

Does Accounting Measurement Impact Markets: A Laboratory Market Efficiency Perspective

M Sooy

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Abstract:

Using laboratory markets where accounting regimes can be directly compared with equivalent economic parameters, we test whether and how two different accounting measurement bases — historical cost (HC) and mark-to-market (MTM)- influence trader perceptions and asset mispricing. Our results show that traders — perceive otherwise equivalent assets differently by regime, consistent with accounting regimes imposing differential information processing costs. In the MTM regime, traders integrate market price information to a greater extent and integrate asset fundamental information to a lesser extent. We also observe that traders in the MTM regime express prospective preferences for information about future market prices, but in HC prefer information about future dividends. These individual greater market-- level effects correspond with level mispricing/bubbles under MTM. Our results suggest that accounting regimes can, on their own, contribute to price bubbles and their subsequent collapse.