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This paper develops measures of emerging market credit spreads for the 1990s, based on data on new bond issues and bank loans, that cover a broader range of borrowers than the Brady bond spreads most commonly used to date. These measures are used to identify the impacts of credit ratings, maturity and currency denomination on spreads. We find important regional differences in spreads across the developing world, even after controlling for risk and maturity. We also identify the evolution of spreads during the 1990s up until the advent of the Asian financial crisis, holding other determinants constant, and find that emerging market spreads declined by more than can be explained by improvements in risk. However, for emerging market instruments with relatively favourable credit ratings, trends in spreads differed considerably from those experienced by Brady bonds. Finally, and in contrast to much market commentary, we find that variations in industrial country short-term interest rates explain relatively little of the decline in emerging market bond spreads. Longer-term trends, perhaps reflecting globalisation, along with the temporary impact of the Mexican financial crisis, may have been more important factors in the behaviour of emerging market spreads. A new, counterintuitive theory for how social networks influence the spread of behavior New social movements, technologies, and public-health initiatives often struggle to take off, yet many diseases disperse rapidly without issue. Can the lessons learned from the viral diffusion of diseases improve the spread of beneficial behaviors and innovations? How Behavior Spreads presents over a decade of original research examining how changes in societal behavior—in voting, health, technology, and finance—occur and the ways social networks can be used to influence how they propagate. Damon Centola's startling findings show that the same conditions that accelerate the viral expansion of an epidemic unexpectedly inhibit the spread of behaviors. How Behavior Spreads is a must-read for anyone interested in how the theory of social networks can transform our world. Option credit spread strategy is one of the best ways to take advantage of the stock market's complex behavior. In this Credit Spread Options Book, you will discover: - The 8 criteria we use to select the

best stocks to write credit spreads - The vital difference between naked and uncovered calls - 10 examples of stock you should never use to trade credit spreads. Amateurs do this all the time and you can lose as much as $31,000 on a single trade. Learn why these stocks are so dangerous and what to do instead - How to automatically set up take profit levels so you only have to spend a couple of minutes each month managing your trades - Options Greeks explained in 10 minutes - Exactly what level the VIX should be at before you sell a spread. A backtest implementing this one tweak made the strategy 50% more profitable over 10 years worth of trades - A simple strategy for selecting the right strike price for your options - The only 3 technical indicators you need to know for credit spreads. Ignore everything else, you only need these 3 beginner-friendly metrics to get started - No strategy is risk-free, but on page 101 we show you how to set up your trades to avoid any big losses - How to find the best credit spreads stocks for free. Stock scanning services will charge you $300 a year for this information, but our approach costs nothing and lists the exact same companies So, you would finally realize that options analysis and trading is not rocket science but rather an efficient way to successfully trade the dynamic stock market. Structural liquidity risk is a material risk resulting from the core banking business of taking in short-term deposits and lending out long-term loans, thus allowing a maturity mismatch between assets and liabilities. At some point the long-term loans will require refinancing and the institution is at risk of an adverse development of refinancing costs.This book proposes a model for the quantification of structural liquidity risk and describes the underlying methodology and assumptions for stressing the refinancing costs. The change in present value between closing open liquidity positions under stressed refinancing costs compared to current costs is the calculated impact on risk-bearing capacity. Make trades on vertical options spreads with the precision of a laser beam Vertical Options Spreads is a combination of a bona-fide academic research-based study and a complete method to trade credit and debit spreads, along with other complex option combination trades such as iron condors and butterflies. Here, the author has accumulated five years of daily data on the ETF, SPY and provided historical evidence of actual win rates at specific multiples of entry points, both in time and price level. For example, traders will be able to use the weekly options, pick a level of risk and return desired, learn how to place the trade, and then discover the actual percent return that the trade would have yielded. This must-have resource includes the basics of option trading and contains references to many excellent works by other authors that explore more about the intricacies of option mechanics and trading. It is far more than an analysis of one specific asset, SPY, featuring a study of probability theory and how it has applied to trading over the past five years, including the highly volatile 2007 to 2009 time frame and the more "normal" 2010 to 2012 time period. The book offer a thorough understanding of how price movement, actual volatility, and implied volatility all provide a complex but workable web in which the informed trader can generate excellent returns. However, the trader must have the discipline to act within the confines of probability and the "law" of large numbers refusing to place trades based on gut feelings or hunches. Offers high-probability based trading that uses the new weekly options Contains handy interactive worksheets that allow traders to select their own risk/return with precision Includes a website with daily and weekly information on the estimate of the actual standard deviation points on the price spectrum Vertical Options Spreads offers traders a research-based guide for trading Standard & Poors 500 ETF, SPY using historic and estimated probabilities and returns that will give them an edge in the marketplace. We tweak the conventional Merton model to account for the asymmetric properties of assets returns and investors asymmetric behavior toward the upside potential of gain versus the downside risk of loss. Using an asymmetric split normal distribution, we capture empirical asymmetries in the underlying return distribution, while we conserve the attractiveness of delivering closed-form pricing formulas that collapse to the basic Merton model in the symmetric Gaussian case. The asymmetric specification outperforms the symmetric one in matching high levels of historical credit spreads. We then link the residual (non-default-model-implied) spread to two illiquidity risk factors. The first factor is extracted from several measures of idiosyncratic illiquidity variables and the second factor is a systematic factor obtained from a general index common to all studied bonds. Our model explains 70%

of the BBB-AAA spread and more than 72% of BBB and AAA credit spreads relative to the on-the-run Treasury rates. This is an applied book, using the bare minimum of mathematics to give a good understanding of finance. It is ideal for people just starting out in their financial career or those who have some financial experience who want to broaden and refresh their knowledge. A bestiary was a medieval book containing pictures and descriptions of mythical beasts each with its own moral tale to edify the reader. This is a bestiary of finance, and as such starts with a picture book of jobs and traded instruments in finance. Then the "Foundations" section sets out the broad picture of who does what and why in financial markets. Finally there are detailed chapters on financial instruments grouped into sections on "Fixed Income," "Credit," and "Forwards, Futures and Options." The book contains many figures and fully worked exercises to clarify the concepts. We consider the desirability of modifying a standard Taylor rule for a central bank's interest-rate policy to incorporate either an adjustment for changes in interest-rate spreads (as proposed by Taylor [2008] and by McCulley and Toloui [2008]) or a response to variations in the aggregate volume of credit (as proposed by Christiano et al. [2007]). We consider the consequences of such adjustments for the way in which policy would respond to a variety of types of possible economic disturbances, including (but not limited to) disturbances originating in the financial sector that increase equilibrium spreads and contract the supply of credit. We conduct our analysis using the simple DSGE model with credit frictions developed in Curdia and Woodford (2009), and compare the equilibrium responses to a variety of disturbances under the modified Taylor rules to those under a policy that would maximize average expected utility. According to our model, a spread adjustment can improve upon the standard Taylor rule, but the optimal size is unlikely to be as large as the one proposed, and the same type of adjustment is not desirable regardless of the source of the variation in credit spreads. A response to credit is less likely to be helpful, and the desirable size (and even the right sign) of the response to credit is less robust to alternative assumptions about the nature and persistence of disturbances. Perspectives in Spread Spectrum brings together studies and recent work on six exciting topics from the spread spectrum arts. The book gives a wide, collective view of trends, ideas, and techniques in the spread spectrum discipline, due to the authors' extensive work on spread spectrum techniques and applications from different vantage points. The inexorable march of electronics towards ever faster, ever smaller, and ever more powerful electronic and optical circuitry has wrought, and will continue to enable, profound changes in the spread spectrum arts, by allowing increasingly complex signalling waveforms and statistical tests to be implemented as the theory beyond spread spectrum continues to evolve. Perspectives in Spread Spectrum is divided into six chapters. The first chapter deals with sequence spreading design. There is not a single metric for design of spreading sequences; rather, the design is ideally tailored to the specific scenario of usage. This chapter delves into recent and very promising synthesis work. The second chapter deals with OFDM techniques. As channels become wider and trans-channel fading (or jamming) becomes frequency selective across the band, OFDM techniques may provide a powerful alternative design perspective. The third chapter is a generalization of the venerable Walsh functions. A new modulation scheme, Geometric Harmonic Modulation, GHM