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Entropy measure of credit risk in highly correlated markets

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Highlights

- The Jeffreys-Kullback-Leibler divergence between single-and multi-factor credit risk models is examined
- We analyse high and low asset correlation conditions, small and large markets
- The Jeffreys-Kullback-Leibler divergence increases when asset correlations are high
- In highly correlated financial markets, single factor models misrepresent credit risk

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