

**NATIONAL OPEN UNIVERSITY OF NIGERIA**

**PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA**

**FACULTY OF MANAGEMENT SCIENCES**

**JANUARY 2018 EXAMINATION**

**COURSE CODE: BFN721 CREDIT UNITS: 2**

**COURSE TITLE: Investment and Portfolio Management**

**TIME ALLOWED: 2 Hrs**

**INSTRUCTIONS: 1. Attempt question number one (1) and any other (2) questions.**

**2. Question number 1 carries 30 marks, while the other two (2) questions carry 20 marks each.**

**3. Present all your points in coherent and orderly manner.**

**1a.** Security X and Y have the following expected returns and Probabilities.  **20Marks**

Probability Security X Security Y

0.3 20% 18%

0.2 25% 27%

0.4 30% 35%

0.1 50% 40%

Required:

Calculate the Expected Return and Risks

**b.** Discuss the limitations of Markowitz Model. **10Marks**

**2a.** State and discuss the functions of Central Bank of Nigeria. **15Marks**

**b.** State five (5) functions of Money Market. **5Marks**

**3a.** What do you understand by the Weak Form Efficiency? **10Marks**

**b.** Endurance Plcis proposing to take over Quickwin Ltd. Presently Quickwin Ltd is valued at PE ratio of 16. It has in issue 1,000.000 at ordinary share and earned profit after tax of N200,000 per annum.

Required:

How much will Endurance Plc pay for the share of Quickwin Ltd using PE ratio approach. **10Marks.**

**4a.** Assume two securities A and B with the flowing information

Current Market Price Good state Bad state

A N1.50 N1.90 N1.30

B N0.90 N1.20 N0.50

**Required**

Determine the price to offer for the securities under the state of nature. **12Marks**

**b.** Discuss the risk Management Strategies. **8Marks**

**5a.** Given the following two securities with the attached standard deviation and expected value of cash flows

**Security A Security B**

Standard deviation N5.60 N 8.60

Expected value N12.00 N15.5

**Required**

Estimate their coefficient of variation and decide on the riskier security. **8Marks**

**b.** Explain the following terms in relation to classification of investment relationship

(i) Positive Correlation. **4Marks**

(ii) Negative Correlation. **4Marks**

(iii) No correlation **4Marks**