Knowing What Others Know: Common Knowledge, Accounting, and Capital Markets

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SYNOPSIS: The concept of common knowledge concerning higher orders of knowledge has seen exciting new developments in the fields of philosophy, game theory, statistics, economics, and cognitive science in the recent decades. Even though information lies at the heart of accounting and capital markets research, these new developments have remained at the periphery of these fields. Common knowledge thinking may significantly advance our understanding of financial reporting, analysis, securities valuation, managerial control, auditing, and information systems. Such accounting and business applications will also make important contributions in the form of concrete, real-life examples and applications to the basic fields where the idea of common knowledge originated. This paper is an overview of common knowledge and its actual and potential applications to accounting and capital markets research.