Default Clustering in Large Portfolios: Typical Events

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(Submitted on 10 Apr 2011 (v1), last revised 4 Mar 2012 (this version, v2))

We develop a dynamic point process model of correlated default timing in a portfolio of firms, and analyze typical default profiles in the limit as the size of the pool grows. In our model, a firm defaults at a stochastic intensity that is influenced by an idiosyncratic risk process, a systematic risk process common to all firms, and past defaults. We prove a law of large numbers for the default rate in the pool, which describes the "typical" behavior of defaults.

Subjects:	**Risk Management (q-fin.RM)**; Probability (math.PR); Computational Finance (q-fin.CP)
MSC classes:	91G40, 60F05, 60F10
Cite as:	**arXiv:1104.1773 [q-fin.RM]**
	(or **arXiv:1104.1773v2 [q-fin.RM]** for this version)

Submission history

From: Konstantinos Spiliopoulos [view email]
[v1] Sun, 10 Apr 2011 14:53:27 GMT (39kb)
[v2] Sun, 4 Mar 2012 23:19:55 GMT (38kb)

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