Course Description

The course consists of three parts: lectures and exercises, paper discussions, and a course project.

1. Lectures and Exercises

The lectures are intended to provide students with an introduction to contract theory and rational expectations models, in particular, hidden information (screening and signaling), hidden action (moral hazard), and disclosure. I will follow the book “Contract Theory” by Patrick Bolton and Mathias Dewatripont; in particular chapters 1 to 5. Participants are required to follow the relevant chapters in the book. The goal of the lectures is to provide participants with the knowledge to understand and analyze state-of-the-art papers in accounting. The lectures will be accompanied by problem sets which I will distribute in class. The solutions to some of the problems will also be discussed in class. It is important that participants try to solve these problems prior to the discussion of the solution.

2. Paper Discussions

Given the time constraints of the course, we cannot possibly provide a comprehensive coverage of modeling in accounting. The papers selected are intended to provide an introduction to various topics. Thus, the idea of the course is not to "teach" you the specific papers assigned. Your emphasis should be on using the papers to learn how to "do" research. In reading each paper, you should try to answer these generic questions:
(1) What is the question being asked? Why is it interesting and/or important? To whom is it interesting?
(2) How was the analysis structured? How might the analysis have been structured differently? What assumptions were made? What assumptions were made for mathematical convenience and what assumptions drive the results? Are the assumptions reasonable?
(3) What are the major / primary results? Do they make sense?
(4) How can the paper be improved, extended, or generalized, either to answer a related (but different) question, to "test" the sensitivity of the existing answer, or to broaden the applicability of the answer?
(5) To the extent possible, how does the paper relate to other papers or lines of research? (For this question, I invite you to bring in your knowledge of research using other methodologies – e.g., archival or experimental.)

Presenters

Some of the papers listed in the course overview will be pre-assigned to a student to present in class. The presenter should prepare a detailed outline of the paper, paying particular attention to the questions detailed above. Numerical examples with graphical illustrations are always useful when presenting a complex paper. You will impress your instructor if you are able to construct (correctly) such examples.

Non-presenters

Everyone is expected to read (seriously) every assigned paper. Your active participation in class is important.

3. Course Project

The last three weeks of the course will be devoted to an analytical project. Most of you will not have (or take) another opportunity to execute such a project. While it is relatively easy to criticize the simplifying assumptions of models, it is quite another thing to formulate a model that generates interesting insights. I will provide detailed information regarding the project prior to the Spring Break. Papers will be due by Monday, April 23.

Grades

Your grade in the course will be determined as follows:

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<tr>
<td>Presentations</td>
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<td>Participation</td>
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<td>First Exam</td>
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<td>Second Exam</td>
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<td>Course Project</td>
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**General Literature:**


**Course Overview**

**January 16 - Session 1**

**Introduction and adverse selection**

*Bolton and Dewatripont, Contract Theory, 2004
   Introduction, Chapter 1
   Hidden Information, Screening, Chapter 2.1

**January 23 - Session 2**

**Adverse selection and capital budgeting**

*Bolton and Dewatripont, Contract Theory, 2004
   Application, Regulation, Chapter 2.2.4


**January 30 - Session 3**

**Moral hazard and earnings management**

*Bolton and Dewatripont, Contract Theory, 2004
   Hidden Action, Moral Hazard, Chapter 4.1


February 6 - Session 4

LEN-models and multiple tasks agency analysis

*Bolton and Dewatripont, Contract Theory, 2004*
- Hidden Action, Moral Hazard, Chapters 4.2 and 4.3
- Moral Hazard with Multiple Tasks, Chapter 6.2


February 13 - Session 5

Signalling

*Bolton and Dewatripont, Contract Theory, 2004*
- Hidden Information, Signalling, Chapter 3.1


February 20 - Session 6

First exam (in class)

February 27 - Session 7

Voluntary disclosure

*Bolton and Dewatripont, Contract Theory, 2004*
- Voluntary Disclosure, Chapters 5.1, and 5.2


**March 6 – Session 8**

*Transparency, commitment, and career concerns*

*Laux, V., 2014, Corporate Governance, Board Oversight, and CEO Turnover, Foundations and Trends in Accounting* 8, 1-73. (Chapter 2)


**March 13 – Spring Break**

**March 20 - Session 9**

*Theory Conference Preparation*

We will discuss the five papers that will be presented at the Theory Conference

**March 23/24 - UT Accounting Theory Conference**

**March 27 - Session 10**

*CEO turnover, misreporting, and investment*

*Laux, V., 2014, Corporate Governance, Board Oversight, and CEO Turnover, Foundations and Trends in Accounting* 8, 1-73. (Chapter 3 and 4)


**April 3 - Session 11**

**Accounting conservatism, debt contracting, covenants**


**April 10 - Sessions 12**

Catch up and discussion of course project

**April 17 - Session 13**

Course project

**April 24 - Session 14**

Presentation and discussion of course projects and review

**May 1 - Session 15**

Second exam (in class)

**Students with Disabilities**

Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, [http://www.utexas.edu/diversity/ddce/ssd/](http://www.utexas.edu/diversity/ddce/ssd/).

**Religious Holy Days**

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.
Policy on Scholastic Dishonesty

The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the BBA Program’s Statement on Scholastic Dishonesty at http://www.mccombs.utexas.edu/BBA/Code-of-Ethics.aspx. By teaching this course, I have agreed to observe all faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all student responsibilities described in that document. If the application of the Statement on Scholastic Dishonesty to this class or its assignments is unclear in any way, it is your responsibility to ask me for clarification. Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, the integrity of the University, and the value of our academic brand, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at http://deanofstudents.utexas.edu/sjs/ to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

Campus Safety

Please note the following recommendations regarding emergency evacuation, provided by the Office of Campus Safety and Security, 512-471-5767, http://www.utexas.edu/safety:

- Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.
- Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building.
- Students requiring assistance in evacuation should inform the instructor in writing during the first week of class.
- In the event of an evacuation, follow the instruction of faculty or class instructors.
- Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.
- Behavior Concerns Advice Line (BCAL): 512-232-5050
- Further information regarding emergency evacuation routes and emergency procedures can be found at: http://www.utexas.edu/emergency.

Privacy in Canvas

Information in Canvas is protected by your UTEID login. Please be aware that I will use a merged Canvas site for all sections of the course that I am teaching this semester. This will allow students in other sections to see that you are enrolled in the course and send you email from within Canvas. However, they will not actually learn your email address and no other personal data will be revealed through Canvas. If you have any concerns, please contact the ITS Help Desk at 475-9400 for help removing your name from view of other students.