Economic Analysis of Accounting Behavior
Course Outline and Reading List

Financial Accounting A
First Semester of the Year 2006/2007
Graduate School of Economics, Kyoto University               Hideki Fujii

Course Objective
The objective of this course is to give you some theoretical backgrounds for economic analysis of accounting behavior. For this purpose, reading materials are gathered from the papers that have been leading discussion and research in the area. By the end of the course you should have an overview of the major theories used in current accounting research and ideas for your own dissertation or paper. Students in the first year of master course will be required to submit a term paper to summarize their understanding the theories by July 11, 2006 and this will be assessed for assessment purpose. If you are second-year student in M.C., a dissertation proposal can substitute for this as far as it will contain any of the theories reviewed in this course.

Format of Course
You are divided into six groups and each group is required to translate the assigned material into Japanese and to discuss the topic with your own comments. As seen below, the sessions will be on Tuesday in every other week from 4.45 to normally 6.00.

Assessment
You will be required to submit a term paper to summarize your understanding the theories reviewed in this seminar by July 11, 2006. The paper should be about 1,000 words in English or around 5 pages in Japanese in length and should include your own comments on the theories you want to summarize or you intent to use in your dissertation.

Lecture Topics and Schedule
1. Politicization of Accounting (May 2, 2006)
We will review the political characteristics of setting standards. D. Solomons, one of the most influential leaders in the early stage of FASB’s regulatory activities, insists the needs for conceptual approach to standard setting in order to avoid the politicization of accounting.

2. **Rise of Economic Consequences on Decision Making** (May 16, 2006)
Author discusses the impacts of accounting reports on decision making, which may be the most challenging accounting issue of the 1970s. The topic might be another aspect of politicization of accounting discussed by D.Solomons, but Zeff’s discussion is more descriptive than the latter. Its has a lot of influences on empirical research focused on accounting behavior since 1980s.


If markets would be fully efficient in terms of economics, there would be no use of accounting regulation at all, because the markets could always take adequate reactions at once by reading any reality of firms no matter what information might be disclosed. Since early 70’s, many researchers have been doing their research on the basis of what’s called “efficient market hypothesis,” which implies uselessness of accounting regulation. Mayer-Sommer points out its implications for accounting research through discussing understanding and acceptance of the hypothesis in U.S..


4. **Information Inductance** (June 13, 2006)
Impacts of accounting information are surely bilateral, that is, not only users but also senders are to be influenced by the information that they themselves produce and send. Rational senders may change their own behaviors or even expectations in advance through feedforward of users’ reaction. Prakash and Rappaport discuss the implications of this “information inductance” for financial reporting.


5. **Market for Lemons** (June 27, 2006)
This topic will be explored on the basis of one of the most famous classical researches on market mechanism. Akerlof shows the significance of information disclosure to make market efficient. His discussion will give you many implications for accounting and finance research.


6. **The Demand for and Supply of Accounting Theories** (July 11, 2006)
Watts and Zimmerman, major founders of positive accounting theory, discuss the “raison-être” of
accounting theories. They show us the significance through economic inquiry into the demand for and supply of theories in the market for excuse.


Further Reading
The following is reading for further understanding of the theories, which may be helpful when you are preparing your presentation. It covers a board range of material and you are not expected to read it all. But it gives you some source material that you may want to refer to later.


Eijgenhuijsen, H.G and J. Klaassen[1978], “Stock Market Efficiency and the Information Content


Most, K.S.[1970], “A New Method of Accounting for Oil and Gas Producers,” Management Accounting (US), May.


『実証理論としての会計学』白桃書房、1991年。
Wilner, N.A.[1982], “SFAS 8 and Information Inductance: An Experiment,” *Accounting, Organizations and Society*, February.★
# Seminar Schedule —3rd Edition, as of June 13, 2006—

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<tr>
<th>Date</th>
<th>Seminar Topic</th>
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<td>11 April</td>
<td>Organizational Meeting; What’s the topic?</td>
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<td>■ M.C. Thesis Presentation (Part 1)</td>
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<td>Group 1</td>
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<td>Group 5</td>
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