

National Taiwan University
Ph.D. Seminar in Analytical and Behavioral Accounting Research
Spring 2009

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Objectives

Various methods exist for conducting empirical accounting research. While many researchers use field-archival data for empirical investigations, other alternatives such as analytical methods, case studies, survey research, and laboratory experiments can be adopted. In this course, we will offer students with a different perspective on how to formulate an accounting research in an analytical setting and derive the meaningful accounting insights and theories, and how an empirical research can be conducted with data coming from survey or experiments. Students are expected to broaden their perspective and open their mind in doing accounting research. They also are expected to be flexible in using various methods to examine interesting and important accounting issues. Confining one's research skill to the field-archival method can have two undesirable consequences. One is that an important issue cannot be investigated when field-archival data are not available. The other is limiting the review of literature to only a subset rather than a complete set due to inability to appreciate research using other methods.

Format of conducting class

Except for the first day of class, this course will be conducted in a manner that discussion and debate is the primary mode.

Grading

Class participation (including critiques)	40 percent
Final exam	60 percent

Schedule and readings for behavioral accounting research

Session 1

Overview of research methods

- Bonner, S.E. 2008. *Judgment and Decision Making in Accounting and Auditing*. Pearson-Prentice Hall. Chapter 1.
- Libby, R. 1981. *Accounting and Human Information Processing*. Prentice-Hall. Chapter 1.
- Libby, R., R.J. Bloomfield, M.W. Nelson. 2002. Experimental research in financial accounting. *Accounting, Organizations and Society* 27: 775-810.
- Merchant, K.A., and W. A. Van der Stede. 2003. Disciplinary constraints on the advancement of knowledge: The case of organizational incentive systems. *Accounting, Organizations and Society* 28: 251-286.
- Nelson, M.W., and H.T. Tan. 2005. Judgment and decision making research in auditing: A task, person, and interpersonal interaction perspective. *Auditing: A Journal of Practice & Theory* 24 (Supplement): 41-72.
- Sprinkle, G.B. 2003. Perspectives on experimental research in managerial accounting. *Accounting, Organizations and Society* 28: 287-318.
- Van der Stede, W.A., S.M. Young, and C.X. Chen. 2003. Assessing the quality of evidence in empirical management research: The case of survey studies. *Accounting, Organizations and Society* 30: 655-684.

Session 2

Survey research in management accounting: Methodological discussions

- Gerdin, J., and J. Greve. 2004. Forms of contingency fit in management accounting research—A critical review. *Accounting, Organizations and Society* 29: 303-326.
- Shields, M.D., F.J. Deng, and Y. Kato. 2000. The design and effects of control systems: Tests of direct- and indirect-effects models. *Accounting, Organizations and Society* 25: 185-202.

Session 3

Experimental research in management accounting

- Chow, C.W. 1983. The effects of job standard tightness, compensation scheme on performance: An exploration of linkages. *The Accounting Review* 58: 667-685.
- Gupta, M., and R.R. King. 1997. An experimental investigation of the effect of cost information and feedback on product cost decisions. *Contemporary Accounting Research* 14: 99-127.
- Lipe, M.G., and S. Salterio. 2000. The balanced scorecard: Judgmental effects of common and unique performance measures. *The Accounting Review* 75: 283-298.

Sprinkle, G. B. 2000. The effect of incentive contracts on learning and performance.
The Accounting Review 75: 29-326.

Session 4

Experimental research in auditing: Audit task

Risk assessment and audit planning

Joyce (1976, *JAR*); Houston, Peters and Pratt (1999, *TAR*)

Materiality judgment

Nelson, Smith and Palmrose (2005, *TAR*)

Session 5

Experimental research in auditing: Audit task

Analytical review

Libby (1985, *JAR*); Koonce (1992; *TAR*)

Correction decisions

Hackenbrack and Nelson (1996; *TAR*); Libby and Kinney (2000, *TAR*)

Session 6

Experimental research in auditing: Audit task

Going concern judgment and audit opinion formation

Joyce and Biddle (1981, *JAR*); Asare (1992, *TAR*)

