



NATIONAL OPEN UNIVERSITY OF NIGERIA
PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2020_2 EXAMINATION...

COURSE CODE: BFN403 **CREDIT UNIT: 3**
COURSE TITLE: CAPITAL MARKET AND PORTFOLIO THEORY
TIME ALLOWED: 2 ½ Hrs

INSTRUCTION:

- 1. Attempt question Number one (1) and any other three (3).**
- 2. Question number 1 is compulsory and carries 25 marks, while the other questions carry 15 marks each.**
- 3. Present all your points in coherent and orderly manner.**

Q1. Your Uncle, who is a rather successful furniture maker, comes to you seriously aggrieved. He and his friend started some savings three years ago. He has saved ₦2, 946,487.12 while his friend saved ₦2, 862,143.14; as per their own records. His friend withdrew ₦500, 000 from his account on first of this month. He is informed that his 'net consolidated' balance is ₦2, 647,864.76 Today, your uncle went to withdraw ₦500, 000 from his own account and they say his balance is ₦244, 648,788.12. He is totally lost and angry.

On investigation you discover that your uncle's friend actually had savings, fixed deposit and Investment accounts. ₦50000 and additional multiples of ₦10000 were always transferred to his Deposit or investment accounts.

Required:

- (i) Explain to your uncle the differences between savings and investment. **(4 marks)**
- (ii) Educate him on why and how his friend's savings were 'growing' and his did not; and how the differences in the net balances could have arisen. **(6 marks)**
- (iii) Further identify to them 3 money Market and 3 capital Market assets in which they could invest their present savings for better returns. **(12 marks)**
- (iv) As a Banking and Finance student; what can you say about your uncle's bankers *vis-a-viz* his friend's? **(3 marks)**

- Q2. (i) Distinguish between fundamental and technical analysis. Give elucidating examples. **(5 marks)**
- (ii) In a tabular form, identify four of the variables or issues on the bases of which fundamental and technical analyses may be done. **(10 marks)**
- Q3. You are in the Research and Training Department of a stock brokerage firm. You have been selected as one of the facilitators at this year's induction training of newly employed members of staff. You are to speak on the following:
- (i) Bond Indenture
 - (ii) Collectivized Debt Obligation
 - (iii) Index Fund
 - (iv) Transferable shares
 - (v) Subordinate Debenture
- (3 x 5 =15 marks)**
- Q4. (i) Distinguish between risk premium and risk-return-trade off. **(5 marks)**
- (ii) Tomatoes and Pepper managed two portfolios in the investment year October 2018 - September 2019. Returns of the portfolios as well as that on Treasury Bills are given below:

RETURNS ON PORTFOLIOS

Returns %	Q1	Q2	Q3	Q4
TBR	6	5	8	6
Port:I	3	6	-5	7
Port II	4	9	-2	8

Required

- a. Compute the mean returns on these three investment portfolios **(6 marks)**
 - b. Determine the risk premium on the two portfolios. **(4 marks)**
- Q5 (i) Define the term Beta (β) and explain what it measures **(5 marks)**
- (ii) Present three methods of measuring β **(6 marks)**
- (iii) What does the following mean? $0 \leq \beta \leq 1$ explain why this should be so. **(4 marks)**
- Q6. Write brief but very explanatory notes on any three of the following
- (a) Gearing and risk
 - (b) Local subsidiary
 - (c) Samurai bonds
 - (d) Script Issues.
 - (e) Debt-for-Debt Swap
- (5 x 3 = 15 marks)**