for short, is reviewed and characterized as a form of OFDM. From GHM, a further generalization of the Walsh functions is derived for non-binary signalling. The fourth chapter is concerned with some new and exciting results regarding the follower jammer paradigm. A counter-countermeasure technique is reviewed, notable for its counterintuitive characteristic which can be understood from a simple yet elegant game framework. The fifth chapter recounts some results pertaining to random coding for an optical spread spectrum link. The technique is based on laser speckle statistics and uses a coherent array of spatial light modulators at the transmitter but allows the receiver to be realized as a spatially distributed radiometric and therefore incoherent structure. The sixth and final chapter looks at an important and interesting application of spread spectrum to accurately locate a wideband, ‘bent pipe’, satellite transponder. It is, in a strong sense, an inverted GPS technique. Perspectives in Spread Spectrum serves as an excellent reference and source of ideas for further research, and may be used as a text for advanced courses on the topic. The importance of managing credit and credit risks

carefully and appropriately cannot be overestimated. The very success or failure of a bank and the banking industry in general may well depend on how credit risk is handled. Banking professionals must be fully versed in the risks associated with credit operations and how to manage those risks. This up-to-date volume is an invaluable reference and study tool that delves deep into issues associated with credit risk management. Credit Risk Management from the Hong Kong Institute of Bankers (HKIB)discusses the various ways through which banks manage risks. Essential for candidates studying for the HKIB Associateship Examination, it can also help those who want to acquire a deeper understanding of how and why banks make decisions and set up processes that lower their risk. Topics covered in this book include: Active credit portfolio management Risk management, pricing, and capital adequacy Capital requirements for banks Approaches to credit risk management Structural models and probability of default Techniques to determine loss given default Derivatives and structured products This paper studies the macroeconomic determinants of the term structures of Treasury yields, corporate bond credit spreads, and corporate bond liquidity spreads in a unified no-arbitrage framework. Four economic factors, monetary conditions, inflation, real output, and financial market volatility, are extracted from a set of macroeconomic and financial data series. During the pre-crisis period, volatility shocks decrease Treasury yields and widen both credit spreads and liquidity spreads for all rating classes, and credit spreads widen as monetary conditions tighten, but the effects of inflation and real output are insignificant. In times of stress, financial market volatility has a similar impact and the impacts of inflation and real output become significant as well. Ignoring the liquidity component of corporate yield spreads is shown to lead to inaccurate estimation of the impacts of economic factors on corporate credit spreads. The paper also provides evidence of ”flight-to-liquidity” behavior which strengthens in bad times and sheds light on the negative correlation between the risk-free rate and corporate yield spreads as well as on the positive correlation between credit spreads and liquidity spreads. This study specifies an equilibrium correction model of the credit spreads on quality Japanese yen Eurobonds. In an important paper Longstaff and Schwartz (1995) derive a closed form solution of the arbitrage-free value on risky debt in continuous time. However, in discrete time real world data series it is common that many economic and financial nonstationary time series are cointegrated. Nevertheless, until now there is no theory for continuous time cointegration. In addition the existence of cointegration leads to incomplete markets so that the arbitrage-free valuation should not apply. Instead, one must rely on equilibrium pricing, where the markets clear in the equilibrium via a potentially complicated adjusting process. In this paper the important factors driving the credit spreads are introduced into the equilibrium relation and the adjusting process are investigated. The empirical results indicate that the corporate bond yields are cointegrated with the otherwise equivalent Japanese Government Bond (JGB) yields, with the spread defining the cointegration relation. Furthermore, the results indicate that the equilibrium correction term is highly statistically significant in modelling spread changes. The other important factor is the risk-free interest rate with the negative sign as predicted by the Longstaff and Schwartz (1995). On the other hand there is little evidence of the contribution of the asset return to the spread behaviour. The estimated coefficient of the equilibrium correction term indicates that the adjustment process is fairly slow, which indicates that the clearing process in the markets takes time. Through the lens of the Taylor rule, this paper is concerned with the circumstances in which the Fed would change its behavior. A Bayesian MCMC method is proposed to deal with a switching Taylor rule robust to zero lower bound and heteroscedasticity. The posterior results from Markov-switching Taylor rule indicate that, first, there is strong evidence for an “active” regime in which the Fed responses to output gap aggressively. Second, the movements in the posterior probability of the active regime is highly correlated with credit spreads. I then use a switching Taylor rule with transition probabilities connected to credit spreads to show that the positive correlation is strongly supported by data, implying that the Fed responses to output gap more strongly when the credit spreads rise. Credit spreads for secured debt issuances are lower than for unsecured debt issuances, especially when a firm's credit quality deteriorates, the economy slows, or average credit spreads widen. Yet healthy firms tend to be

