

# ADVANTAGES, LIMITATIONS AND DEVELOPMENT OF MODELING THE RISK OF CREDIT IN THE MERTON MODEL

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**Abstract:** The internationalization of financial flows and banking and the rapid development of markets have changed the financial sector, causing him to respond with force and imagination. Under these conditions, the concerns of financial and banking institutions, rating institutions are increasingly turning to find the best solutions to hedge risks and maximize profits. This paper aims to present a number of advantages, but also limits the Merton model, the first structural model for modeling credit risk. Also, some are extensions of the model, some empirical research and performance known, others such as state-dependent models (SDM), which together with the liquidation process models (LPM), are two recent efforts in the structural models, show different phenomena in real life.

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