and R. Michaely. (2005). “Payout Policy in the 21st Century.” *Journal of Financial Economics* 77, 483–527.
- Dhaliwal, D., S. Radhakrishnan, A. Tsang and Y. Yang. (2012). “Nonfinancial Disclosure and Analyst Forecast Accuracy: International Evidence on Corporate Social Responsibility Disclosure.” *The Accounting Review* 87, 723–759.
- Hail, L. (2007). “Discussion of Investor Protection and Analysts’ Cash Flow Forecasts around the World.” *Review of Accounting Studies* 12, 421–441.
- Hope, O.-K. (2003). “Disclosure Practices, Enforcement of Accounting Standards, and Analysts’ Forecast Accuracy: An International Study.” *Journal of Accounting Research* 41, 235–272.
- La Porta, R., F. Lopez-de-Silanes, A. Shleifer and R. Vishny. (2000). “Agency Problems and Dividend Policies around the World.” *Journal of Finance* 55, 1–33.
- Ramnath, S., S. Rock and P. Shane. (2008). “The Financial Analyst Forecasting Literature: A Taxonomy with Suggestions for Further Research.” *International Journal of Forecasting* 24, 34–75.