reluctant to issue secured debt when other forms of financing are available, as we demonstrate with an analysis of security issuance over time and in particular around the COVID-19 pandemic shock in the United States in early 2020. We find that for firms that are rated below-investment grade and that have few alternative sources of financing in difficult times, the likelihood of secured debt issuance is positively correlated with the premium associated with secured debt. It is uncorrelated for firms that are investment grade. This pattern of issue behavior is consistent with firms seeing unencumbered collateral as a form of insurance, to be used only in extremis. Traditional theories of credit spread behaviour predict that changes in the risk-free interest rate and asset factors are negatively correlated with changes in credit spreads on risky bonds. This study investigates this proposition in the Australian context by investigating the spread between three different rating classes and four maturities of Australian dollar Eurobonds and Australian government bonds. Using a daily data set that is divided into three subperiods between 2 January 1995 and 25 August 1998, the results confirm this empirical proposition. However, the relative weight of the explanatory variables changes with the subperiods investigated. The evolution of credit derivatives has inspired many researchers to investigate the behaviour of credit spreads. Today the growing consensus is that the equity option market provides sufficient information to estimate latent credit parameters. Recently Hull, Nelken and White [HULL05] proposed a model to estimate credit spreads from the equity option market. This research presents some important theoretical developments that could be profitably adopted by the financial industry. We first test the conjecture of an existing relationship between the credit and equity options markets by running a time series analysis between market credit spreads and the corresponding implied equity volatility. Different terms and moneyness were considered in order to eliminate any presumptions; we find that there exists a strong positive relationship between credit spreads and implied equity volatility. Secondly, we extend Hull et al.'s model by relaxing significant assumptions, and introducing our "First-Passage Alternative (FPA) model". We show that the FPA model produces an accurate estimation of credit spreads while showing sensitivity to implied equity volatility in all ranges. Finally we use this model to deduce hedging ratios which result in simple closed-form solutions enabling traders to effectively and economically eliminate their risk exposure using both credit and equity markets. The FPA model provides a useful link between the two markets, and allows the recognition of existing arbitrage opportunities as they occur. In this paper, we examine the dynamic behavior of credit spreads on corporate bond portfolios. We propose an econometic model of credit spreads that incorporates portfolio rebalancing, the near unit root property of spreads, the autocorrelation in spread changes, the ARCH conditional heteroscedasticity, jumps, and lagged market factors. In particular, our model is the first that takes into account explicitly the impact of rebalancing and yields estimates of the absorbing bounds on credit spreads induced by such rebalancing. We apply our model to nine Merrill Lynch daily series of option-adjusted spreads with ratings from AAA to C for the period January, 1997 through August, 2002. We find no evidence of mean reversion in these credit spread series over our sample period. However, we find ample evidence of both the ARCH effect and jumps in the data especially in the investment-grade credit spread indices. Incorporating jumps into the ARCH type conditional variance results in significant improvements in model diagnostic tests. We also find that while log spread variations depend on both the lagged Russell 2000 index return and lagged changes in the slope of the yield curve, the time-varying jump intensity of log credit spreads is correlated with the lagged stock market volatility. Finally, our results indicate the ARCH-jump specification outperforms the ARCH specification in the out-of-sample, one-step-ahead forecast of credit spreads. Credit risk models like Moody's KMV are now well established in the market and give bond managers reliable estimates of default probabilities for individual firms. Until now it has been hard to relate those probabilities to the actual credit spreads observed on the market for corporate bonds. Inspired by the existence of scaling laws in financial markets by Dacorogna et al. (2001) and Di Matteo et al. (2005) deviating from the Gaussian behavior, we develop a model that quantitatively links those default probabilities to credit spreads (market prices). The main input quantities to this study are merely industry yield data of different times to maturity and expected default

