



The University of Chicago
Department of Statistics

Mini-seminars for First Year Ph.D. Students

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“How Corporate Defaults are Correlated”

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ABSTRACT

Corporate defaults are clustered. Doubly stochastic process provides a tractable computation of the correlation of the defaults, but it is violated in the presence of contagion or “frailty”. Tests are developed and applied to data on U.S. corporations from 1979-2004 to check the hypothesis of doubly stochastic process under which the correlation of firm’s default times are captured by their default intensities.