Effect of Economic Growth and Economic Freedom Variables on Earnings Opacity

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Abstract: The purpose of this study is to test effect of economic factors on accounting quality. Economic factors include economic growth and economic freedom. Accounting quality is expressed by earnings opacity. Three dimensions of earnings opacity are earnings aggressiveness, loss avoidance and earnings smoothing. To measure earnings opacity, manufacturing firms listed in Tehran Stock Exchange’s total accruals, earnings and operating cash flow for eleven years was used. Economic growth was measured as the annual growth of GDP per capita. Also, Economic Freedom of the World 2009 Annual Report of Fraser institute was used. To examine the economics determinants of earnings opacity, we have regressed economic factors against opacity measures. The result showed earnings opacity is positively related to economic growth. But, level of economic freedom is not significantly related to earnings opacity.

Key words: Earnings opacity • Economic growth • Economic freedom • Agency theory

INTRODUCTION

Accounting just like other sciences is affected by environment. The socio-cultural and organizational analyzes of accounting, argue that the technical and social aspects of accounting are intricately linked in the sense that the technical aspects cannot be studied by neglecting the social attribute [1]. In fact, it stems from the general theory that accounting and its phenomena are function of its environment [2,3].

Purpose and Necessity of Conducting Research: Firms’ environment factors that include social, economic, cultural, political and legal factors affect ambiguity of earnings of firms. Earnings opacity arises from the accounting and business cultures that are shaped by the economic, social and accounting environment [4]. Due to diversity of environmental dimensions, in this research relation between economic factors and earnings opacity [as lack of accounting quality index] is studied. Results of this research, help accounting literature regarding effect of economic factors on ambiguity of earnings. So, main aim of research is studying effect of economic factors that is economic growth and economic freedom variables on accounting quality and particularly on earnings opacity.

Research Question

- Main research questions are as follows:
  - Is there a relation between earnings opacity and economic growth?
  - Is there a relation between earnings opacity and economic freedom?

Research Hypothesis: According to research questions, hypotheses are also as follows:

- There’s a direct relation between earnings opacity and economic growth.
- There’s a reverse relation between earnings opacity and economic freedom.

Theoretical Basics and Research History: In this research accounting quality is studied by means of “earnings opacity” or “opaque earnings” of firms. Therefore, this variable can be introduced as a major accounting variable.

Different definitions of transparency and opacity of companies ([5-7] and its measurement method [8] are presented. Earnings opacity is a measure that reflects how little information there is in a firm’s earnings numbers about its true, but unobservable, economic performance [7].
Economic factors include economic growth and economic freedom. Economic growth in simple terms is: production increase of a country in a specific year, compared with its value in base year. In macro level, gross national product (GNP) or gross domestic product (GDP) in discussed year is considered proportionally to its value in an economic growth base year [9].

- Gwartney, defines economic growth as Individuals have economic freedom when:
  - Property they acquire without the use of force, fraud, or theft is protected from physical invasions by others and.
  - They are free to use, exchange, or give their property as long as their actions do not violate the identical rights of others [10].

According to Gwartney definition, important and main economic growth elements are personal choice, Voluntary exchange coordinated by markets, freedom to enter and compete in markets, protection of persons and their property from aggression by others.

In present research two hypotheses are proposed, both of which are discussable in terms of theoretic viewpoint of agency theory. Although from legal standpoint, company is considered an independent and separate legal character, but in recent years it’s become very common practice that companies be considered a set of contracts between different parties. Most important of these contracts, is contract between managers and shareholders of company. In contract between shareholders and management of company, accounting earnings is as top economic performance measurement index which is yield of financial accounting process and plays a basic role for different purposes, such as service compensation plans (reward) and evaluation of management supervision responsibility. So, according to importance of accounting profit and its determined role in contract provisions between shareholders and management, this hypothesis becomes prominent that due to existence of interest conflict, managers affect profit quality and this means creation of ambiguity in profit.

Economic growth creates not only opportunities for firms with good investment opportunity sets but also more competition [4]. By increase economic growth in a country, activity environment of companies becomes more competitive. Increase in competition, increases probability of liquidation from competition which may reduce the firm’s profits and make high managerial effort less attractive [9,11,12].

