



UNIVERSITY  
OF ALBERTA

# CPA Speaker Series:

## Leslie Hodder, Indiana University

### Cost Anchoring in Fair Value Estimation

Friday, Oct 18, 2024

2:00 PM - 3:30 PM

Location: BUS 306

#### ABSTRACT

Accurate fair value estimates require expertise and professional judgment. Because estimates are subjective and may be influenced by incentives for opportunistic reporting, critics maintain fair value measures are unreliable. Controlling for firm-specific strategic reporting incentives, we examine an additional source of estimation bias that would arise if managers anchor on cost when estimating the fair value of assets. Although anchoring is widely documented in experimental settings, little evidence exists that anchoring persists in the context of complex fair value estimation in the real world. Using a unique dataset containing insurance holders' cost and fair value estimates for identical securities, we find variation in acquisition cost explains variation in fair value estimates for the same asset. We further document that anchoring bias contributes to inaccuracy and bias not aligned with hypothesized incentives for strategic reporting. Our research suggests procedures can reduce anchoring bias in fair value estimation.

Department of Accounting & Business  
Analytics  
Alberta School of Business  
College of Social Science & Humanities  
Business Building, University of Alberta, Edmonton, AB, Canada T6G 2R6

