



NATIONAL OPEN UNIVERSITY OF NIGERIA
PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2020_1 EXAMINATION

COURSE CODE: BFN403 **CREDIT UNIT: 3**

COURSE TITLE: CAPITAL MARKET AND PORTFOLIO THEORY

TIME ALLOWED: 2 ½ HOURS

INSTRUCTION: Answer questions one (1) and any other three (3)

(1) Attempt question number One (1) and any other Three (3) questions.

(2) Question number 1 carries 25 marks, while the other questions carry 15 marks each.

(3) Present your work in coherent and orderly manner.

Q1. Below is an extract from a **prospectus**:

Cankara Investment Plc, the **Issuing House**, offers for subscription, for and on behalf of ALIPHA Plc 1800000000 ordinary shares of 50k **par value** at 115k per share. Offer opens on 1st January 2020 and closes 31 March 31st 2020; and 600000000 **Right issue** on the bases of **1 for 4** at 108k per share.

Required:

(i) Explain the six highlighted terms/phrases in the question **(18marks)**

(ii) Determine the premium on this offer. **(4 marks)**

(iii) Nina wishes to buy 50,000 units of the offer for subscription and 10000 rights. You are of the view that the offer is a good investment. Nina presently holds no Alpha Plc's shares. What is your advice to Nina and why? **(3 Marks)**

Q2.

(a) Four principle concepts in investment portfolio management are: (i). Risk (ii) Return (iii) Gilts (iv). Volatility.

Explain each of these concepts in relation to and roles in portfolio conception and management. **(8 marks)**

(b)

Company/Year	5	4	3	2	1
TAM PLC k/s	8	6	3	-	5
ROW PLC k/s	3	5	6	5	4

Given the dividend payment history of Tam and Row plc for the last five years, which of the two companies' security is more attractive? Give quantitative as well as qualitative reasons for your position.

(7 marks)

Q3.

- (a) Distinguish between the random walk hypothesis and the efficient market hypothesis. **(5 marks)**
- (b) What is the relationship (if any) between them? **(5 marks)**
- (c) What will you say is the level of efficiency of Nigerian capital market? **(5 marks)**

Q4.

- (a) Return is a generic term meaning the difference between amount invested and the amount received. More often than not, returns come in different forms and over some time horizons. List and explain four (4) specific forms of return that investors may receive from their investments. **(6 marks)**
- (b) Unlike **insider dealing**, neither **speculation** nor **hedging** is a crime in the financial market. Expatiate. **(9 marks)**

Q5.

- (a) Explain the conceptual differences between Williams Sharpe's and Treynor's measures of portfolio performance. **(5 marks)**
- (b) Using the data in the table below evaluate the performance of the portfolio under reference based on Sharpe's and Treynor's measures. PTR means Portfolio Return and TBR = Treasures Bill Rate. Take portfolio Beta 1.4

Year \	1	2	3	4	5
PTR	16	14	18	10	14
TBR	12	12	10	12	12

(10 marks)

Q6 Write short but very explanatory notes on each of the followings:

- (i) Callable Bond
- (ii) naked debenture
- (iii) Bear
- (iv) Completion board meeting
- (v) Foot strapping.

(15 Marks).