

Department of Accounting  
College of Commerce  
National Chengchi University

Ph.D. Qualifying Exam- Financial Accounting  
March 23, 2009

**PART II**

- 1 Methodologies (25%)
  - 1.1 Ordinary least squares (OLS) method
    - 1.1.1 What are the assumptions underlying ordinary least squares (OLS) method?
    - 1.1.2 Detail the consequences of violating each assumption of OLS.
    - 1.1.3 How can you detect the violation of OLS assumptions?
    - 1.1.4 What are the remedies of the violation of OLS assumptions?
    - 1.1.5 Comments on the OLS application in accounting literature.
  - 1.2 Censored, sample-selected, and truncated data
    - 1.2.1 Define and differentiate censored, sample-selected, and truncated data.
    - 1.2.2 Cite literature to illustrate the application of censored, sample-selected, and truncated models in accounting literature.
  - 1.3 Quantile Regression
    - 1.3.1 Describe the quantile regression.
    - 1.3.2 What are the advantages of using quantile regression over OLS in accounting research?
    - 1.3.3 Illustrate potential applications of quantile regression.
  - 1.4 Vuong Test
    - 1.4.1 What's the Vuong test?
    - 1.4.2 In what circumstances Vuong test may be applied in accounting literature? Cite literature to illustrate your points.
- 2 The second hypothesis of Sloan (1996) concerns whether stock prices reflect the different properties of the accrual and cash flow components of earnings. He employed the framework of the rational expectations developed by Mishkin (1983). Please answer the following questions. (25%)
  - 2.1 How can we combine equation (4) with equation (7) to obtain equations (8)

- and (9)?
- 2.2 Explain that market efficiency imposes the constraint that  $a_1 = a_1^*$ .
  - 2.3 How can we combine equation (5) with equation (7) to obtain equations (10) and (11)?
  - 2.4 Explain that market efficiency imposes the dual constraint that  $\gamma_1 = \gamma_1^*$  and  $\gamma_1 = \gamma_2^*$ .
  - 2.5 Illustrate the application of rational expectations model in accounting research.
- 3 Ohlson has developed different valuation models in Ohlson (1995), Ohlson (2005) and Juettner-Nauroth (2005). Please answer the following questions regarding Ohlson's models. (25%)
- 3.1 What are the differences between valuation models of Ohlson (1995) and Ohlson (2005)?
  - 3.2 Under what considerations Ohlson developed Ohlson (2005) model after 10 years of Ohlson (1995)?
  - 3.3 Do you see any application of Ohlson (2005) in accounting research?
- 4 In a news report Louise Story (<http://www.marketwatch.com/>) addressed the letter sent to Representative Barney Frank, the chairman of the House Committee on Financial Services, by Andrew M. Cuomo, the New York attorney general, providing details of the \$165 million in bonuses that A.I.G. paid out recently. Based on the news which is attached, briefly present a research proposal on this issue including research topic, issues, hypotheses, and test methods. (25%)

## References

- Mishkin, F. 1983. A Rational Expectations Approach to Macroeconomics Testing Policy Effectiveness and Efficient Markets Models. Chicago, IL: University of Chicago Press for the National Bureau of Economic Research.
- Ohlson, J. A. 1995. Earnings, Book Values, and Dividends in Equity Valuation. *Contemporary Accounting Research* (Spring): 661-687.
- Ohlson, J. A. 2005. On Accounting-Based Valuation Formulae. *Review of Accounting Studies* 10 (2-3): 323-347.
- Ohlson, J. A. and B. E. Juettner-Nauroth. 2005. Expected EPS and EPS Growth as Determinants of Value. *Review of Accounting Studies* 10 (2-3): 349-365.
- Sloan, R.G. 1996. Do Stock Prices Fully Reflect Information in Accruals and Cash Flows about Future Earnings? *The Accounting Review* (July): 289-315.

## Cuomo Details Million-Dollar Bonuses at A.I.G.

Source: <http://www.marketwatch.com/>

By LOUISE STORY

Published: March 17, 2009

Seventy-three employees were paid more than \$1 million in the latest bonuses at the insurance giant American International Group, according to the New York attorney general, Andrew M. Cuomo.

The attorney general provided new details on Tuesday about some of the \$165 million in bonuses that A.I.G. paid out last week in a letter sent to Representative Barney Frank, the chairman of the House Committee on Financial Services.

"A.I.G. made more than 73 millionaires in the unit which lost so much money that it brought the firm to its knees, forcing a taxpayer bailout," Mr. Cuomo wrote in the letter. "Something is deeply wrong with this outcome."

Mr. Cuomo did not name the bonus recipients, but the numbers are eye-popping, given A.I.G.'s fragile state. The highest bonus was \$6.4 million, and six other employees received more than \$4 million, according to Mr. Cuomo. Fifteen other people received bonuses of more than \$2 million, and 51 people received bonuses of \$1 million to \$2 million, Mr. Cuomo said. Eleven of those who received "retention" bonuses of \$1 million or more are no longer working at A.I.G., including one who received \$4.6 million, he said.

A.I.G., which is now 80 percent owned by the government, paid out the so-called retention payments, saying the bonuses were needed to persuade workers to remain at its financial products unit. But the payouts have caused a public furor, and the White House said on Monday that the Treasury would write new requirements about the bonus money in the next \$30 billion that it provides to the insurance giant. Already, the government has given A.I.G. \$170 billion.

Amid the fury, Democratic lawmakers proposed three separate bills on Tuesday that would tax the bonuses if A.I.G. refused to rescind them voluntarily. Republicans channeled their anger into attacking the rest of Mr. Obama's economic plan, especially the huge economic stimulus bill that will cost the government almost \$800 billion over the next two years.

Senator Richard Shelby, Republican of Alabama, questioned whether Mr. Geithner should resign. "I don't know if he should resign over this," Mr. Shelby said, adding that he "works for the president of the United States. But I can tell you, this is just another example of where he seems to be out of the loop. Treasury should have let the American people know about this."

Mr. Frank said that it was "time to exercise our ownership rights."

"I think we should be suing to get the bonuses back as the owner," he said of A.I.G. Bonus recipients should have been told, he said, that they had not performed as expected and did not deserve a payout.

Mr. Frank also questioned the need for retention bonuses in this economy, saying "It is hardly a tough market for hiring people with financial expertise."

Mr. Cuomo subpoenaed A.I.G. on Monday for the names of the people who shared in the new bonus pool. He said the fact that 11 people who received some of the money were no longer at A.I.G., raised questions about whether the bonuses were truly for retention purposes.

Mr. Cuomo may be able to use a state law about fraudulent conveyance to force A.I.G. to rescind the bonuses. Mr. Cuomo would have to show that A.I.G. was undercapitalized when it paid the bonuses and that the people who received the bonuses did not earn them.

"I understand they have contracts," Mr. Cuomo said in an interview on Monday. "That's not necessarily determinant because a lot has happened since that contract was signed."

A.I.G. altered some of its practices last fall after discussions with Mr. Cuomo. The company canceled about \$160 million in planned expenses for conferences as well as \$600 million in payouts in deferred compensation plans after Mr. Cuomo threatened to sue.