Bankruptcy prediction in Norway: a comparison study.

Abstract:
In this paper we develop statistical models for bankruptcy prediction of Norwegian firms in the limited liability sector using annual balance sheet information. We extend generalized linear-, generalized linear mixed- and generalized additive models in a discrete hazard setting. It is demonstrated that careful examination of the functional relationship between the explanatory variables and the probability of bankruptcy enhances the models' forecasting performance. Using information on the industry sector we model the unobserved heterogeneity between different sectors through an industry-specific random factor in the generalized linear mixed model. The models developed in this paper are shown to outperform the model with Altman's variables at all levels of risk. As a measure of models' forecasting accuracy the area under the ROC curve is used.

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