



Where Is *Accounting* in Accounting Studies?

Yoshitaka Fukui
Aoyama Business School

February 14, 2010

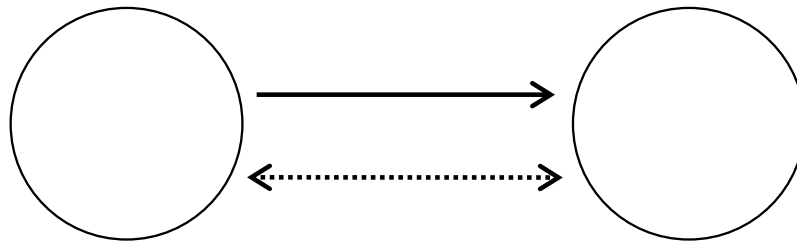
1. Model-Dependent Nature of Value Relevance

- CAPM is no longer *the* asset pricing model except in introductory MBA courses.
- We can find a mean-variance efficient portfolio unless there is an arbitrage opportunity.
- Any value relevance exercise is model-dependent.
- Then, no objective policy implication is derivable from return being abnormal (or unexpected) because we can always claim return is not abnormal (or unexpected) but your model is subnormal.

2. EMH As a Definition

- So many smart people have so different (often conflicting) opinions on asset pricing.
- It may be more fruitful to take *Efficient Market Hypothesis* (EMH) as a definition rather than a falsifiable hypothesis. *Conservation of Energy* in physics and *Survival of the Fittest* in biology have the same character.
- Then, value relevance studies are considered an exploratory investigation, based on which theorists can explore EMH in asset pricing.