So, increase in competition affects management incentives. The end result is the potential for more opportunism from managers in the form of shirking and sharking [13], managerial rent-seeking [14,15] and demand for golden parachutes [16-18]. These results arise from agency theory. The increase in opportunism has not only important economic consequences [19] but also specific effects on the cash compensation of Executives [20]. Created opportunism will as a result enjoy more competitive environment, incur more changes of reported economic performance, participation by people inside the organization and will as a result be affected by earnings opacity.

The principal-agent conflict between firm’s insiders and its outside investors suggests that insiders are more inclined to mask firm performance to minimize outsider and/or legal intervention and/or to present a financial picture that can be deemed as financially attractive by outsiders. This camouflage activity is at the essence of the concepts and techniques of earnings opacity [4].

The main private gain is the weakening of outsiders’ ability to monitor and discipline insiders as a result of information asymmetries between insiders and outsiders created by earnings opacity. The only resources left to outsiders are to write contracts that confer their rights to discipline insiders [e.g. to replace managers] and/or vote with their feet and reinvest their capital on other less earnings management prone firms. Both actions are more likely to depend on the level of economic freedom [4].

- Earnings opacity activities in field of economic freedom required for competitive hypotheses are as follows [4]:
  - Diversion hypothesis: indicates that earnings opacity will be more in countries with low level of economic freedom. This hypothesis is based on the fact that people inside organization are more likely to hide company performance; because in countries where economic freedom level is higher, possibility of expected offences is higher.
  - Penalty hypothesis is based on this assumption that heavier offences existing in countries with higher economic freedom, gives people inside organization the incentive to hide their rent seeking activities.
According to first hypothesis (diversion hypothesis), yield results from conducted researches [4] and economic freedom annual report data of Freezer research institute [based on studies of this institute, a trivial position is allotted to Iran amongst Middle East countries. Iran is only before Syria and Iraq. Economic freedom level in Iran, is indicative of low level of entire index and its components in Iran] it’s expected that there exists a reverse relation between earnings opacity and economic freedom.

Reference [7] measured earnings opacity in 34 countries and then effect of earnings opacity on two characteristics of an equity market in a country – the return the shareholders demand and how much they trade. Result of research indicated that an increase in overall earnings opacity in a country is linked to an economically significant increase in the cost of equity and an economically significant decrease in trading in the stock market of that country.

Belkaoui and Alnajjar [4] identify and test the determinates of earnings opacity internationally. The determinates are hypothesized to be the elements of social, economic and accounting order, Economic order include economic growth and economic freedom, accounting order include level of disclosure, the number of auditors per 100,000 inhabitants and the adoption of international accounting standards and social factors, including quality of life, corruption and rule of law. Result of their research indicated that earnings opacity internationally is negatively related to the levels of economic freedom and quality of life and positively related to rule of law, economic growth and level of corruption. Further, the findings are surprising that the level of disclosure, the number of auditors per 100,000 inhabitants and the adoption of international accounting standards are not significantly related to earnings opacity internationally. It is the social and economic climate rather than the technical accounting climate that is at the core of the lack of accounting.

Samvati [21] deals with study of relation of financial reporting ambiguity and distribution of Stock Return. Criteria for determining ambiguity of financial statements in this research, is earnings management through manipulating arbitrary accruals. Ambiguity index equals two year mobilized sum of absolute value of arbitrary accruals and arbitrary accruals were also calculated utilizing balanced model of Jones. After studying 343 observations during years of 2003-2007 it was specified that ambiguity of financial statements doesn’t have a meaningful relation with company risk and price rise and leaps and level of coordination of share output changes has no meaningful relation with aggregate output. On the other hand, only a limited number of researches have dealt with study of effect of macroeconomic variables in field of accounting.

Baradaran shoraka and Seyed Motahhari [22], in their research have dealt with study of relation of four important macroeconomic factors, including: gross domestic product, oil earnings, investment in the area of building and inflation in level of changes with three major accounting variables, including: sale income, sold merchandise cost price and operational benefit and then studied their growth with three other important accounting variables, including: margin ratio of operational earnings, asset output and shareholders’ rights output in companies admitted to Tehran stock market between years of 1997-2006. Obtained results indicate that three explanatory variables of gross domestic product, oil incomes and investment in the area of building has a positive, strong and meaningful relation with three accounting variables of sale income, sold merchandise cost price and operational earnings. Inflation rate also has a negative, strong and meaningful relation with these three accounting variables. Also, results indicate that three explanatory variables of growth don’t have a relation with margin ratio of operational earnings, assets output and shareholders’ rights output. Inflation explanatory variable also only has a positive and weak relation with shareholders’ rights output, but has no relation with assets output.

