



**Accounting Department**

The Wharton School  
University of Pennsylvania  
1319 Steinberg Hall-Dietrich Hall  
3620 Locust Walk  
Philadelphia, PA 19104-6365  
215.898 8205  
215.573 2054 fax  
lhail@wharton.upenn.edu

**Luzi Hail**

Stephen J. Heyman Professor

**Ph.D. Seminar**

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

**October 9-11, 2024, 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, real effects of financial reporting, and CSR reporting. In Part II, we apply these concepts to specific areas (e.g., IFRS adoption, regulation and enforcement). 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:**

We will be holding the course in person 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 to three papers per session, and we will dedicate about the same 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 each 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 (if two people are assigned to the same paper, they can prepare the presentation jointly). 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 electronically to the course administrator before the beginning of the course).

During the course:

- Lead the class discussion of the assigned paper (together if multiple people are assigned to the same 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, R)

## Course Logistics:

Time: October 9 (beginning at 10:30 am) to October 11, 2024 (ending at 3:00 pm)

Location: University of Zurich

Participants: 20 max.

Cost: no charge (participants will have to cover their travel expenses)

Target audience: Master students interested in academic research; PhD students in their first or second year of the program

## **Summary of Course Schedule:**

### **Session I (October 9, 10:30-12:00 am): Overview**

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

### **Session II (October 9, 1:00-3:30 pm): Voluntary Disclosures**

#### **Required readings:**

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

Bourveau, T., M. Breuer and R. Stoumbos. (2022). “Learning to Disclose: Disclosure Dynamics in the 1890s Streetcar Industry.” *Working paper*. Available at SSRN: <https://ssrn.com/abstract=3757679>.

Hail, L., C. Wang and R. Zhang. (2024). “Investor Uncertainty and Voluntary Disclosure.” *Working paper*. Available at SSRN: <https://ssrn.com/abstract=4761586>.

#### **Additional readings:**

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.

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

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.

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.

### **Programming Task (2 hours)**

Put aside two hours either at the end of today’s session or before tomorrow’s session starts to complete a programming assignment.

### **Session III (October 10, 9:45-11:45 am): Disclosure and Cost of Capital (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:

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.

### **Session IV (October 10, 1:15-3:45 pm): Disclosure and Cost of Capital (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.

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.

Hail, L., M. Muhn and D. Oesch. (2021). "Do Risk Disclosures Matter When It Counts? Evidence from the Swiss Franc Shock." *Journal of Accounting Research* 59, 283–330.

#### Additional readings:

Core, J., L. Hail and R. Verdi. (2015). "Mandatory Disclosure Quality, Inside Ownership, and Cost of Capital." *European Accounting Review* 24, 1–29.

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.

### **Programming Task (2 hours)**

Put aside two hours either at the end of today's session or before tomorrow's session starts to complete a programming assignment.

### **Workshop Dinner (October 10, 5:30-7:30 pm)**

## Session V (October 11, 9:45-11:45 am): Real Effects on Corporate Investing & Financing

### Required readings:

- Jin, G. and P. Leslie. (2003). "The Effect of Information on Product Quality: Evidence from Restaurant Hygiene Grade Cards." *Quarterly Journal of Economics* 118, 409–451.
- Badertscher, B., N. Shroff and H. White. (2013). "Externalities of Public Firm Presence: Evidence from Private Firms' Investment Decisions." *Journal of Financial Economics* 109, 682–706.
- Fiechter, P., J.-M. Hitz and N. Lehmann. (2022). "Real Effects of a Widespread CSR Reporting Mandate: Evidence from the European Union's CSR Directive." *Journal of Accounting Research* 60, 1499–1549.

### Additional readings:

- Dranove, D., and G. Jin. (2010). "Quality Disclosure and Certification: Theory and Practice." *Journal of Economic Literature* 48, 935–963.
- Roychowdhury, S., N. Shroff and R. Verdi. (2019) "The Effects of Financial Reporting and Disclosure on Corporate Investment: A Review." *Journal of Accounting and Economics* 68.
- Balakrishnan, K., J. Core and R. Verdi. (2014). "The Relation Between Reporting Quality and Financing and Investment: Evidence from Changes in Financing Capacity." *Journal of Accounting Research* 52, 1-36.
- Hail, L., A. Tahoun and C. Wang. (2014). "Dividend Payouts and Information Shocks." *Journal of Accounting Research* 52, 403–456.

## Session VI (October 11, 1:00-3:00 pm): CSR Reporting

### Required readings:

- Christensen, H., E. Floyd, L. Liu and M. Maffett. (2017). "The Real Effects of Mandated Information on Social Responsibility in Financial Reports: Evidence from Mine-Safety Records." *Journal of Accounting and Economics* 64, 284–304.
- Chen, Y.-C., M. Hung and Y. Wang. (2018). "The Effect of Mandatory CSR Disclosure on Firm Profitability and Social Externalities: Evidence from China." *Journal of Accounting and Economics* 65, 169–190.

### Additional readings:

- Christensen, H., L. Hail and C. Leuz. (2021). "Mandatory CSR and Sustainability Reporting: Economic Analysis and Literature Review." *Review of Accounting Studies* 26, 1176–1248.
- Cohen, S., I. Kadach, G. Ormazabal and S. Reichelstein. (2023). "Executive compensation tied to ESG performance: International evidence." *Journal of Accounting Research* 61 (3), 805–853.
- Sautner, Z., L. Van Lent, G. Vilkov and R. Zhang. (2023). "Firm-level climate change exposure." *The Journal of Finance* 78 (3), 1449–1498.