3. Relation (IFRS?) Theory of Value

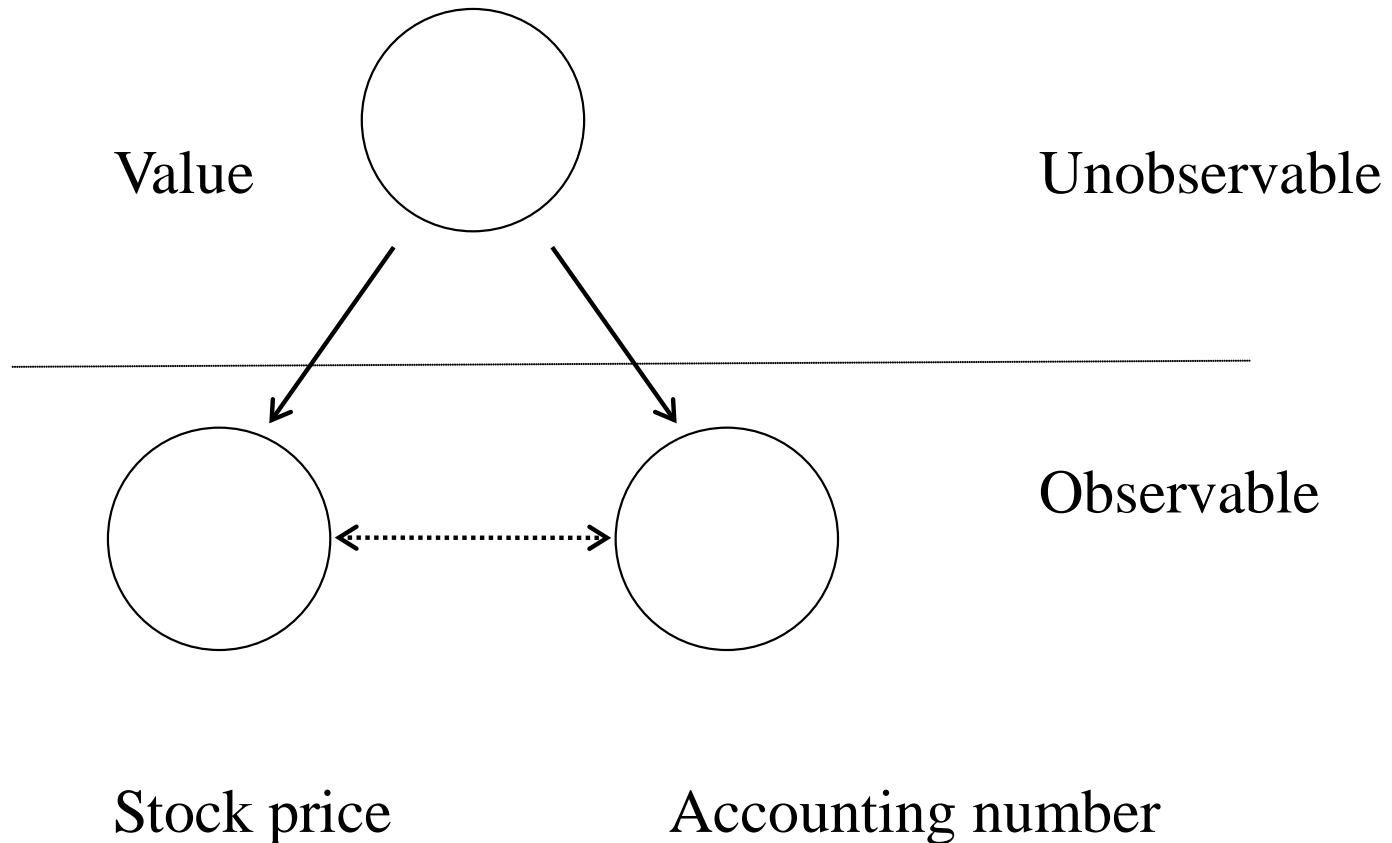


Observable

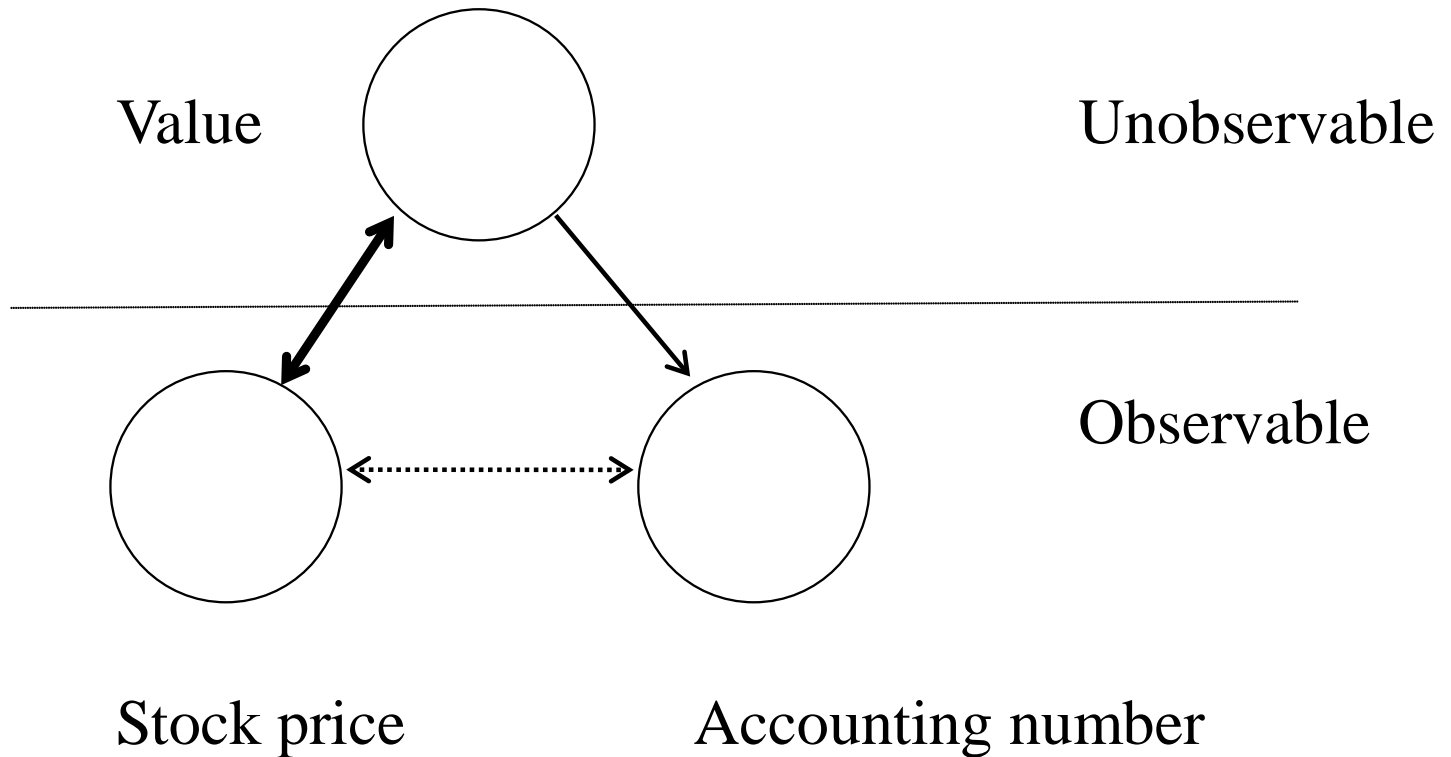
Value = Stock price

Accounting number

4. Substance Theory of Value



5. Equilibrium Relation Theory of Value



6. Accounting: More Than a Servant of Capital Markets

- However, value relevance studies, inherently model-dependent, should be taken with a grain of salt as a means of improving accounting practices and standards because we don't know *the* right asset pricing model.
- Let accounting be insulated from capital markets. Then, the investor's information set will expand and we will (re)discover accounting as vital infrastructure for society beyond capital markets.

