

A discrete model for correlated default times and its application to CDO

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Abstract

A simple discrete time model for the dependence between the default times of assets (firms) in a given portfolio is discussed. The model is based on multivariate geometric distributions. A possible way for calibration of the model is discussed too. In the framework of this model portfolio loss distribution is calculated and a Monte Carlo based estimation of the expected losses in a given CDO is done.

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