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SEMINAR

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Tuesday, February 26, 2008
304 Whitehead Hall
Refreshments: 3:30 p.m.
Seminar: 4:00 p.m.

INFORMATION REDUCTION VIA LEVEL CROSSINGS IN A CREDIT RISK MODEL

Abstract

We provide an alternative credit risk model based on information reduction where the market only observes the firm's asset value when it crosses certain levels, interpreted as changes significant enough for the firm's management to make a public announcement. For a class of diffusion processes we are able to provide explicit expressions for the firm's default intensity process and its zero-coupon bond prices.

(This is joint work with Bob Jarrow and Philip Protter.)