

Department of Accounting
College of Commerce
National Chengchi University
Financial Accounting
Ph.D. Qualification Examination
September 30, 2010
PART III – 25%

1. In Contemporary Accounting Research, Ohlson (1995) proposed an equity valuation equation linking security values to earnings, dividends and book values. Please answer the following questions:

- (1) What are the assumptions for the valuation equation? (15%)
- (2) Watts (2003) claimed that there exists conservatism in accounting. Is it possible that conservatism have effect on the effectiveness of Ohlson's valuation equation? If yes, please explain your thought. (5%)
- (3) Generally, Ohlson's valuation equation is applied with stock price as a dependent variable. If stock market is inefficient as mentioned in Bernard and Thomas (1989), will market inefficiency affect the effectiveness of Ohlson's valuation equation? If yes, explain it. (5%)