PROBABILISTIC PREDICTION

OF

BUSINESS FAILURE

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TABLE OF CONTENTS

LIST OF TABLES

CHAPTER I

INTRODUCTION

The failure of a firm, although not common, is very costly to the suppliers of capital because reorganisation or liquidation cost may consume a large portion of the wealth of the firm. In order to avoid this costly exercise, it is of great importance for the potential suppliers of capital to not only have an insight of a firm's present performances but also be able to foresee, or at least, predict its future performances before making a decision. So what they need is not merely a traditional sequential ratio comparisions technique but a more vigorous statistical technique such as a multiple variables analysis. Therefore, a bankruptcy prediction model which predicts potential business failure as early as possible is the most desirable.

The objective of this project paper is to apply bankruptcy prediction model developed abroad to local environment. In this project paper, the author applies Zavgren's (1985)[1] models to predict the probabilities of business failure for three local public companies for the years from 1984 to 1988. The author feels that the period from 1984 to 1988 is an approriate period to apply the models because Malaysian economic performances in ·terms of

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