Quantitative Finance > Risk Management

Two Models of Stochastic Loss Given Default

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We propose two structural models for stochastic losses given default which allow to model the credit losses of a portfolio of defaultable financial instruments. The credit losses are integrated into a structural model of default events accounting for correlations between the default events and the associated losses. We show how the models can be calibrated and analyze the impact of correlations between the occurrences of defaults and recoveries by testing our models for a representative sample portfolio.

Comments:	Problems with figures in preceeding version has been solved
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