

Title: An Investigation of Default Probability in Thailand

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Printed Source: Chulalongkorn Journal of Economics, September 2001, Vol.13, No.3 pp.377-407

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Abstract: Using the sample of 100 most liquid companies listed in the Stock Exchange of Thailand during 1992-1999, the default probabilities from two approaches, the logit model and the KMV model, are calculated and compared. The results from the KMV model suggest that the default probabilities of financial institutions are higher than the probabilities of industrial companies. Moreover, the results from the KMV model confirm that the average default probabilities of financial distressed firms in the 1997 financial crisis are higher than the average default probabilities of non-distressed firms. Comparing the prediction of the KMV model with the logit model, the results show that the logit model is better in terms of total prediction error and the Type I error at any cut off levels. The regression results suggest that the default probabilities of the two models have positive associations and seem to be consistent over the period of 1992-1999. Finally, the study examines whether the default probabilities have been priced. The results suggest that investors indeed do require compensations for default risk. The evidence also suggests that investors are more concerned about default risk and they require higher compensation for it after the financial crisis.