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A Reduced-Form Model for Valuing Bonds with Make-Whole Call Provisions

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Abstract

We develop a reduced-form valuation model for bonds with make-whole call provisions.

Informed call prices and
callable model so
that the sample of make-
whole call extended
Kalman
well-

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Notes

1 An analysis in this section is an extension of Nayar and Stock ([2008](#))

2 To facilitate comparison of the two models, the notation in this section closely follows the notation in Jarrow et al. ([2010](#)).

3 The notation in this section closely follows the notation in Jarrow et al. ([2010](#)).

4 Even though we did not include results from restricting the α term to be positive, in our sample data, allowing α term to be negative results in a noticeable improvement in fit.

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