Session 7

Experimental research in auditing: The auditor

Experience, knowledge and expertise

Bonner (1990, *TAR*); Bonner and Lewis (1990, *JAR* supplement); Libby and Luft (1993, *AOS*); Tan and Libby (1997, *JAR*); Owghoso, Messier and Lynch (2002, *JAR*)

Session 8

Experimental research in auditing: The auditor

Cognitive limitations and debiasing

Kennedy (1995, *JAR*); Shelton (1999, *JAR*)

Session 9

Experimental research in auditing: Interpersonal interactions

Trotman (1985, *JAR*); Peecher (1997, *JAR*); Trotman, Wright and Wright (2005, *TAR*)

Schedule and readings for analytical accounting research

I. Basic Model of Agency Theory

A. Fundamental Agency Theory (Session 1)

1. Holmstrom, B., “Moral Hazard and Observability”, RJE, Spring 1979. (**)
2. Grossman & Hart, “An Analysis of the Principal Agent Problem”, *Econometrica*, Jan. 1983.
3. Rogerson, W., “The First Order Approach to the Principal Agent Problem”, *Econometrica*, 1985.
4. Lewis, T. and Sappington, D., “Countervailing Incentives In Agency Problems”, *JET*, 49, 1989.
5. Laffont & Tirole, “A Theory of Incentives in Procurement and Regulation-Chapter 1”, MIT Press, 1993.

B. Multiple Agents (Session 2)

1. Demski, J. & Sappington, D., “Optimal Incentive Contracts with Multiple Agents”, *JET*, June 1984. (*)
2. Mookherjee, D., “Optimal Incentive Schemes with Many Agents”, *Review of Economic Studies*, July 1984.
3. Ma, C., “Unique Implementation of Incentive Contracts with Many Agents”, *Review of Economic Studies*, 55, 1988.
4. Ma, C., Moore, J. and Turnbull, S., “Stopping Agents from Cheating ”, *JET*, 46, 1988.
5. Li, S.H. & Balachandran, K.R., “Collusion Proof Transfer Payment Schemes with Multi-Agents ”, *Review of Quantitative Finance and Accounting*, 15, 2000.

C. Multiple Periods (Session 3)

1. Lambert, R., “Long Term Contracts and Moral Hazard”, RJE, Autumn 1983.

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2. Rogerson, W., “Repeated Moral Hazard”, *Econometrica*, 53, 1985.
3. Fudenberg, D., Holmstrom, B. and Milgrom, P., “Short-Term Contracts and Long-Term Agency Relationships”, Working Paper (JET).
4. Crawford, V., “Long-Term Relationships Governed by Short-Term Contracts”, *AER*, June 1988.
5. Malcomson, J. and Spinnewyn, F., “The Multiperiod Principal-Agent Problem”, *Review of Economic Studies*, July 1988.

D. Multiple Tasks (**Session 4**)

1. Holmstrom, B. and Milgrom, P., “Multitask Principal-Agent Analysis: Incentive Contracts, Asset Ownership, and Job Design”, *Journal of Law, Economics and Organization*, 7, 1991, pp. 24-52.
2. Holmstrom, B. and Milgrom, P., “The firm as an Incentive System”, *AER*, 84, 1994, pp. 972-991.
3. Hemmer, T., “On the Interrelation between Production Technology, Job Design, and Incentives”, *JAЕ*, 19, 1995, pp. 209-245.
4. Hemmer, T., “On the Design and Choice of “Modern” Management Accounting Measures”, Working Paper, University of Washington, 1995.
5. Alles, M., Datar, S., and Lambert, R., “Moral Hazard and Management Control in Just-in-Time Settings”, *JAR*, 33, Supplement 1995, pp. 177-204.

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6. Hemmer, T., “Allocations of Sunk Capacity Costs and Joint Costs in a Linear Principal-Agent Model”, *AR*, 71 No. 3, July 1996, pp. 419-432. (*)

E. Incomplete Contracts (**Session 5**)

1. Hart, O. and Moore, J., “Incomplete Contracts and Renegotiation”,

Econometrica, 56, 1988.

