TOPIC R9: **Advertising and Media Coverage of the Dangers of Alcohol Abuse**

Classification: Empirical topic
Advisor: Florens Focke

The media is an important source of information, both for investors and for consumers. According to the Newspaper Association of America (NAA), 70% of American adults access content from newspaper media each week. In doing so, they rely on the accuracy and objectivity of the information. However, many news outlets including most newspapers, magazines and TV channels are financed in a large part by advertising. For U.S. newspapers, the NAA states that about 70% of revenues are generated by advertising so that only 30% come from circulation. Therefore, it is possible that media outlets are reluctant to 'bite the hand that feeds them' and report overly favorably about their advertising clients or issues important to those.

Companies can be affected by overly positive reporting in several ways. One is the effect it may have on consumers, who may be more likely to purchase a company's product if it is positively covered in the press. Another is the effect on investors. Being presented excessively favorable information on the firm, investors may fail to correctly infer the company's current financial situation or potential dangers to the future sales of its products.

Theoretical analyses suggest that these effects might be particularly relevant in situations where companies in an industry share a common interest (Ellman and Germano 2009; Blasco and Sobbrio 2012). Prior research has studied the influence of the Tobacco industry in suppressing information on the dangers of smoking (e.g., Baker 1994). Another such situation could be the dangers of alcohol abuse, which alcohol producers have an interest to downplay.

The purpose of this study is to investigate the potential influence of advertising by alcohol producers on the coverage of the dangers of alcohol abuse in the news media. A database of advertising spending in U.S. news outlets will be provided. The student should identify suitable search phrases or subject codes to obtain articles covering alcohol abuse from LexisNexis. In a first step, the number of articles mentioning problems associated with the consumption of alcohol that appear in a given news outlet should be considered. Building on this, the analysis should be extended by using the word lists provided by the Harvard-IV dictionary. Finally, a word list specific to the context could be developed to measure the usage of words linked with alcohol abuse (e.g., "addiction"). The student should then test whether advertising spending is associated with these different measures of media coverage of alcohol abuse.

Requirements:

The empirical work requires the use of textual analysis. While the necessary program to perform the analysis will be provided, prior knowledge (or ability/willingness to acquire such knowledge) in the computational analysis of text is important. Furthermore, basic knowledge (or ability/willingness to acquire basic knowledge) in econometrics and STATA is required.

Introductory Literature:

Reuter, Jonathan, and Eric Zitzewitz, 2006, Do ads influence editors? Advertising and bias in the financial media, *The Quarterly Journal of Economics*, 197–227.

Baker, Edwin C., 1994, *Advertising and a Democratic Press* (Princeton University Press, Princeton).

Blasco, Andrea, and Francesco Sobbrio, 2012, Competition and commercial media bias, *Telecommunications Policy* 36, 434–447.

Ellman, Matthew, and Fabrizio Germano, 2009, What do the papers sell? a model of advertising and media bias, *The Economic Journal* 119, 680–704.

Gurun, Umit G., and Alexander W. Butler, 2012, Don't Believe the Hype: Local media slant, local advertising, and firm value, *Journal of Finance* 67, 561–597.

Reuter, Jonathan, 2009, Does Advertising Bias Product Reviews? An Analysis of Wine Ratings, *Journal of Wine Economics* 4, 125–151.

TOPIC R10: Predicting Financial Fraud

Classification: Empirical topic
Advisor: Lena Jaroszek

The aim of the thesis is to analyze a firm's propensity to be accused of overstating earnings (i.e. to commit financial fraud). This propensity is measured by a model called F-score, which was developed by Dechow, Ge, Larson, Sloan (2011). It is calibrated in order to predict which firms are susceptible to become subject to enforcement actions by the Securities and Exchange Commission (SEC) for allegedly overstating earnings. In this thesis, in a first step, the prediction model of the original paper will be replicated. In a second step, the thesis shall examine which ingredients of the F-score have predictive power and compare the model to alternative specifications by adding ingredients from related models meant to predict fraud, proxy for a firm's quality, predict financial distress, or assess corporate governance. In a third step, the model will be calibrated on random samples of the alleged firms in order to investigate which of the remaining cases are correctly identified by the model.

Requirements:

The empirical work requires the use of a statistical software program (such as STATA), the manipulation of data, and the application of econometric methods. Some experience in this area is helpful. A dataset of AAER incidences will be provided. This data has to be merged to data on financial statements which is to be gathered from Compustat. Access to this database will be provided.

Introductory Literature:

Dechow, P. M., Ge, W., Larson, C. D. & Sloan, R. G. (2011) Predicting Material Accounting Misstatements, *Contemporary Accounting Research,* 28, pp. 17–82.

Ohlson, J. A. (1980) Financial ratios and the probabilistic prediction of bankruptcy, *Journal of Accounting Research,* 18, pp. 109-131

Piotroski, J. D. (2000) Value Investing: The Use of Historical Financial Statement Information to Separate Winners from Losers, *Journal of Accounting Research,* 38, pp. 1-41.