Demonstrate knowledge of the structural model approach to credit risk.Including:

Describe Merton’s structural model using the option-like nature (both call options and put options) of traditional corporate securities

Describe the inherent conflict of interest that exists between shareholders and bondholders

Understand the mechanics of Merton’s structural model and apply the model to value the firm’s debt as well as put options on the firm’s assets

Calculate the value of risky debt with Black-Scholes option pricing model

Understand how binomial trees can be used to value structured products