Measuring Default Risk Premia
from Default Swap Rates and EDFs

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Computational Finance Seminar, April 19, 2004

Abstract

This paper estimates recent default risk premia for U.S. corporate
debt, based on a close relationship between default probabilities, as
estimated by the Moody’s KMV EDF measure, and market default
swap (CDS) rates. The default-swap data, obtained by CIBC from a
large number of dealers and bank counterparties, allow us to estab-
lish a strong link between actual and risk-neutral default probabilities
for 69 firms in the three sectors that we analyzed: broadcasting and
entertainment, healthcare, and oil and gas.

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