

What Is in a Municipal Bond Rating?

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Abstract

Studies on the determinants of municipal bond ratings contain two conspicuous patterns: the use of financial accounting variables and the application of discriminant analysis to them. Over 70 different financial accounting variables have been specified, leading to different findings across the studies. In addition, discriminant analysis has been applied in these studies without correcting for violations of its underlying assumptions. Akaike's information criterion and Lachenbruch's U method are used to show how a probit model specified with economic base diversification, economic expansion, and fiscal management variables may be an improvement over the application of discriminant analysis to financial accounting variables in the determination of a triple A bond rating.

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