

Masterarbeit am Lehrstuhl Controlling – Februar 2024

Topic: Earnings management and capital market structure

Empirical studies indicate that managers of public firms engage in earnings management to mislead investors and to increase the value of their equity-based compensation. From a theoretical perspective, this finding is interesting. Rational investors should be able to anticipate earnings management and to back out biases from financial reports. As a consequence, earnings management should not have any effects on the capital market equilibrium. In their seminal work, Fischer and Verrecchia (2000) show that this logic no longer holds if investors are uncertain about a manager's incentives – for instance, because they do not know the details of his compensation plan. In this case, investors fail to back out biases from reports, and earnings management reduces price efficiency.

Fischer and Verrecchia (2000) and various follow-up studies assume a very simple capital market structure. They consider a representative risk-neutral investor. This thesis extends the analysis to richer capital market models with a continuum of risk-averse investors that might differ in their private information (see Goldstein and Yang 2017). Using a richer capital market structure, the author will be able to study the interplay of earnings management, investors' risk aversion, and the sophistication of the investor population.

Ausgangsliteratur

- › Fischer, P. E. and R. E. Verrecchia (2000). Reporting bias. *The Accounting Review*, 75, pp. 229-245. <https://doi.org/10.2308/accr.2000.75.2.229>
- › Goldstein, I., and L. Yang (2017). Information disclosure in financial markets. *Annual Review of Financial Economics* 9, pp. 101-125. <https://doi.org/10.1016/j.geb.2010.08.007>

Bewerbungsprozess

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