



## Finance and Economics Discussion Series: An Empirical Analysis of Bond Recovery Rates: Exploring a Structural View of Default (Paperback)

By Daniel Covitz, Song Han

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book \*\*\*\*\* Print on Demand \*\*\*\*\*.A frictionless, structural view of default has the unrealistic implication that recovery rates on bonds, measured at default, should be close to 100 percent. This suggests that standard frictions such as default delays, corporate-valuation jumps, and bankruptcy costs may be important drivers of recovery rates. A structural view also suggests the existence of nonlinearities in the empirical relationship between recovery rates and their determinants. We explore these implications empirically and find direct evidence of jumps, and also evidence of the predicted nonlinearities. In particular, recovery rates increase as economic conditions improve from low levels, but decrease as economic conditions become robust. This suggests that improving economic conditions tend to boost firm values, but firms may tend to default during particularly robust times only when they have experienced large, negative shocks.

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