Pricing And Trading Credit Default Swaps

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ABSTRACT

The topic of this work is a detailed study of stylized credit default swaps within the framework of a generic reduced-form credit risk model. By a reduced-form model we mean any model of a single default or several dependent defaults in which we can explicitly identify the distribution of default times. Our approach is based on the assumption that the conditional joint law of the default times is known. We have chosen stylized credit default swaps (CDSs) as liquidly traded assets. We obtain the dynamics of the CDS prices, and we develop hedging strategies for defaultable claims.