Sheri [23] in his treatise Role of Fundamental Accounting Information in Predicting Stock Return, using market research methodology and choosing Stock Return for predicting, seek to test efficiency of accounting information. The other aim of this research was creating a relation between accounting and economic variables; in a way that analysis of financial statements is used for extracting economic value and output. Economic conditions were considered based on macro variables including: inflation, oil and gas exports in dollars, actual growth of added value and gross national product. These conditions have been classified for each variable into three levels of low, medium and high. Temporal period of research is years of 1995 to 2001. Practices classification for each year in terms of different economic conditions showed that prediction capability of accounting variables
changes in different economic conditions, in terms of type of macroeconomic variable. Under low to medium inflationary conditions, medium and high currency income conditions, medium actual growth of medium added value and high gross national product growth conditions, accounting models showed higher prediction capability.

**Research Method:** Regarding purpose of research, this is an applied research and considering method, it’s a correlation research.

**Research Domain:** The temporal realm of this research is the time period from 1998-2007. Statistical society and sample includes all manufacturing firms listed in Tehran Stock Exchange which have information required by research available.

**Data Analysis Method:** Data required for measuring earnings opacity dependent variable is balance sheet and statement of profit and loss items, which is extracted from financial statements. Information relating to financial statements has been extracted from CDs and comprehensive information bank of companies and website of Research Development Islamic Studies of Tehran Stock Exchange.

Data relating to economic growth independent variable that includes gross domestic product and country population in each year was collected from website of central bank. For measuring economic growth variable assistance was obtained from 2009 report of Freezer institute.

Data analysis was carried out in two parts of descriptive statistics and deductive statistics and statistical calculations were done using SPSS and Eviews software.

**Research Variables**

**Dependent Variable:**

- Earnings opacity: accounting quality in a country is measured by means of three dimensions of earnings opacity; that is earnings aggressiveness, loss avoidance and earnings smoothing. Earnings opacity is defined as the variability in underlying economic performance and the greater is the earnings opacity. Overall earnings opacity: Simple mean of this part in each year, equals earnings opacity in that year.

**Independent Variables:**

- Economic growth: Economic growth is calculated through GDP annual growth per capita.
- Economic freedom: Freezer institute’s economic freedom index, measures level of economic freedom in five important economic factors [28]:

Earnings aggressiveness: the opposite of accounting conservatism, results from the tendency of managers to increase reported earnings numbers. Accruals are used for measuring earnings aggressiveness. It is measured at a point in time as the median Scaled accruals (by total assets of previous year) of firms. Consistent with much of the past literature [24-26] scaled accruals are obtained from difference between net earnings and cash yielded from operation. To minimizing the influence of extreme observations, median observation of Scaled accruals is used. The higher the median observation of scaled accruals, the higher is the earnings aggressiveness.

- Loss avoidance: Loss avoidance behavior is the second measure of earnings opacity. Such loss avoidance behavior obscures the relationship between earnings and economic performance, thus increasing earnings opacity. Loss avoidance is measured by the ratio of the number of firms with small positive earnings minus the number of firms with small negative earnings divided by their sum. That in this research firms with small positive earnings (small negative (small negative

- Earnings smoothing: Smoothed earnings fail to depict the swings in underlying firm performance and increase earnings opacity. According to [27] it is measured by the cross-sectional correlation between the change in accruals and the change in operating cash flows, both scaled by total assets. Scaled operating cash flows are obtained through subtracting Scaled accruals from Scaled earnings. Because some degree of earnings smoothing is a natural outcome of any accrual accounting process, this measure is expected to be negative on average. However, the more negative this correlation, the more likely it is that earnings smoothing is obscuring the variability in underlying economic performance and the greater is the earnings opacity. Overall earnings opacity: Simple mean of this part in each year, equals earnings opacity in that year.
Table 1: RESEARCH VARIABLES' DESCRIPTIVE STATISTICS

