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Using Psychology Theories in Archival Financial Accounting Research

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Abstract

Psychologists have studied human behavior for over a century and, as a result, have developed a robust set of theories regarding how people behave. Most financial accounting issues deal with matters of human behavior, such as the judgments and decisions of managers, investors, analysts, and auditors. Consequently, psychology offers a rich pool of theories from which financial accounting researchers can draw to motivate hypotheses and interpret results. Despite this, archival accounting researchers traditionally have relied almost solely on theories based in financial economics. We argue that two major obstacles to the use of psychology theories by archival researchers has been a lack of awareness about the theories that are available and when their use would be most productive. Our paper attempts to bridge this gap. Specifically, we describe a number of psychology theories that are applicable to financial accounting issues, lay out the circumstances where they may be especially useful to archival researchers, and provide a number of specific examples of how psychology theories provide new insights about financial accounting issues.

Keywords: voluntary disclosure, earnings management, analyst forecasts, attribution theory, prospect theory, motivated reasoning, expertise

JEL Classification: M41, M43, M45, G14, G29

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