Department of Accounting

College of Commerce

National Chengchi University

Financial Accounting

Ph.D. Qualification Examination

April 27, 2010

PART II – 50%

1. (20%) Regarding to Grossman and Stiglitz (1980, AER),

(1) (8%) Describe the following settings:

(A) players

(B) information structure

(C) decision (or actions) for each player

(D) equilibrium

(2) (12%) In 2010, Cready and Gurun (JAR) identify a distinct immediate announcement period negative relation between earnings announcement surprises and aggregate market returns. Such a relation implies that market participants use earnings information in forming expectations about expected aggregate discount rates and, specifically, that good earnings news is associated with a positive shock to required returns. Consistent with this interpretation they find that Treasury bond rates and implied future inflation expectations respond directly to earnings news. They also find some evidence that the negative relation between earnings news and market return persists beyond the immediate announcement period, suggesting that market participants do not immediately fully impound these future market return implications of aggregate earnings news. Please discuss the justification for each assumption in Grossman and Stiglitz (1980, AER).

2. (15%) Ramanna and Roychowdhury (2010, JAR) examine the accrual choices of outsourcing firms with links to U.S. congressional candidates during the 2004 elections, when corporate outsourcing was a major campaign issue. They find that politically connected firms with more extensive outsourcing activities have more income-decreasing discretionary accruals. Further, relative to adjacent periods, the evidence is concentrated in the two calendar quarters immediately preceding the 2004 election, consistent with heightened incentives for firms to manage earnings during the election season. The incentives can be

attributed to donor firms' concerns about the potentially negative consequences of scrutiny over outsourcing for themselves and for their affiliated candidates. However, as to the assumptions and results of Bagnoli and Watts (2000, JAPP), what are the determinants of earnings management?

3. (15%) Regarding to Ohlson (1995, CAR),
(1) describe each explicit/implicit assumption
(2) discuss its contribution
(3) point out the empirical implication.