2. Demski, J. and Sappington, D., “Resolving Double Moral Hazard Problems with Buyout Agreements”, RJE, Summer 1991.
3. Aghion, P. and Bolton, P., “An Incomplete Contracts Approach to Financial Contracting a”, Review of Economic Studies, July, 1992. (*)
4. Bolton, P. and Whinston, M., “Incomplete Contracts, Vertical integration, and Supply Constraints”, Review of Economic Studies, Jan, 1993. (*)

II. Communication and Organization Form (Responsibility Accounting)

1. Myerson, R., “Incentive Compatibility and the Bargaining Problem”, Econometrica, Jan, 1979.
2. Christensen, J., “Communication in Agencies”, RJE, 12, 1981.
3. Melumad, N. and Reichelstein, S., “Centralization Versus Delegation and the Value of Communication”, JAR, Supplement 1987.
4. Melumad, N. and Reichelstein, S., “Value of Communication in Agencies”, JET, 47, 1989.
5. Melumad, N., Mookherjee, D., and Reichelstein, S., “A Theory of Responsibility Centers”, JAE, Dec. 1992.
6. Qian, Y., “Incentives and Loss of Control in an Optimal Hierarchy”, Review of Economic Studies, 61, 1994, pp 527-544.
7. Villadsen, Bente, “Communication and Delegation in Collusive Agencies”, JAE, 19, 1995, pp 315-344.

III. Cost Allocation

1. Suh, Y., “Collusion and Noncontrollable Cost Allocation”, JAR, Supplement 1987.
2. Magee, B., “Variable Cost Allocation in a Principal-Agent Setting”, AR, Jan. 1988.

3. Rajan, M., "Cost Allocation in Multiagent Settings", AR, July. 1992.

IV. Transfer Pricing (Session 6)

1. Ronen, J. and McKinney, G., "Transfer Pricing for Divisional Autonomy", JAR, Spring 1970.
2. Ronen, J. and Balachandran, K., "An Approach to Transfer Pricing under Uncertainty", JAR, Autumn 1988.
3. Holmstrom, B. and Tirole, J., "Transfer Pricing and Organizational Form", Journal of Law, Economics and Organization, 1991.
4. Edlin, A.S. and Reichelstein, S., "Specific Investment Under Negotiated Transfer Pricing: An Efficiency Result", The Accounting Review, April 1995.

V. Auditing, Regulation and Control (Budgeting) (Session 7)

1. Antle, R., "The Auditor as an Economic Agent", JAR, Autumn 1982.
2. Baron and Besanko, "Regulation Asymmetric Information and Auditing", RJE, Winter 1984.
3. Laffont, J. and Tirole, J., "Using Cost Observation to Regulate Firms", JPE, June 1986.
4. Demski, J. and Sappington, D., "Hierarchical Regulatory Control", RJE, Autumn 1987.
5. Laffont, J., "The New Economics of Regulation Ten Years After", Econometrica, May 1994.
6. Kanodia, D., "Participative Budgets as Coordination and Motivational Devices", JAR, Autumn 1993.
7. Kriby, A.J., Reichelstein, S., Sen, P.K. & Pail, T.Y., "Participation, Slack and Budget-Based Performance Evaluation", JAR, Autumn 1993.
8. Kofman, Fred & Lawarree, Jacques, "Collusion in Hierarchical Agency", Econometrica, May 1993.

VI. Optimal Mechanism Design (**Session 8**)

1. Myerson, R. and Satterthwaite, M., “Efficient Mechanisms for Bilateral Trading”, JET, 28, 1983.
2. Samuelson, W., “Bargaining under Incomplete Information”, *Econometrica*, July 1984.
3. Sutton, J., “Non-Cooperative Bargaining Theory: An Introduction”, *Review of Economic Studies*, 53, 1986.
4. Darrough, M. and Stoughton, N., “A Bargaining Approach to Profit Sharing in Joint Ventures”, *Journal of Business*, April 1989.
5. Riley, J. and Samuelson, W., “Optimal Auctions”, *AER*, June 1981.

VII. An Application of Principal-Agent Model to the Modern Organization Design

1. Hemmer, T., “On the Interrelation between Production Technology, Job Design, and Incentives”, *JAE*, 19, 1995, pp. 209-245.
2. Hemmer, T., “On the Design and Choice of “Modern” Management Accounting Measures”, Working Paper, University of Washington, 1995.