



Motivation

- Governments procure research through funding universities
- However, universities often **overcharge** governments due to information asymmetry (e.g., DOJ, 2020; OIG, 2021)
- Does financial disclosure help in the public sector?
 - Transparency may not work (e.g., Dranove et al., 2003; Weil et al., 2013)
 - Interested parties are dispersed, e.g., taxpayers, government
 - Hard to coordinate and translate information into real effects

Research Question

• **RQ: How does mandatory financial disclosure for public universities affect federal research funding allocation?**

- Disclosure facilitates **monitoring**
- Government **learning** from external informed stakeholders
 - Disclosure informs other stakeholders, who donate at t
 - Governments observe and allocate funding at $t + 1$
- **Predictions**
 - Federal funding **declines** as overcharges decrease
 - Federal funding is **more responsive** to external funding signals

Data, Setting, and Empirical Design

- **Data:** U.S. Colleges and Universities datasets from IPEDS, College Scorecard, etc. (2000 - 2008)
- **Setting:** Private universities adopted mature financial reporting earlier (FASB), while public ones adopted such later (GASB)

Public Research Universities (Treated)

Common Form

Prior to 2001/02

GASB

2001/02

Wave 1

GASB

2002/03

Wave 2

GASB

2003/04

Wave 3

Common Form

Prior to 1996/97

FASB

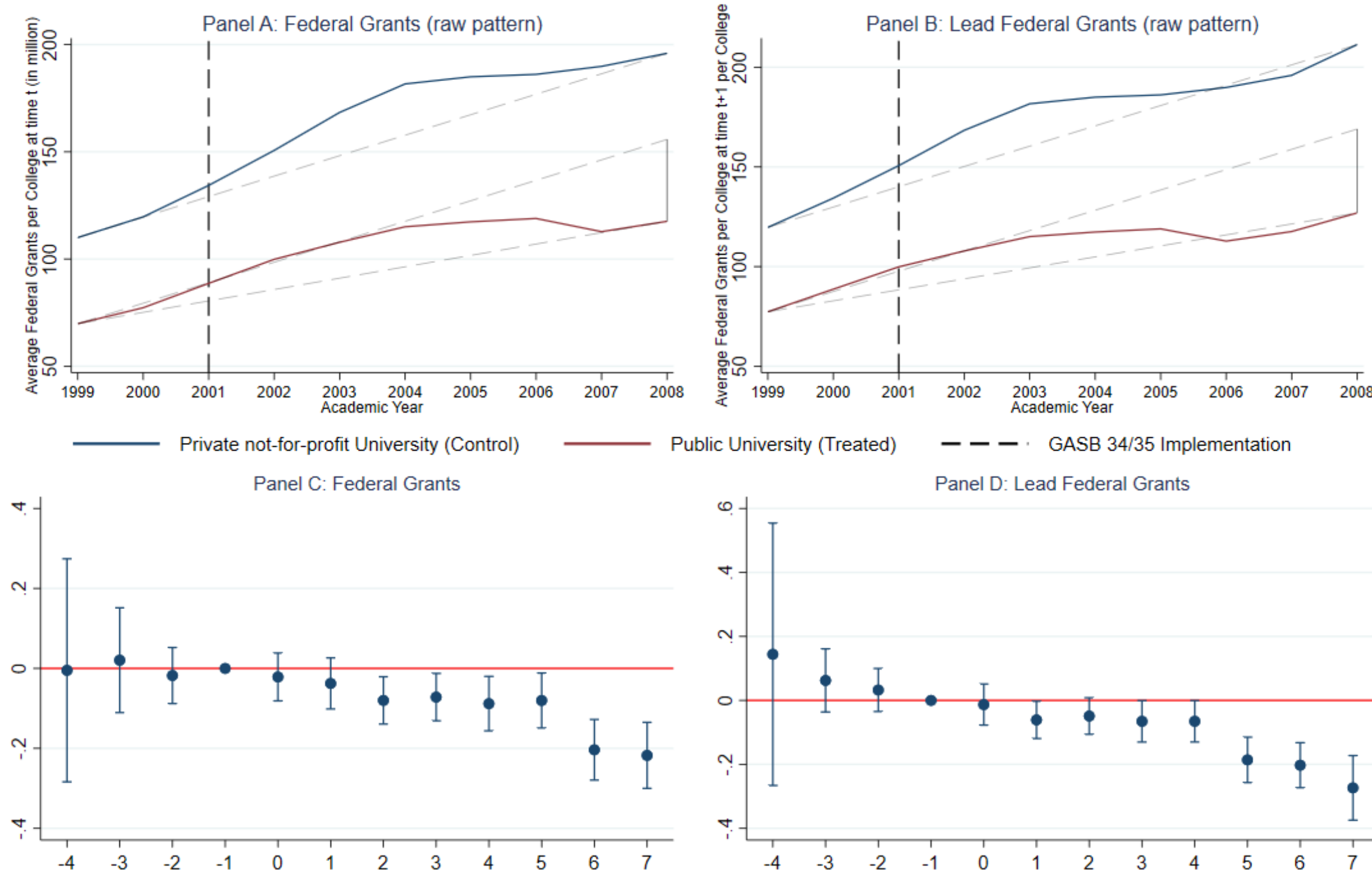
From 1996/97 onward

Private Not-for-profit Research Universities (Control)

- **Empirical Strategy:** Difference-in-Differences (DiD)

$$Outcome_{i,t} = \beta_0 + \beta_1 GASB_{i,t} + \gamma X_{i,t} + \alpha_i + \varphi_t + \varepsilon_{i,t}$$

Main Findings



Mechanisms

Panel A: Monitoring	(1)	(2)
	$Ln(\$ Federal grant)_t$	$Ln(\$ Federal grant)_t$
GASB	-0.065*** (-2.63)	-0.036 (-1.07)
GASB * Multi_campus	-0.098** (-2.25)	
GASB * Complexity		-0.069** (-2.04)
Panel B: Learning	(1)	(2)
	$Ln(\$ Federal grant)_{t+1}$	$Ln(\$ Federal grant)_{t+1}$
GASB	-0.691*** (-2.74)	-1.091*** (-3.16)
GASB * $Ln(\$ Private gift)_t$	0.034** (2.37)	
GASB * $Ln(\$ State grant)_t$		0.060*** (2.90)
Year FE	Y	Y
College FE	Y	Y

Real Effects on University Research

Dep. Variable	(1)	(2)	(3)
	$\# patent_{apply,t+1} / RE_{million,t}$	$\# patent_{grant,t+1} / RE_{million,t}$	$Ln(\# publication_{t+1} / RE_{million,t})$
GASB	0.066*** (3.20)	0.076** (2.48)	0.111*** (3.51)
Year FE	Y	Y	Y
College FE	Y	Y	Y

Key Takeaways

The mandatory financial disclosure led to **declines** in federal research grants among affected universities

This change is driven by enhanced **monitoring** and **learning** from external funding signals

Despite the decline in federal research grants, research productivity **increases** among affected universities

Contact Information

Zhenghai Chi • Email: zhenghai.chi@u.nus.edu
• Homepage: <https://www.peterchi-accounting.com>