



NATIONAL OPEN UNIVERSITY OF NIGERIA
PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2021_2 EXAMINATION

COURSE CODE: BFN 403 **CREDIT UNIT: 3**
COURSE TITLE: CAPITAL MARKET AND PORTFOLIO THEORY
TIME ALLOWED: TWO AND HALF HOURS
INSTRUCTION: Answer questions one (1) and any other three (3)

BFN 403 II

Question 1.

You work for an *Issues Management* firm. The firm was about going to the press with an *Offer for sale* for a company when COVID-19 broke out in November 2019. The offer was to be by way of a *Bought deal*. In the table below are data reflecting percentage changes in the company's sales for years 2019 and 2020.

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2019	3	4	-2	-1	4	5	3	-2	-3	4	5	6
2020	1	3	-1	2	-5	3	2	4	2	3	4	3

Required:

- i. Explain, with examples, where necessary, the three highlighted terms/phrases in the question. (6marks)
- ii. Determine in which year sales fluctuated more. (12 marks)
- iii. Using the t-test of equality of two means, validate the hypothesis, at 95% level of significance, that the impact of COVID-19 on the company's sales was not significant.

Note: $t = \frac{\mu_1 - \mu_2}{S_p}$ (7 marks)

Hint: $t = \frac{\bar{x}_1 - \bar{x}_2}{s/\sqrt{n}}$ let $s = .253$

Question 2

- a) Distinguish between an active portfolio and a passive portfolio. (5 marks)
- b) Give 2 advantages and 2 disadvantages of each. (8 marks)
- c) Overall, which one do you think is better and why? (2 marks)

Question 3

- a) One of your trainees is confused as to why some stocks are described as income, defensive or speculative stocks. In as brief as possible a note, disambiguate among these, giving examples where necessary. (9marks)
- b) The investment press has had this to say about world capital markets; ‘for now, it will appear that pharmaceutical companies’ stocks have been more resilient vis-a-vis COVID-19 than their debt instruments’. Explain and elucidate. (6 marks)

Question 4

You visited your brother in-law for Xmas & New Year and the house was in turmoil. Your sister advised her husband to buy shares of some blue-chip companies last year. Your brother in-law did not get anything by way of dividend even from the only one of the three companies that paid dividend. In anger he has asked questions and according to him, he ‘smells a rabbit’.

The company made a profit ₦86.75m. Number of shares in issue are 25610752. But they paid ₦1.35 dividend per share. Worse still, I did not get a kobo, because your sister says I bought cum- die or ex-div. I don’t know which. She was also talking of pay out or payout ratio. In fact, the whole thing is more like abracadabra to me. I am confused.

Required

- i. What are blue chips? (3 marks)
- ii. Determine what dividend would have been paid and why the company may have paid only ₦1.35 per share. (8 marks)
- iii. Why did he not get any dividend? (4 marks)

Question 5

- a) Using appropriate diagram(s) and/or other means, demonstrate the relationship between the Capital Asset Pricing Model, (CAPM) and the Capital Market Line (CML) (10 marks)
- b) An investor invested 1/3 of his fund in each of the followings: (a) 90 day TB at 14%, (b) 90day B/A at 14.5% and (c) 90 day fixed deposit at 12.5%. Which investment is wisest and why? (5marks)