candidates should be able to:

Demonstrate knowledge of reduced form modeling of credit risk. Including: Identify the difference between structural models and reduced-form models. Define the three factors that determine the expected credit loss of a credit exposure. Calculate expected credit loss. Describe two key characteristics of the risk-neutral modeling approach. Define risk-neutral probability. Describe and apply the risk-neutral approach to pricing risky debt. Apply the risk-neutral approach to estimating credit spreads. Apply the reduced-form model to determine relative prices of securities. Explain what it means to calibrate a model.List the advantages and disadvantages of the reduced-form model. Compare structural and reduced-form credit risk models.