

MASTER OF FINANCIAL ENGINEERING
UCLA Anderson School
Credit Risk
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Problem Set 1

Problem 1 (Default Prediction via Logit Regression)

- (a) Which variables could be good predictors for default?
- (b) Should default probabilities increase or decrease with these variables?

Now, consider the attached data set.

- (c) Provide descriptive statistics describing
 - the full data set,
 - the subsample of non-defaulted firms,
 - the subsample of defaulted firms.

Which variables seem to predict defaults? Is the relation positive or negative?

- (d) Perform a logit regression. Which variables are significant? Interpret the results.