frequencies (EDFs) of Moody's KMV.The empirical results of this paper clearly indicate that the model can be used to calculate approximate credit spreads (market prices) from EDFs, independent of the time to maturity and the industry sector under consideration. Moreover, the model is effective in an out-of-sample setting, it produces consistent results on the European bond marketwhere data are scarce and can be adequately used to approximate credit spreads on the corporate level. There is a large and growing literature on how to model the dynamics of the default-free term structure to fit the observed historical data. Much less is known about how best to model the dynamics of defaultable yield curves. This paper develops a class of defaultable term structure models that is tractable enough to be empirically implemented and flexible enough to capture some important behaviors of the credit spreads in the data. We compare two nonnested models within this class using a Bayesian estimation technique, which helps to solve the problem of latent state variables. The Bayesian approach also enables us to test the two nonnested models on the basis of the Bayes factor. The results strongly suggest that models with constant transition probabilities will not be able to fit the observed dynamics of inter-rating spreads. The first decade of the 21st Century has been disastrous for financial institutions, derivatives and risk management. Counterparty credit risk has become the key element of financial risk management, highlighted by the bankruptcy of the investment bank Lehman Brothers and failure of other high profile institutions such as Bear Sterns, AIG, Fannie Mae and Freddie Mac. The sudden realisation of extensive counterparty risks has severely compromised the health of global financial markets. Counterparty risk is now a key problem for all financial institutions. This book explains the emergence of counterparty risk during the recent credit crisis. The quantification of firm-wide credit exposure for trading desks and businesses is discussed alongside risk mitigation methods such as netting and collateral management (margining). Banks and other financial institutions have been recently developing their capabilities for pricing counterparty risk and these elements are considered in detail via a characterisation of credit value adjustment (CVA). The implications of an institution valuing their own default via debt value adjustment (DVA) are also considered at length. Hedging aspects, together with the associated instruments such as credit defaults swaps (CDSs) and contingent CDS (CCDS) are described in full. A key feature of the credit crisis has been the realisation of wrong-way risks illustrated by the failure of monoline insurance companies. Wrong-way counterparty risks are addressed in detail in relation to interest rate, foreign exchange, commodity and, in particular, credit derivative products. Portfolio counterparty risk is covered, together with the regulatory aspects as defined by the Basel II capital requirements. The management of counterparty risk within an institution is also discussed in detail. Finally, the design and benefits of central clearing, a recent development to attempt to control the rapid growth of counterparty risk, is considered. This book is unique in being practically focused but also covering the more technical aspects. It is an invaluable complete reference guide for any market practitioner with any responsibility or interest within the area of counterparty credit risk. We present an empirical analysis of the European electronic interbank market of overnight lending (e-MID) during the years 1999-2009. The main goal of the paper is to explain the observed changes of the cross-sectional dispersion of lending/borrowing conditions before, during and after the 2007-2008 subprime crisis. Unlike previous contributions, that focused on banks' dependent and macro information as explanatory variables, we address the role of banks' behaviour and market microstructure as determinants of the credit spreads. Master's Thesis from the year 2022 in the subject Economics - Finance, grade: 1,7, University of Hagen (Fakultät für Wirtschaftswissenschaft, Lehrstuhl für Bank- und Finanzwirtschaft), language: English, abstract: Corporate bond credit spreads are much larger than historical default rates, which leads to an unexplained gap between the default premium component and total credit spread. This gap is referred to as the "credit spread puzzle" in the literature and has driven the discussion of the components of credit spreads in the past decades. The size of each component affects the decision of whether to purchase a particular class of bonds; this underlines its importance in risk management, portfolio management, and valuation. The first goal of the thesis is to provide a comprehensive review of the current state of research on how to decompose

