Accounting and causal effects: Econometric challenges

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2010

to Bonnie

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Preface

In this book, we synthesize a rich and vast literature on econometric challenges associated with accounting choices and their causal effects. Identification and estimation of endogenous causal effects is particularly challenging as observable data are rarely directly linked to the causal effect of interest. A common strategy is to employ logically consistent probability assessment via Bayes' theorem to connect observable data to the causal effect of interest. For example, the implications of earnings management as equilibrium reporting behavior is a centerpiece of our explorations. Rather than offering recipes or algorithms, the book surveys our experiences with accounting and econometrics. That is, we focus on why rather than how.

The book can be utilized in a variety of venues. On the surface it is geared toward graduate studies and surely this is where its roots lie. If we're serious about our studies, that is, if we tackle interesting and challenging problems, then there is a natural progression. Our research addresses problems that are not well understood then incorporates them throughout our curricula as our understanding improves and to improve our understanding (in other words, learning and curriculum development are endogenous). For accounting to be a vibrant academic discipline, we believe it is essential these issues be confronted in the undergraduate classroom as well as graduate studies. We hope we've made some progress with examples which will encourage these developments. For us, the Tuebingen-style treatment effect examples, initiated by and shared with us by Joel Demski, introduced (to the reader) in chapter 8 and pursued further in chapters 9 and 10 are a natural starting point.

The layout of the book is as follows. The first two chapters introduce the philosophic style of the book — we iterate between theory development and numerical

examples. Chapters three through seven survey standard econometric background along with some scattered examples. An appendix surveys standard asymptotic theory. Causal effects, our primary focus, are explored mostly in the latter chapters — chapters 8 through 13. The synthesis draws heavily and unabashedly from labor econometrics or microeconometrics, as it has come to be known. We claim no originality regarding the econometric theory synthesized in these pages and attempt to give credit to the appropriate source. Rather, our modest contribution primarily derives from connecting econometric theory to causal effects in various accounting contexts.

I am indebted to numerous individuals. Thought-provoking discussions with colloquium speakers and colleagues including Anil Arya, Anne Beatty, Steve Coslett, Jon Glover, Chris Hogan, Pierre Liang, Haijin Lin, John Lyon, Brian Mittendorf, Anup-menon Nandialath, Pervin Shroff, Eric Spires, Dave Williams, and Rick Young helped to formulate and refine ideas conveyed in these pages. In a very real sense, two events, along with a perceived void in the literature, prompted my attempts to put these ideas to paper. First, Mark Bagnoli and Susan Watts invited me to discuss these issues in a two day workshop at Purdue University during Fall 2007. I am grateful to them for providing this important opportunity, their hospitality and intellectual curiosity, and their continuing encouragement of this project. Second, the opportunity arose for me to participate in Joel Demski and John Fellingham's seminar at the University of Florida where many of these issues were discussed. I am deeply indebted to Joel and John for their steadfast support and encouragement of this endeavor as well as their intellectual guidance. I borrow liberally from their work for not only the examples discussed within these pages but in all facets of scholarly endeavors. I hope that these pages are some small repayment toward this debt but recognize that my intellectual debt to Joel and John continues to dwarf the national debt. Finally, and most importantly, this project would not have been undertaken without the love, encouragement, and support of Bonnie.

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