



UNIVERSITY  
OF ALBERTA

# CPA Speaker Series:

## Edwige Cheynel, Washington University in St. Louis

Truth and Deception

Friday, September 13, 2024

2:00 PM - 3:30 PM

Location: BUS 306

### ABSTRACT

We examine public disclosures when the seller bears misreporting costs, increasing in the difference between the message and a verifiable but noisy measure of value (e.g., an accounting report), and deception costs, increasing in the induced error in the investors' posterior belief. In a rational expectations equilibrium, a message must be either untruthful or deceptive. We characterize how weights assigned to truthfulness and deception affect the reporting quality and welfare, and prove that there is a trade-off between bias and informativeness. In the limit, if misreporting costs are small but non-zero, the linear rational expectations equilibrium becomes fully revealing with large message bias and we further show that effective communication should feature very high penalties for deception jointly with some tolerance for untruthfulness. The model draws economic implications for ethical codes, accounting misconduct, liability in courts of law, and regulatory oversight.

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