Accounting Group: Selected Doctoral Theses

"Auditors' Role in Fair Value Monitoring: Evidence from Security-Level Data"
Author: Natalie Berfeld (2021)
Committee: Nemit Shroff (co-chair), Joseph Weber (co-chair), Andrew Sutherland, Rodrigo Verdi
Abstract:
I study the role of the audit firm as monitor of its clients' fair value (FV) measurements. Specifically, using a setting in the insurance industry where I can identify fair values at the security level, I find that audit firms' security-specific FV experience is associated with increased consistency in valuations among clients holding the same security, consistent with audit firms developing FV expertise at the security level. Moreover, FV consistency is higher when the audit office is in a more concentrated market, and when the client is economically less important to the audit office, consistent with audit office market incentives affecting FV audit quality. My study sheds light on the mechanisms that shape the role of auditors in monitoring the increasingly important yet subjective FV determination process.

"Labor Supply and Accounting Firm Mergers"
Author: Inna Abramova (2020)
Committee: Joseph Weber (chair), John Core, Nemit Shroff, Andrew Sutherland
Abstract:
In this paper, I study how regulation-induced accounting labor supply shocks affect the audit market. Using a novel dataset that includes both large and small accounting firms, I identify labor supply shocks using the 150-Hour Rule and the Mobility Provision and investigate the resulting incidence of mergers and acquisitions (M&A). I find that a reduction in labor supply increases accounting firms' M&A activity and leads to a higher audit market concentration. My results suggest that accounting firm growth decisions and audit market structure depend on the supply of labor.

"The Effect of Financial Reporting on Strategic Investments: Evidence from Purchase Obligations"
Author: Suzie Noh (2020)
Committee: Rodrigo S. Verdi (co-chair), Eric So (co-chair), Joseph Weber
Abstract:
I examine whether mandating the disclosure of investments influences firms' strategic interactions. I exploit an SEC regulation requiring firms to report off-balance sheet purchase obligations, such as commitments to inventory purchases, CAPEX, R&D, and advertising. Motivated by theory on strategic investments, I predict and find that firms respond to the regulation by increasing investments if they have substitutive product market strategies with competitors, and decreasing investments if they have complementary strategies. This two-way finding is consistent with firms using investments to influence competitors' behavior in ways that increase their own profits. I show that changes in investments are concentrated among firms with large market share, which have a greater ability to influence competitors' actions, and that they have real effects on firms' sales and profit margins. Collectively, my results illustrate a novel channel through which financial reporting shapes firms' investments and competition.

"The Effect of Market Transparency on Corporate Disclosure"
Author: Georg Rickmann (2020)
Committee: Eric So (co-chair), Rodrigo Verdi (co-chair), Joseph Weber
Abstract:
Market prices and trading in financial markets are important information signals that reveal firm specific information to the public. I study how the observability of such prices and trading (hereafter, "market transparency") affects firms' disclosure incentives. I exploit the staggered introduction of TRACE, which made bond prices and transactions publicly observable, and show that firms provide more guidance when their bonds' prices and trading become observable. This effect is stronger for firms with informationally sensitive bonds and firms without exchange-listed bonds prior to TRACE. Also, firms become particularly more likely to disclose bad news, consistent with the notion that investors' access to market information limits managers' incentives to withhold information. I corroborate my results using (1) a small controlled experiment, in which prices and trading are revealed for a randomized set of bonds, and (2) threshold rules used by the regulator. Taken together, my results suggest that observable market outcomes inform investors not only directly, by aggregating and revealing investors' information and beliefs, but also indirectly by increasing corporate disclosure.

"Mandatory Corporate Patent Disclosures and Innovation"
Author: Jinhwan Kim (2019)
Committee: Rodrigo Verdi (co-chair), Eric So (co-chair), S.P. Kothari, Andrew G. Sutherland
Abstract:
I investigate the effect of corporate patent disclosures on innovation. Using the American Inventor's Protection Act (AIPA) as a plausibly exogenous shock to corporate patent disclosures, I find evidence of the AIPA shaping innovation through two simultaneous channels. First, the AIPA encourages a firm to innovate by facilitating access to the scientific information contained in other firms' patent disclosures. Second, the AIPA discourages a firm from innovating by increasing the risk of leaking business-related strategies through its own patent disclosures. These findings are consistent with the view that corporate patents contain information useful for both science and business, and highlight their respective roles in generating both spillover benefits and proprietary costs of mandating patent disclosures. Finally, using textual analysis, I find that firms with high proprietary costs respond to the AIPA by strategically changing their patent disclosures to obfuscate exploitable business-related signals.

"Do Journalists Help Investors Analyze Firms' Earnings News?"
Author: Nicholas Guest (2018)
Committee: S.P. Kothari (co-chair), Eric So (co-chair), John Core, Rodrigo Verdi
Abstract:
I examine whether the market's reaction to firms' earnings news varies with analysis (or editorial content) produced by financial journalists. A series of natural experiments at The Wall Street Journal (WSJ) suggests that WSJ articles increase trading volume and improve price discovery at S&P 500 earnings announcements. The effects are stronger when an article contains more original analysis and less content reproduced from the firm's press release. This evidence refines inferences from prior studies that find media dissemination, but not analysis, makes the market's earnings response more efficient. Instead, my paper suggests media analysis also enhances investors' trading decisions by improving their understanding of earnings news, albeit for a limited set of large firms. In other words, journalists' analysis efforts provide value to readers, which helps explain the continued production of costly earnings-related analysis amid increasing pressure from low-cost information sources.

"Are Long-Term Earnings Targets Forecasts?"
Author: Heidi Packard (2018)
Committee: John Core (chair), Joseph Weber, Rodrigo Verdi
Abstract:
This paper examines whether earnings targets used in long-term performance-based compensation plans predict future performance. Using a sample of targets from long-term grants made to CEOs from 2007 to 2012, I find that earnings targets provide information about future earnings outcomes; however, analysts do not respond to the information targets provide at the time of disclosure. Rather, I find analysts primarily adjust their expectations in the year of the performance period. The information value of targets is robust to variation in cross-sectional factors such as monitoring and financial reporting concerns, and concentrated in cases where agency conflicts are low and traditional management forecasts are not available. To my knowledge, this analysis is the first to document a forecasting role for the long-term targets used in earnings-based compensation plans.

"Locked-in: The Effect of CEOs' Capital Gains Taxes on Corporate Risk-Taking"
Author: Benjamin Yost (2017)
Committee: John Core (co-chair), Michelle Hanlon (co-chair), Eric So, Rodrigo Verdi
Abstract:
I study the effects of CEOs' unrealized capital gains tax liabilities (tax burdens) on corporate risk-taking. Recent work suggests that high tax burdens discourage CEOs from selling stock. I hypothesize that this causes the executives to become overexposed to firm-specific risk thereby reducing their willingness to make risky corporate decisions. In a series of tests, I find that corporate risk-taking decreases as CEOs' personal tax burdens increase. Further, firms with CEOs who are more locked-in to their stock positions (i.e., CEOs with higher tax burdens) experience larger increases in risk-taking following federal and state tax cuts. When I investigate the mechanism behind this relation, I find that tax cuts trigger stock sales by the locked-in executives, allowing for improved diversification. Overall, my findings indicate that the personal tax burdens of CEOs affect the firm by reducing executives' preferences for risk at the corporate level.