

Sensitivity Analysis of Credit Risk Measures in the Beta Binomial Framework

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Abstract: This paper reconsiders the Beta Binomial approach for modeling default risk in homogenous credit portfolio. The beta mixing distribution is viewed as a function of the common default probability and the common default correlation. We mainly focus on the correlation parameter and provide closed-form expressions for sensitivities of key credit risk indicators. Sensitivity and elasticity analysis show that the common default correlation impacts on the credit at risk and expected shortfall quite differently. A final application is performed on CDOs.