
Conservatism and Endogenous Preferences

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Abstract

Literature suggests that individuals have endogenous preferences for accounting conservatism due to intrinsic loss aversion. However, no empirical evidence for this claim exists. This paper provides first experimental insights on individuals' endogenous preferences for conservative compared to neutral accounting. Preliminary findings suggest that in a judgment context based on innate loss aversion, individuals experience higher utility from conservatism and value conservatism more highly than neutrality in accounting. We further investigate if individuals also show explicit preferences for conservative vs. neutral accounting by implementing a choice setting. Preliminary results provide evidence that individuals do not prefer conservative over neutral accounting when presented with both options. The study contributes to the ongoing discussion on accounting conservatism by establishing that a disregard for peoples' endogenous preferences for conservatism associated with neutral accounting can have detrimental economic consequences, such as a lower willingness to invest.

Keywords: Accounting Conservatism, Endogenous Preferences, Loss Aversion, Prospect Theory

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