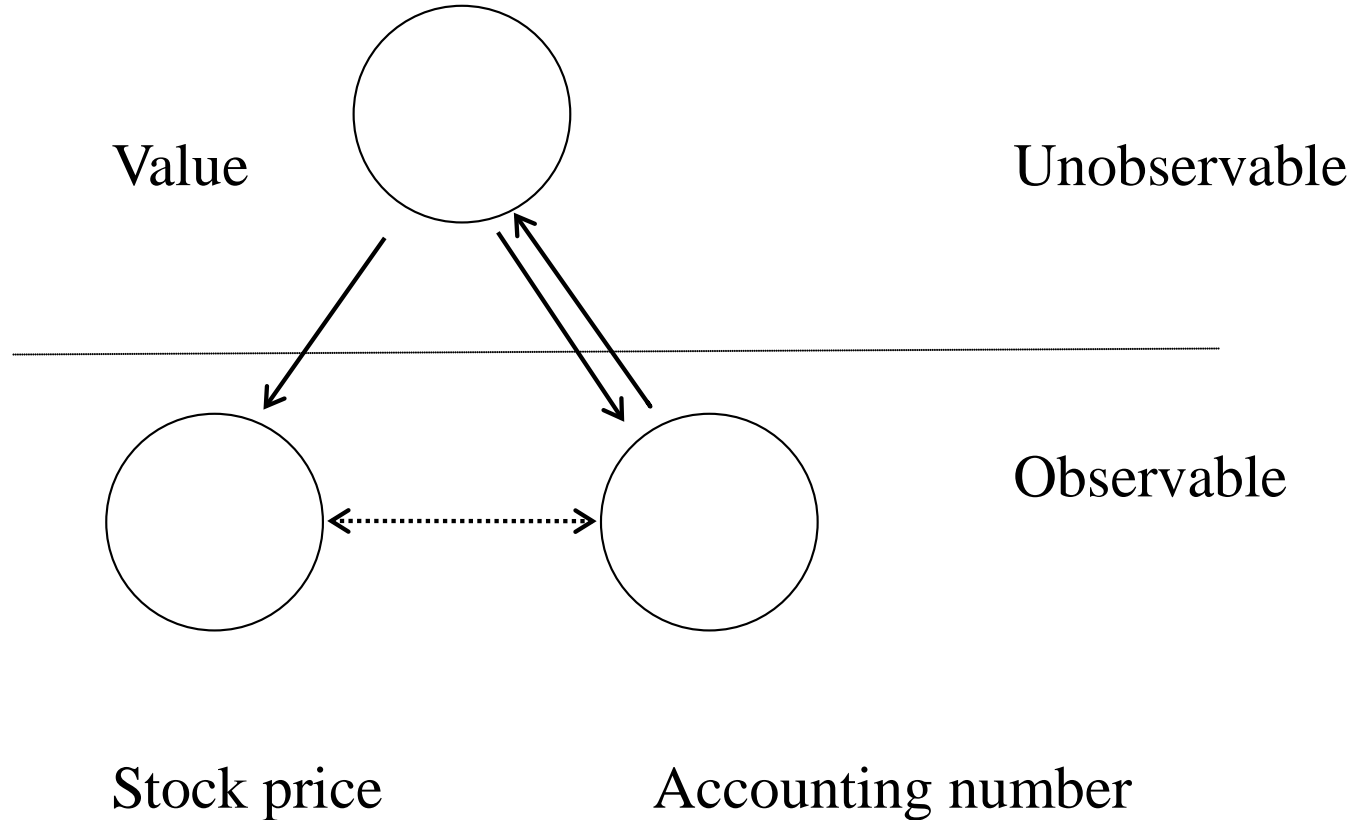
7. Constitutive Nature of Accounting

- Accounting is a typical institutional fact, distinguishable from a brute (physical) fact.
- Then, inquiry into its constitutive nature can contribute to a better understanding of *human* society.
- Simplistic positive/normative dichotomy is not applicable to accounting or, more broadly, social phenomena.

8. Our Sister: Not Height, But Intelligence

- Accounting not only exerts influence on reality through nominal rigidities (e.g., nominal value based contract), but also construct reality itself.
- Accounting is more akin to intelligence than to height.
- Representative faithfulness cannot be a reliable guide for standard setting because there is nothing invariant to which accounting should be faithful.

9. Accounting Constitutive Theory of Value



10. Any Question *Proper* to Accounting?

- Does the accounting research community has any big question *proper* to accounting?
- Accounting is important, but plumbing too!
- Can we defend ourselves against the claim that accounting as a scholarly discipline is a nonstarter, or academic accounting is an oxymoron?
- Isn't accounting education *rightly* vocational rather than regrettably so?