**Department of Accounting**
**College of Commerce**
**National Chengchi University**

**Ph.D. Qualifying Exam- Managerial Accounting**
**October 19, 2004**

# PART 2

**2-1: （20%）**

Please describe the following terms and explain how they are used in management accounting research by giving some examples. (20%)

(1) Mechanism
(2) Revelation principle
(3) Implicit incentive pay
(4) Incentive compatibility constraint

**2-2: （15%）**

Suppose there are two managers, A and B. Assume the performance measure for manager A can be written as: X= $e_A$+ u, where $e_A$ is the effort of manager A and u is the sum of two independent components: $u_A + u_{C.}$ In this expression, $u_A$ is a random component that only affect manager A's performance and $u_C$ is a random component that affects both A's and B's performance. Similarly, B's performance measure takes the form Y= $e_A$ + $u_B$ + $u_C$, where $e_A$ , $u_B$ , $u_C$ are independent sources of randomness. Is it better manager A based on absolute performance or on relative performance measure X-Y? Please explain your reasons based on theory.

**2-3: （15%）**

Let Va and Vb be the actual value to A and B companies of the resources they invest in the venture. The expected revenue from the venture is assumed to be 1.5 times the actual value of total investment minus $600. Higher real investments lead to more revenue for project on average. Suppose the two companies write a contract according to which each will invest $1,000 in the project. This can only refer to measured investment, because even if the companies were able to distinguish the values of the assets being used, there would be no objective way for a court to verify the level of unmeasured investment in order to enforce the agreement. As equal partners, the companies agree to divide the revenue generated by venture equally. If the companied were to invest so that measured and actual values were the same, then the investment would be profitable for both companies. Now, suppose that each company is free to choose its investment in the project, even though the measured value is exactly $1,000, the actual value can be anything between $500 and $1,500. What investment choices will the companies make? Is it a profitable investment? If B becomes one of investment centers of A company, do above-mentioned problems still exist? Why?