



Dependence Properties of Dynamic Credit Risk Models

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ABSTRACT

We give a unified mathematical framework for reduced-form models for portfolio credit risk and study the influence of dependence between default intensities on the dependence of default times. Dependence in the default intensities is modelled by common macroeconomic factors as well as by inter-obligor links. It is shown that popular models produce positive dependence between defaults in terms of association. Implications of this result are discussed, in particular when we turn to the pricing of defaultable bonds, credit swaps and k-th-to-default swaps. (Joint work with Nicole Bäuerle (Karlsruhe).)