<table>
<thead>
<tr>
<th>Variable</th>
<th>Earnings aggressiveness</th>
<th>Loss avoidance</th>
<th>Changes in accruals</th>
<th>Changes in cash flows</th>
<th>Economic growth</th>
<th>Economic freedom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of observations</td>
<td>3154</td>
<td>3306</td>
<td>3026</td>
<td>2976</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Minimum</td>
<td>-0.65</td>
<td>0.1687</td>
<td>5.14</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum</td>
<td>0.01238</td>
<td>0.2582</td>
<td>6.35</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>0.049277</td>
<td>0.216723</td>
<td>5.9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard deviation</td>
<td>0.0688509</td>
<td>0.0313029</td>
<td>0.3993606</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skewness</td>
<td>-0.0743</td>
<td>-0.264</td>
<td>-0.87</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kurtosis</td>
<td>-0.0729</td>
<td>-1.184</td>
<td>-0.92</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2: STATISTICS PERTAINING TO EARNINGS AGGRESSIVENESS

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of observations</th>
<th>Number of low earning companies</th>
<th>Number of low loss companies</th>
<th>Loss avoidance ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>264</td>
<td>8</td>
<td>2</td>
<td>0.60000</td>
</tr>
<tr>
<td>1999</td>
<td>269</td>
<td>5</td>
<td>0</td>
<td>1.00000</td>
</tr>
<tr>
<td>2000</td>
<td>275</td>
<td>10</td>
<td>0</td>
<td>1.00000</td>
</tr>
<tr>
<td>2001</td>
<td>276</td>
<td>10</td>
<td>1</td>
<td>0.81818</td>
</tr>
<tr>
<td>2002</td>
<td>314</td>
<td>11</td>
<td>1</td>
<td>0.83333</td>
</tr>
<tr>
<td>2003</td>
<td>313</td>
<td>8</td>
<td>2</td>
<td>0.60000</td>
</tr>
<tr>
<td>2004</td>
<td>329</td>
<td>7</td>
<td>2</td>
<td>0.55556</td>
</tr>
<tr>
<td>2005</td>
<td>330</td>
<td>8</td>
<td>1</td>
<td>0.77778</td>
</tr>
<tr>
<td>2006</td>
<td>332</td>
<td>14</td>
<td>3</td>
<td>0.64706</td>
</tr>
<tr>
<td>2007</td>
<td>338</td>
<td>13</td>
<td>3</td>
<td>0.62500</td>
</tr>
<tr>
<td>Sum</td>
<td></td>
<td></td>
<td></td>
<td>3306</td>
</tr>
</tbody>
</table>

Table 3: STATISTICS RELATING TO EARNINGS OPACITY

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of observations</th>
<th>Changes in accruals</th>
<th>Changes in cash flows</th>
<th>Earnings smoothing (correlation between changes in accr)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>265</td>
<td>249</td>
<td>-0.80470</td>
<td>-0.80470</td>
</tr>
<tr>
<td>1999</td>
<td>267</td>
<td>259</td>
<td>-0.82917</td>
<td>-0.82917</td>
</tr>
<tr>
<td>2000</td>
<td>276</td>
<td>270</td>
<td>-0.76951</td>
<td>-0.76951</td>
</tr>
<tr>
<td>2001</td>
<td>286</td>
<td>283</td>
<td>-0.70423</td>
<td>-0.70423</td>
</tr>
<tr>
<td>2002</td>
<td>310</td>
<td>304</td>
<td>-0.51199</td>
<td>-0.51199</td>
</tr>
<tr>
<td>2003</td>
<td>313</td>
<td>310</td>
<td>-0.50247</td>
<td>-0.50247</td>
</tr>
<tr>
<td>2004</td>
<td>319</td>
<td>313</td>
<td>-0.99987</td>
<td>-0.99987</td>
</tr>
<tr>
<td>2005</td>
<td>328</td>
<td>328</td>
<td>-0.99983</td>
<td>-0.99983</td>
</tr>
<tr>
<td>2006</td>
<td>332</td>
<td>331</td>
<td>-0.66118</td>
<td>-0.66118</td>
</tr>
<tr>
<td>2007</td>
<td>330</td>
<td>329</td>
<td>-0.38172</td>
<td>-0.38172</td>
</tr>
<tr>
<td>Sum</td>
<td></td>
<td>3026</td>
<td>2976</td>
<td></td>
</tr>
</tbody>
</table>

Table 4: RESULTS OF MEASUREMENTS ARE INDICATIVE OF VERY HIGH LOSS AVOIDANCE IN YEARS OF 1999 AND 2000.