credit spreads and estimate their parts. Second, in an empirical study, the systematic risk in current EUR-denominated credit spreads is estimated and compared to the results of Elton et al. (2001). Furthermore, I analyze the regime-dependence of credit spreads for different cross-sections, as systematic risk has proven important in crisis periods. Finally, implications for the calculation of debt beta are derived as in business valuations it is possible to use a debt beta if the debt of the valuation object is subject to a systematic risk that leads to a signifcant risk premium demanded by debt providers. I show that the systematic part of the credit spread for observed EUR-denominated bond spreads from 2009 to 2021 can be assumed higher than in the US bond market, is regime-dependent and would have direct implications on the calculation and relevance of a debt beta for business valuations. This paper develops measures of emerging market credit spreads for the 1990s, based on data on new bond issues and bank loans, that cover a broader range of borrowers than the Brady bond spreads most commonly used to date. These measures are used to identify the impacts of credit ratings, maturity and currency denomination on spreads. We find important regional differences in spreads across the developing world, even after controlling for risk and maturity. We also identify the evolution of spreads during the 1990s up until the advent of the Asian financial crisis, holding other determinants constant, and find that emerging market spreads declined by more than can be explained by improvements in risk. However, for emerging market instruments with relatively favourable credit ratings, trends in spreads differed considerably from those experienced by Brady bonds. Finally, and in contrast to much market commentary, we find that variations in industrial country short-term interest rates explain relatively little of the decline in emerging market bond spreads. Longer-term trends, perhaps reflecting globalisation, along with the temporary impact of the Mexican financial crisis, may have been more important factors in the behaviour of emerging market spreads. Masterarbeit aus dem Jahr 2012 im Fachbereich BWL - Bank, Börse, Versicherung, Fachhochschule des bfi Wien GmbH, Veranstaltung: Banking and Finance, Sprache: Deutsch, Abstract: The purpose of this paper is to measure the correlation between the foreign longterm issuer credit ratings and both, credit spreads and ASW and to assess the role that the Rating Agencies play on the capital markets. Ratings reflect the financial strength and credit-worthiness of the issuer as assessed by the external rating agency. Spreads indicate the market’s expectations in connection to the riskiness of the investment. Hence high spreads compensate investors for the higher risk taken. The result of the analysis is that there indeed exist correlations between foreign long-term issuer credit ratings and both, credit spreads and ASW. A high spread is strongly correlated to a low credit rating. However, even if the relationship exists, it is not possible to draw clear patterns of the market behavior. In some of the analyzed cases, market movements took place before a rating change, which indicates that both, the market and rating agencies considered the same information. In other cases, the market was influenced by the rating change. And sometimes the market reacted different to the rating agencies decisions and expectations. Overall the market reacts differently fast and not homogenous to the “fundamental” information it has. This makes it impossible to clearly state the extent to which ratings influence spreads. The results are not clear enough to indicate a more precise answer or to fully understand the market behavior. The market is a highly volatile environment in which it is impossible to draw predictable behavior patterns in relation purely to the credit rating. This inconsistency in reaction is partially conflicting the theory of the strong-form EMH, as the market reacts to the asymmetric level of information available or prices in other factors not covered in this paper. The topic on credit spreads have been one of the major focuses on the scope of finance and investment literature. Theoretical frameworks have shown that credit spreads (or bond spreads) are the risk premium reflecting the additional risks borne by the investors for holding corporate bonds and provide signals for the likelihood of default. With the importance of credit spreads in the pricing of corporate bonds and in reflecting investors' behaviours during the different states of the economy, many empirical studies have explored on the behaviour of the spreads as well as factors determining its changes focusing on the developed bond markets of the United States of America, Europe, Japan and Australia. Despite the fact that sukuk market has been growing rapidly in the past

decade, analysis on sukuk spreads is still in scarcity. With the aim to enhance the understanding on sukuk spreads for the purpose of risk management, this study attempts to analyse on the trend, behaviour and influencing factors for the variations of sukuk spreads over the period of 2005 to 2011. Focusing on the Malaysian sukuk market, this study employs the generalised auto-regressive conditional heteroscedasticity (GARCH) method by Bollerslev (1986). Apart from exploring the main determinants for sukuk spreads, this method also allows analysing the volatility of sukuk spreads and whether it is affected by the recent 2007/2008 global financial crisis and the volatility of the Malaysian stock market. For a more robust analysis, this study compares the behaviour and influencing factors of sukuk spreads against bond spreads and takes into account both investment and non-investment grade securities. This study is among the first few to document that the movement of the interest rate and the anticipation on the direction of the short term rate are the most important determinants to influence the variation in sukuk spreads. In line with the pressing demand for more in-depth information on various dimensions of the sukuk market, this study enriches the literature on Islamic finance from