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Research Article

Explaining credit default swap premia

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Abstract

This article proposes a simple approach for explaining credit default swap premia. Specifically, it investigates the effects of historical and option-implied equity volatility on credit default swap premia, thus extending an idea proposed by Campbell and Taksler (**in press**) in the context of corporate bond yields. Using panel data of credit default swaps on 120 international firms from 1999 to mid-2002, it becomes evident that option-implied volatility is a more important factor in explaining variation in credit default swap premia than historical volatility. © 2004 Wiley Periodicals, Inc. Jrl Fut Mark 24:71–92, 2004

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