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Soggetti	Credit - Mathematical models Financial risk management Banks and Banking Foreign Exchange Investments: Bonds Money and Monetary Policy Contingent Pricing Futures Pricing option pricing International Financial Markets Monetary Systems Standards Regimes Government and the Monetary System Payment Systems Financing Policy Financial Risk and Risk Management Capital and Ownership Structure Value of Firms Goodwill General Financial Markets: General (includes Measurement and Data) Monetary Policy, Central Banking, and the Supply of Money and Credit: General Monetary economics Currency Foreign exchange

Financial services law & regulation  
Investment & securities  
Currencies  
Exchange rates  
Credit risk  
Bonds  
Credit  
Money  
Financial regulation and supervision  
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Nota di bibliografia	Includes bibliographical references.
Nota di contenuto	Contents; I. Introduction; II. The Model; III. Numerical Examples and Illustrations; Tables; 1. The Euro-Denominated Debt Spread, Face Value, PD, and the Cost of Credit Risk as a Function of Correlations; IV. Credit Spreads and Modigliani and Miller Propositions; Figures; 1. Spreads on Foreign-Currency Bonds and Correlations; 2. Betas of Stocks and Foreign Currency Bonds for Various Correlations; 2. The Expected Return on Stock ( $y_S$ ) as a Function of the B/S Ratio; V. Implications and Conclusions; 3. The Expected Return on Stock $y_S$ as a Function of the B/S Ratio and Correlation Coefficient 4. FE as a Function of FAppendixes; I. Determination of the Face Value of Debt in the Foreign Currency; 5. FE as a Function of F; II. Firm Value, Exchange Rates, and Inflation; References
Sommario/riassunto	The paper shows how-in a Merton-type model with bankruptcy-the currency composition of debt changes the risk profile of a company raising a given amount of financing, and thus affects the cost of debt. Foreign currency borrowing is cheaper when the exchange rate is positively correlated with the return on the company's assets, even if the company is not an exporter. Prudential regulations should therefore differentiate among loans depending on the extent to which borrowers have "natural hedges" of their foreign currency exposures.