<table>
<thead>
<tr>
<th>Year</th>
<th>Earnings opacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>-0.05526</td>
</tr>
<tr>
<td>1999</td>
<td>0.08039</td>
</tr>
<tr>
<td>2000</td>
<td>0.09117</td>
</tr>
<tr>
<td>2001</td>
<td>0.05484</td>
</tr>
<tr>
<td>2002</td>
<td>0.12224</td>
</tr>
<tr>
<td>2003</td>
<td>0.05290</td>
</tr>
<tr>
<td>2004</td>
<td>-0.12834</td>
</tr>
<tr>
<td>2005</td>
<td>-0.06498</td>
</tr>
<tr>
<td>2006</td>
<td>-0.00438</td>
</tr>
<tr>
<td>2007</td>
<td>0.8750</td>
</tr>
</tbody>
</table>
Table 5: STABILITY TEST

<table>
<thead>
<tr>
<th>Zero hypothesis</th>
<th>Generalized Dicki Foller test statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings opacity has same origin</td>
<td>t statistic -3.5009</td>
</tr>
<tr>
<td></td>
<td>Meaningfulness level 0.0356</td>
</tr>
<tr>
<td>Economic growth (without oil) has same origin</td>
<td>t statistic -4.7772</td>
</tr>
<tr>
<td></td>
<td>Meaningfulness level 0.0080</td>
</tr>
<tr>
<td>Economic freedom has same origin</td>
<td>t statistic -4.1939</td>
</tr>
<tr>
<td></td>
<td>Meaningfulness level 0.0197</td>
</tr>
</tbody>
</table>

Table 6: Results of Klmogrof-Smirnoff test

<table>
<thead>
<tr>
<th>Earnings opacity</th>
<th>Number</th>
<th>Klmogrof-Smirnoff z</th>
<th>Meaningfulness level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10</td>
<td>0.699</td>
<td>0.713</td>
</tr>
</tbody>
</table>

- Table I. Size of Government: Expenditures, Taxes and Enterprises;
- TABLE II. Legal Structure and Security of Property Rights;
- TABLE III. Access to Sound Money;

Chain-linked summary index which is made use of in this research is based on 23 components. These 23 components themselves have subcomponents. In sum, world economic freedom index studies 26 subcomponents. Each component is graded in a scale of zero to ten. Mean of components is calculated for each economic factor and also in the end mean of scores of five economic factors is calculated. Amounts of economic freedom index made use of in this research, is obtained from 2009 report of Freezer institute.

Research Findings: Descriptive statistics in Tables 1 to 5 have been presented.

In Table number 2, mean amongst central indexes and variance, skewness and kurtosis amongst dispersion indexes have been calculated overall.

In statistical analyses, distribution of dependent variable enjoys a certain importance.

As shown also in the Table, skewness and elongation are dependent variable of inconsiderable earnings opacity and are close to zero that suggests distribution of dependent variable has been normal. Also in Table numbers 2 to 5, measurement results relating to earnings opacity variable and its parts are presented.

Higher median in each year means more earnings aggressiveness in that year. Measurement results suggest more earnings aggressiveness in years of 1999 and 2003.

Higher ratio in a year means more loss aversive behavior of companies in that year.

Results of measurements are indicative of very high Loss avoidance in years of 1999 and 2000.

More negative correlation in each year most likely means higher earnings smoothing in that year. Results state relatively high smoothing in years of 2004 and 2005.

Stability: In order to study stability, generalized Dicki Foller test was used. This test is a first rate self regression model and only considers first rate self correlation. Following hypothesis was studied using this test:

H0 : The variable is not stable.
H1 : The variable is stable.

Results indicate that statistic value of this test is greater than value of crisis area. As a result, zero hypotheses based on instability are rejected and all data in 95 percent confidence level are stable.

Dependant Variable Being Normal: Klmogroff-Smirmoff test was used for dependent variable and Jarg-Bra test was used for the rest and in both cases normalness hypothesis isn’t rejected as was expected.

