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## Market Valuation and Risk Assessment of Canadian Banks

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Abstract



This paper applies the asset valuation model developed by Rabinovitch (1989) to the six largest Canadian banks. The model is an extension of the Merton (1977a) option-pricing model with the incorporation of stochastic interest rates. We then introduce a measure of distance-to default, Z-score. Our results indicate that the market value of bank assets is almost always below its book value and that Canadian banks have a very low insolvency risk over time, except for 1982 and 1983. We also find that both the market valuation of the bank assets and the z-score of these Canadian banks demonstrate similar regime switches in the late 1990s, which may be related to regulatory changes during the 1990s.

Details



<b>Title</b>	Market Valuation and Risk Assessment of Canadian Banks
<b>Keywords</b>	asset pricing ( <a href="https://ageconsearch.umn.edu/search?f1=keyword&amp;as=1&amp;sf=title&amp;so=a&amp;rm=&amp;m1=p&amp;p1=asset%20pricing&amp;ln=en">https://ageconsearch.umn.edu/search?f1=keyword&amp;as=1&amp;sf=title&amp;so=a&amp;rm=&amp;m1=p&amp;p1=asset%20pricing&amp;ln=en</a> ); financial institution ( <a href="https://ageconsearch.umn.edu/search?f1=keyword&amp;as=1&amp;sf=title&amp;so=a&amp;rm=&amp;m1=p&amp;p1=financial%20institution&amp;ln=en">https://ageconsearch.umn.edu/search?f1=keyword&amp;as=1&amp;sf=title&amp;so=a&amp;rm=&amp;m1=p&amp;p1=financial%20institution&amp;ln=en</a> )
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<b>Issue Date</b>	2006
<b>Publication Type</b>	Journal Article
<b>DOI and Other Identifiers</b>	10.22004/ag.econ.50281 ( <a href="http://dx.doi.org/10.22004/ag.econ.50281">http://dx.doi.org/10.22004/ag.econ.50281</a> )
<b>Record Identifier</b>	<a href="https://ageconsearch.umn.edu/record/50281">https://ageconsearch.umn.edu/record/50281</a>
<b>PURL Identifier</b>	<a href="http://purl.umn.edu/50281">http://purl.umn.edu/50281</a>
<b>Published in</b>	Review of Applied Economics

<b>Volume</b>	02
<b>Issue</b>	1
<b>Page Range</b>	63 - 80
<b>Total Pages</b>	18
<b>JEL Codes</b>	G12 G21
<b>Record Appears in</b>	Lincoln University (/collection/130?In=en) > Review of Applied Economics (/collection/1076?In=en)

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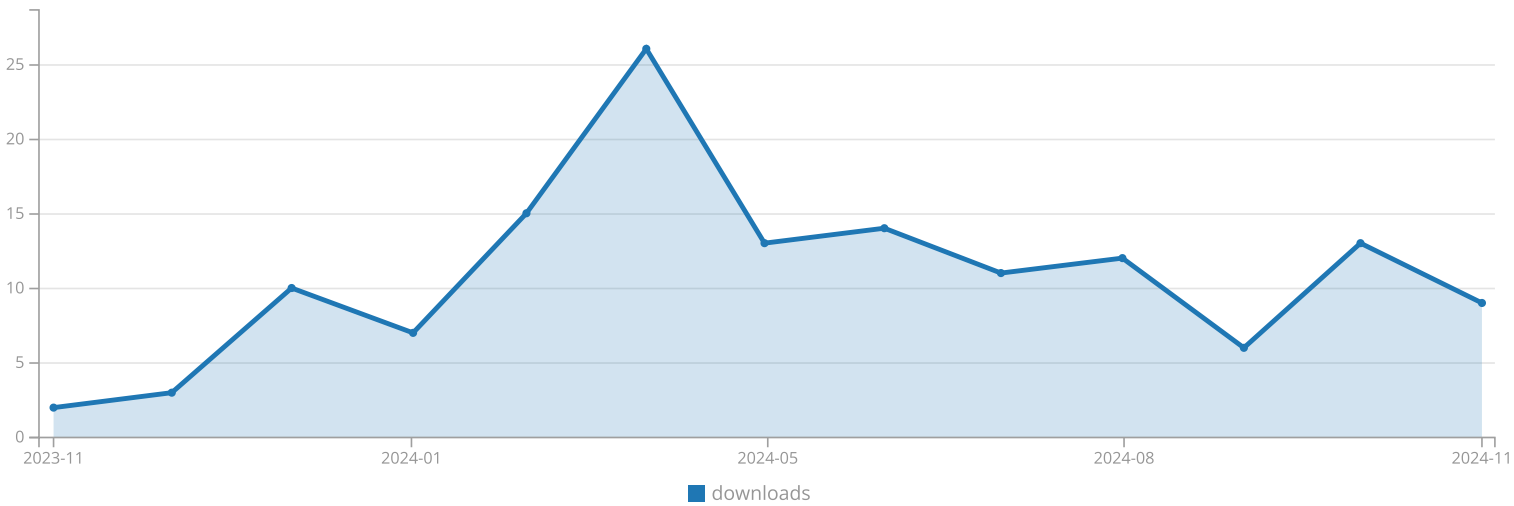
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