Accounting Group: Selected Doctoral Theses

TITLE:

"Do Journalists Help Investors Analyze Firms' Earnings News?" – Nicholas Guest (2018)

COMMITTEE:

S.P. Kothari (co-chair), Eric So (co-chair), John Core, Rodrigo Verdi

ABSTRACT:

I examine whether the market's reaction to firms' earnings news varies with analysis (or editorial content) produced by financial journalists. A series of natural experiments at The Wall Street Journal (WSJ) suggests that WSJ articles increase trading volume and improve price discovery at S&P 500 earnings announcements. The effects are stronger when an article contains more original analysis and less content reproduced from the firm's press release. This evidence refines inferences from prior studies that find media dissemination, but not analysis, makes the market's earnings response more efficient. Instead, my paper suggests media analysis also enhances investors' trading decisions by improving their understanding of earnings news, albeit for a limited set of large firms. In other words, journalists' analysis efforts provide value to readers, which helps explain the continued production of costly earnings-related analysis amid increasing pressure from low-cost information sources.

TITLE:

"Are Long-Term Earnings Targets Forecasts?" – Heidi Packard (2018)

COMMITTEE:

John Core (chair), Joseph Weber, Rodrigo Verdi

ABSTRACT:

This paper examines whether earnings targets used in long-term performance-based compensation plans predict future performance. Using a sample of targets from long-term grants made to CEOs from 2007 to 2012, I find that earnings targets provide information about future earnings outcomes; however, analysts do not respond to the information targets provide at the time of disclosure. Rather, I find analysts primarily adjust their expectations in the year of the performance period. The information value of targets is robust to variation in cross-sectional factors such as monitoring and financial reporting concerns, and concentrated in cases where agency conflicts are low and traditional management forecasts are not available. To my knowledge, this analysis is the first to document a forecasting role for the long-term targets used in earnings-based compensation plans.

TITLE:

"Locked-in: The Effect of CEOs' Capital Gains Taxes on Corporate Risk-Taking"
– Benjamin Yost (2017)

COMMITTEE:

John Core (co-chair), Michelle Hanlon (co-chair), Eric So, Rodrigo Verdi

ABSTRACT:

I study the effects of CEOs' unrealized capital gains tax liabilities (tax burdens) on corporate risk-taking. Recent work suggests that high tax burdens discourage CEOs from selling stock. I hypothesize that this causes the executives to become overexposed to firm-specific risk thereby reducing their willingness to make risky corporate decisions. In a series of tests, I find that corporate risk-taking decreases as CEOs' personal tax burdens increase. Further, firms with CEOs who are more locked-in to their stock positions (i.e., CEOs with higher tax burdens) experience larger increases in risk-taking following federal and state tax cuts. When I investigate the mechanism behind this relation, I find that tax cuts trigger stock sales by the locked-in executives, allowing for improved diversification. Overall, my findings indicate that the personal tax burdens of CEOs affect the firm by reducing executives' preferences for risk at the corporate level.

TITLE:

"Renegotiation and the Choice of Covenants in Debt Contracts"

– Daniel Saavedra Lux (2015)

COMMITTEE:

Joseph Weber (chair), Anna Costello, Michelle Hanlon, Rodrigo Verdi

ABSTRACT:

I investigate whether and how expected future contract renegotiation considerations affect the type of covenants used in ex-ante debt contracts. I find that when future contract renegotiation costs are expected to be high, debt contracts are less likely to include covenants that restrict the borrower's financial flexibility in good states. This finding suggests that when renegotiation costs are high, borrowers and lenders avoid the use of covenants that are more likely to hold up the borrower and force it to bypass value-enhancing corporate policies (e.g., investments). Consistent with this interpretation, the negative relationship between renegotiation costs and the presence of flexibility-reducing covenants becomes stronger when the borrower has fewer outside options and financial flexibility becomes more valuable. Finally, I find that when future renegotiation costs are expected to be high, debt contracts have more covenants that are directly linked to the current performance of the borrower, which allows for a more efficient allocation of decision rights between the borrower and lenders. Overall, this study provides initial evidence about how renegotiation considerations affect the design of covenant packages in debt contracts.

TITLE:

"Disaggregated Financial Statement Information in an Unregulated Environment"

– Joshua Anderson (2015)

COMMITTEE:

John Core (co-chair), Joseph Weber (co-chair), Eric So

ABSTRACT:

This paper examines whether disaggregated financial statement information during the late 1920's reduced information asymmetry. After controlling for firms endogenously selecting their level of disaggregation, I find that disaggregation reduced the information asymmetry between market participants and between the firm and outside investors. Disaggregators had lower bid-ask spreads and short sellers paid lower loan fees for borrowing disaggregators' stocks. In addition, disaggregators were more likely to raise capital in the following year. These results are consistent with firms using high-quality financial reporting to reduce information asymmetry even in the absence of regulation as a bonding mechanism.