the perspective of sukuk spreads analysis. In addition to that, this study is also beneficial to the investors, portfolio managers as well as regulators to better understand the underlying factors influencing the pricing and risk management of sukuk instruments. Empirical studies on credit spread determinants are predicated on the presence of a single-regime over the entire sample period and thus find limited explanatory power. We show that a single regime model hides the fact that the explanatory variables take on different loadings across changing patterns in credit spreads. We capture these hidden effects by modeling endogenous (rating-specific) regimes for credit spreads. We find that in a two regime-based model traditional determinants have significant explanatory power consistent with the prediction of structural models, yet their importance changes across regimes -- some variables have their effects strengthen, weaken or even reverse signs across regimes. We also investigate the differing behavior of these loadings across different specifications of the economic cycle and find that endogenous regimes best capture the hidden effects of these variables with the highest explanatory power for the same set of variables. In recent years, a number of structural developments have had a significant influence on the functioning of financial markets. The most important of these developments are the introduction of the euro, the spread of electronic trading, shifts in the constellation and behaviour of market participants and changes in relative supplies of different assets. There is some evidence that such developments have led to shifts in liquidity among different market segments and, moreover, that market liquidity is less robust than in the past. Furthermore, some of the largest government securities markets have begun to lose their pre-eminence as centres for price discovery about macroeconomic fundamentals, while credit derivative, corporate bond and equity markets are all vying to become the locus for price discovery about credit risk. These changes in market functioning pose various challenges for central bank policy, including what role central banks should play in promoting robust liquidity, how best to gauge market expectations, and whether the conduct of monetary policy operations should be adjusted. This paper served as the background paper for the Autumn Central Bank Economists' Meeting held at the BIS on 15-16 October 2001. In addition to setting out the issues for discussion, it summarises the main findings of the other papers presented at the meeting (the full versions of which can be found in BIS Papers No 12) Ö Nowadays, contrarily to what was happening just a few years ago, credit risk soaks the majority of securities allocated in the banks' trading portfolios. The development of securitisation techniques and the parallel refinement of pricing models allowed the transfer of this risk in new forms, more digestible even for the most cautious investors. After the understandable initial suspicion towards the innovation, corporate bonds, asset backed securities and credit linked notes have gradually populated new portfolios, introducing a considerable component of income, but, at the same time, exposing the related fair values to the risk of credit spread fluctuations.It is possible that some risk management system cannot fully capture the risk of devaluation of credit risky instruments that not always arises from real changes in the solvency conditions of the borrowers, but, more frequently, is due to the changes in risk perception for investors.Indeed, behavioural mechanisms (e.g., flight to quality)

may be triggered by isolated events (e.g., some important downgrade or profit warning) producing, at least in the short term, a general spread widening resulting in losses for all credit risky securities.Treating this risk class as internal to interest-rate risk often leads to fair value inaccuracy and under-evaluation of value-at-risk. This is true for every financial instrument, but is more evident for floating rate notes that, while show a low interest rate risk, often imply high credit spread sensitivities.Therefore, starting from the typical pricing models for plain vanilla bonds, we explore the possibility of improving the current pricing techniques in order to isolate spread risk and the mere interest-rate risk. This study develops measures of emerging market credit spreads for the 1990s, based on data on new bond issues and bank loans, that cover a broader range of borrowers than the Brady bond spreads most commonly used to date. These measures are used to identify the impacts of credit ratings, maturity and currency denomination on spreads. We find important regional differences in spreads across the developing world, even after controlling for risk and maturity. We also identify the evolution of spreads during the 1990s up until the advent of the Asian financial crisis, holding other determinants constant, and find that emerging market spreads declined by more than can be explained by improvements in risk. However, for emerging market instruments with relatively favourable credit ratings, trends in spreads differed considerably from those experienced by Brady bonds. Finally, and in contrast to much market commentary, we find that variations in industrial country short-term interest rates explain relatively little of the decline in emerging market bond spreads. Longer-term trends, perhaps reflecting globalisation, along with the temporary impact of the Mexican financial