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Accounting standards and the economics of standards

Geoff Meeks & G.M. Peter Swann

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Abstract

The paper draws on the economics of standards to inform current debates on international accounting standards. It traces the benefits claimed for standards – their contribution to the division of labour, innovation, trust, etc.; and the costs, including entry barriers and compliance costs. It illustrates these benefits and costs with cases from accounting regulation. It adopts two approaches to the question whether accounting regulation is best achieved by a single set of standards for the world, or by competing systems. The first approach focuses on contributions in economics, including the theory of standards races and of optimal variety. In these analyses, only in special circumstances has a single standard emerged as the superior outcome. The second approach introduces evidence from accounting and finance on the problems of translation with globalised financial markets, and on the relative costs and benefits of multiple standard-setters or a single global scheme. The most compelling net benefits

of harmonisation arise for small economies moving from idiosyncratic to international standards.

Keywords::

international accounting regulation economics of standards

Notes

Geoff Meeks is at Judge Business School at the University of Cambridge and G.M. Peter Swann is at the Business School, University of Nottingham.

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Swann had prime responsibility for Sections 2 and 4, Meeks for Sections 3 and 5. Correspondence should be addressed to: Peter.Swann@nottingham.ac.uk; gmll@cam.ac.uk.

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