

Carnegie Mellon University
Tepper School of Business
47-718 Accounting and Information Economics I
FALL 2004

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Time and Location: Mondays and Wednesdays 1:30 - 3:20, GSIA 227.

Office Hours: by appointment

Textbook: Peter Christensen and Gerald Feltham. 2003. *Economics of Accounting: Information in Markets*, Boston, MA: Kluwer Academic Publishers. (ISBN: 1402072295)

Additional Material: Papers from the reading list.

Course Objective

This course introduces economic theories of information in markets, with an emphasis on accounting information. Three broad areas are covered (1) Private Information in Market Prices; (2) Price Formation and Market Microstructure; and (3) Voluntary Disclosure to Capital Markets. Original ideas are found in initial papers and accounting ideas, more or less, are introduced into the basic economic settings in subsequent accounting papers.

Grading:

- Each of you will make a few presentations of the assigned papers.
- A take-home final is given during final exam week.

Tentative Reading List

Introduction

- *Economics of Accounting: Information in Markets* Chapter 1: Introduction to Information in Markets

Private Information in Market Prices

- Admati, A. 1991. The Informational Role of Prices: a review essay. *Journal of Monetary Economics* 28 (2):347-361.
- Grossman, S. J. 1976. On the Efficiency of Competitive Stock Markets Where Traders Have Diverse Information. *Journal of Finance*:573-584.
- Grossman, S. J. 1981. An Introduction to the Theory of Rational Expectations Under Asymmetric Information. *Review of Economic Studies* 48:541-559.
- Grossman, S. J., and J. Stiglitz. 1980. On the Impossibility of Informationally Efficient Markets. *American Economic Review* 70:393-408.
- Demski, Joel S., and Gerald Feltham. 1994. Market Response to Financial Reports. *Journal of Accounting and Economics* 17 (1/2):3-40.
- Feltham, G., and Martin Wu. 2000. Public Reports, Information Acquisition by Investors, and Management Incentives. *Review of Accounting Studies* 5:155-190.
- Hellwig, M. 1980. On the Aggregation of Information in Competitive Markets. *Journal of Economic Theory*. Vol x, p. 477.
- Verrecchia, Robert. 1982. Information Acquisition in a Noisy Rational Expectation Economy. *Econometrica* 50 (6):1415-1430.
- Holthausen, R., and Robert Verrecchia. 1990. The effect of informedness and consensus on price and volume behavior. *Accounting Review* 65:191-208.
- Kim, O., and Robert Verrecchia. 1991. Trading Volume and Price Reaction to Public Announcement. *Journal of Accounting Research*.
- Kim, O., and Robert Verrecchia. 1991. Market Reaction to Anticipated Announcement. *Journal of Financial Economics* 30.

Price Formation and Market Micro-structure

- Biais, B., Larry Glosten, and C. Spatt. 2004. Market Microstructure: A survey of microfoundations, empirical results, and policy implications. Tepper working paper.
- Glosten, L., and P. Milgrom. 1985. Bid, Ask and Transaction Prices in a Specialist Market with Heterogeneously Informed Traders. *Journal of Financial Economics*:71-100.
- Kyle, A. 1985. Continuous Auctions and Insider Trading. *Econometrica* 53:1315-1335.
- Kyle, A. 1989. Informed Speculation with Imperfect Competition. *Review of Economic Studies* 56:317-356.
- Kim, O., and Robert Verrecchia. 1994. Market liquidity and Volume Around Earnings Announcement. *Journal of Accounting and Economics* 17 (1-2):41-67.
- McNichols, M., and B. Trueman. 1994. Public Disclosure, Private Information Collection, and Short-Term Trading. *Journal of Accounting and Economics* 17 (1-2):69-94.
- Huddart, Steven, John S. Hughes, and Markus Brunnermeier. 1999. Disclosure Requirements and Stock Exchange Listing Choice in an International Context. *Journal of Accounting and Economics* 26 (1-3): 237–269.
- Zhang, G. 2001. Private Information Production, Public Disclosure, and Cost of Capital: Theory and Implications. *Contemporary Accounting Research* 18: 363-384.
- Huddart, Steven, John S. Hughes, and Carolyn B. Levine. 2001. Public Disclosure and Dissimulation of Insider Trades. *Econometrica* 69:665–681.
- Huddart, Steven, John S. Hughes, and Michael Williams. Pre-announcement of Insiders' Trades. Penn State Working paper.

Voluntary Disclosure to Capital Markets

- Fishman, M., and K. Hagerty. 1998. Mandatory Disclosure. In *The New Palgrave Dictionary of Economics and Law*, vol 1. Edited by P. Newman. London: Macmillan Reference Limited.
- Grossman, The Informational Role of Warranties and Private Disclosure About Product Quality, *Journal of Law and Economics*, Spring 1981, pp 461-483.
- Milgrom, Paul R. 1981. Good News and Bad News: Representation Theorems and Applications. *Bell Journal of Economics* 11:380-391.
- Dye, Ronald. 1985. Disclosure of Nonproprietary Information. *Journal of Accounting Research* 23:123-145.
- Jung, Woon-Oh, and Young K. Kwon. 1988. Disclosure When the Market Is Unsure of Information Endowment of Managers. *Journal of Accounting Research* 26:146-153.
- Dye, Ronald. 1998. Investor Sophistication and Voluntary Disclosure. *Journal of Accounting Research* 23:123-145.
- Dutta, S., and B. Trueman. 2002. The Interpretations of Information and Corporate Disclosure Strategies. *Review of Accounting Studies* 7:75-96.
- Verrecchia, Robert. 1983. Discretionary Disclosure. *Journal of Accounting and Economics* 5:179-195.
- Verrecchia, Robert. 1990. Information Quality and Discretionary Disclosure. *Journal of Accounting and Economics* 12:365-380.
- Trueman, B., 1997. Managerial Disclosures and Shareholder Litigation. *Review of Accounting Studies* 2:181-199.