crisis, may have been more important factors in the behaviour of emerging market spreads. Derivative Products & Pricing consists of 4 Parts divided into 16 chapters covering the role and function of derivatives, basic derivative instruments (exchange traded products (futures and options on future contracts) and over-the-counter products (forwards, options and swaps)), the pricing and valuation of derivatives instruments, derivative trading and portfolio management. In this paper, we examine the dynamic behavior of credit spreads on corporate bond portfolios. We propose an econometric model of credit spreads that incorporates portfolio rebalancing, the near unit root property of spreads, the autocorrelation in spread changes, the ARCH conditional heteroscedasticity, jumps, and lagged market factors. In particular, our model is the first that takes into account explicitly the impact of rebalancing and yields estimates of the absorbing bounds on credit spreads induced by such rebalancing. We apply our model to nine Merrill Lynch daily series of option-adjusted spreads with ratings from AAA to C for the period January, 1997 through August, 2002. We find no evidence of mean reversion in these credit spread series over our sample period. However, we find ample evidence of both the ARCH effect and jumps in the data especially in the investment-grade credit spread indices. Incorporating jumps into the ARCH type conditional variance results in significant improvements in model diagnostic tests. We also find that while log spread variations depend on both the lagged Russell 2000 index return and lagged changes in the slope of the yield curve, the time-varying jump intensity of log credit spreads is correlated with the lagged stock market volatility. Finally, our results indicate the ARCH-jump specification outperforms the ARCH specification in the out-of-sample, one-step-ahead forecast of credit spreads. The thesis of Kristina Reimer provides a comprehensive analysis of asymmetric cost behavior (also known as cost stickiness) by discussing its origin and development in the theoretical and empirical research from the 1920s of the past century up until today. Further, using an empirical approach, she investigates the implications of asymmetric cost behavior for credit and financial risk of a firm. In addition, she provides an introduction into credit risk fundamentals by focusing on credit default swaps. Thereby she analyses the development of credit default swap market as well as the components of credit spreads. Finally, she provides several suggestions for future research. This article shows how a modeling framework for the evolution of credit spreads can be built up starting from a simple representation with only two states - default and no default. The model is generalized by introducing credit classes, with transitions from one class to another driven by a deterministic credit migration matrix to account for credit rating behavior. The model allows memory in credit rating changes, credit spread volatility, and mean

reversion. This framework allows the derivation of explicit pricing formulas for risky bond and bond option prices, which facilitates implementation and calibration. The credit migration matrix is calibrated on observed bond prices of various credit ratings and uses the Moody's historical credit migration matrix. The authors present examples based on real market data and make some empirical assessment of the model specification using historical time series. This study adopts Markov-switching ARCH model proposed by Hamilton and Susmel (1994) to explore the behavior of credit spreads for different bond ratings. Specifically, this paper examines the properties of credit spreads and the co-movements of spreads among different durations and credit ratings. The consideration of the population makes the outcome more precise. The contribution of this study is to add to the investors a knowledge as to the credit spread behavior and help them understand the lower rating or longer maturity bonds by the observation of the investment-graded bonds while there are more risks and uncertainties conceal in these high yield bonds or D-rated bonds. The conclusion of this paper may help investors understand credit risk management and thus build appropriate portfolios. "This book is encountered within three major types of large-scale financial activity: commercial leading, fund management and investment banking trading activities. There businesses are increasingly founded upon quantitative approaches. This introductory text takes each of these activities in turn and describes the nature of the marketplace, how credit risk is measured and the quantitative tools employed to manage the exposure." -- BACK COVER. Understanding the long term relationship between the yields of risky and riskless bonds is a critical task for portfolio managers and policy makers. This study specifies an equilibrium correction model of the credit spreads between Japanese Government bonds (JGBs) and Japanese yen Eurobonds with high quality credit ratings. The empirical results indicate that the corporate bond yields are cointegrated with the otherwise equivalent JGB yields, with the spread defining the cointegration relation. In addition the results indicate that the equilibrium correction term is highly statistically significant in modelling credit spread changes. Another important factor is the risk-free interest rate with the negative sign, while there is little evidence of the contribution of the asset return to the behaviour of spreads.