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Abstract

In this paper a simulation approach for defaultable yield curve is developed within the Heath et al. (1992) framework. The default event is modelled using the Cox process when the stochastic intensity represents the credit spread. The forward credit spread volatility function is affected by the entire credit spread term structure. Cox process properties and the Monte Carlo simulations technique are used for pricing defaultable bonds.

Keywords: HJM model, Cox process, Bond price, Monte Carlo method
JEL Classification: C63, G13, G33

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