

Professor Ross L. Watts

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Professor Ross L. Watts is professor of accounting at the Sloan School of Management of the Massachusetts Institute of Technology. With Professor Jerold Zimmerman, Watts co-authored with a leading Ph.D. textbook, *Positive Accounting Theory* and founded a leading academic journal, the *Journal of Accounting & Economics*. Watts was awarded the American Accounting Association's Seminal Contribution to Accounting Literature Award in 2004 and the Outstanding Educator Award in 2000. His former Ph.D. students currently hold senior academic positions in many leading US universities including (among others) the University of Chicago, Harvard University, MIT, the University of Pennsylvania, Northwestern University, and the University of California at Berkeley. Professor Watts has published extensively in leading accounting and finance journals.

Watts' research is primarily concerned with using economics to explain the nature and evolution of accounting practice and practice's relation to the firm's contracts and investment, financial and corporate control policies. The Ball and Brown (1968) efficient market interpretation of the empirical evidence on the accounting income/stock relation suggested accounting income was not the sole or even the main causal variable in the relation. This cleared the way for Watts' research program. It opened the door for the financial reporting/stock price relation to depend on real economic factors such as the firm's investment opportunity set, agency costs, taxes, regulation and (later) litigation. The Ball and Brown effect on accounting research was much like the Miller and Modigliani effect on financial research. M&M's research caused finance researchers to concentrate on the same economic variables in explaining corporate policies. For this reason it is not surprising that financial reporting and financial, investment and corporate control policies vary in both cross-section and time-series with many of the same variables. The interdependence of these policies is illustrated in Smith and Watts (*Journal of Finance*, December, 1992), Roychowdhury and Watts (*Journal of Accounting & Economics*, September, 2007) and LaFond and Watts (*The Accounting Review*, March, 2008).