Value of meaningfulness level equal to 71 percent suggests not rejecting zero hypothesis or normalness of dependent variable. Results yielded from other pre-assumptions relating to model credit are also secondary of model credit.

- Relation of earnings opacity with economic growth and freedom
- For this purpose, first statistical hypotheses were planned in the following way where:

OEO (Overall Earnings Opacity)
EG (Economic Growth)
EF (Economic Freedom)

\[ OEO_t = \alpha + \beta_E G_t + \varepsilon_t \]
\[ OEO_t = \alpha + \beta_E F_t + \varepsilon_t \]
Zero hypothesis and counterhypothesis for studying meaningfulness of models are as follows:

\[
\begin{align*}
    H_0 & : \beta_i = 0 \\
    H_1 & : \beta_i \neq 0
\end{align*}
\]

Meaningfulness level of F indicates that only linear relation of earnings opacity with economic growth is established. Economic growth explains more than 51 percent of earnings opacity and has a direct relation with that.

After practicing single variable models, double variable regression model was also practiced so effect of both variables could be measured cumulatively. Results presented in Table number 8 show that in multiple variable models which was pro practiced have there also been the only meaningful economic growth variable ability to predict that no substantial difference compared with the single variable model.

**Evaluating Results:** Aim of this research, is studying effect of economic environment including economic growth and economic freedom on earnings opacity. Studying results of statistical tests, indicate that economic growth has a positive relation with earnings opacity. In other words, increase of economic growth leads to reduction of earnings opacity. Amount of determination coefficient is also 52 percent which is an appropriate amount and shows high explanatory power of economic growth variable. This result isn’t consistent with findings of Blakoy and Alnajjar’s research.

Regarding second hypothesis based on results of tests, no relation was observed between earnings opacity and economic freedom.

Research multiple variable model is also meaningful with economic growth variable and amount of determination coefficient is also about 52 percents. But in multiple variable model of Balkoy and Alnajjar’s research, in addition to economic growth, variables including economic freedom, governance of law, life quality and corruption are also meaningful and determination coefficient equals 78 percents.

It seems that economic factors affect accounting quality, so they must be considered next to other factors in accounting studies.

**Research Limitations:** Regarding second hypothesis, no relation was observed between earnings opacity and economic freedom based on results of tests. This subject can arise from following factors:

- Since no measure has been taken regarding measurement of economic freedom in Iran so far, so data from Freezer institute were used so this measurement may not indicate actual conditions of Iran economy.
- According to the fact that amount of economic freedom index for years before 2000 exist for every five years, rate of simple changes between years of 1995 and 2000 were used for years of 1998 and 1999. As a result, one of the reasons might have been caused by data of these two years being estimative.
- Because economic freedom index is computable in several ways and in present research, Freezer institute’s method has been used; it’s possible that if other methods are used for measuring this index, a different result be yielded.
- Existence of intervening variables which hasn’t been able to identify them.

**Research Suggestions:**

- Since by increase of economic growth, earnings opacity decreases, the need to determine “optimum motivational contract” increases, so that the created opportunism as a result reduces more competitive environment, managers will be less motivated to manipulate earnings. Also, “a desirable (accounting) information system” should be created that enjoys sufficient transparency.
- One of the main components of economic freedom index is government volume and size, government expenses, taxes and participation. The more becomes the contribution of governmental expenses in total countries expenses and contribution of transfer payments and subsides in an economy becomes greater, there’ll be less economic freedom. These two components are government size indexes. Economy is being governmental and many stock markets being governmental in Iran, is indicative of high volume of government which leads to reduction of economic freedom and fainting of role this index in Iran. Many economic freedom components and subcomponents, including interest rate controls, permission to determine prices in work and merchandise market exerting constraints in international capital market, stable and low inflation rate are also affected by Iran economy being governmental. So, schemes must be devised to provide the grounds for increase of economic freedom so that earnings opacity increases too.
In future researches effect of other factors, including social factors (like corruption, life quality, governance of law, human development index and …) and accounting factors (like number of auditors, acceptance of international standards and …) on accounting quality will be studied.

Repetition of this research with definition of a new criteria of accounting quality (using another variable as accounting quality) and other measurement methods of economic freedom index (like economic freedom index of Heritage institute).

Offering a method for measuring economic freedom index which is indicative of actual economic conditions of Iran and comparing results of this method with other methods.

REFERENCES


