



NATIONAL OPEN UNIVERSITY OF NIGERIA
PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2021_1 EXAMINATION 1234

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) 25marks and any other three (3) 15marks each

Question 1

A group of MBA students who have little or no background in business or investment has contacted you to help them out of their conceptual melee. They seem to have correctly classified some terms/concepts into four classes, but they are not sure of the meanings and differences of each term/concept in the classes. Explain the following concepts to them:

- a. (i) capital market (ii) securities and exchange commission, (iii) stock market (iv) securities market (v) stock exchange (2 marks)
- b. (i) Securities, (ii) assets, (iii) instruments (2 marks each)
- c. (i) underwriter (ii) stock brokers (iii) issuer (iv) issuing house (v) receiving agents (1½ marks each)

Question 2

(a) In taking a firm to the market; two major issues and issuing house would be confronted with are issue's volume and issue's value; that is pricing. List and explain 5 factors that will influence an issuing house in reading decisions in the above respects. (10 marks)

(b) What does the examiner mean by 'taking a firm to the market'? (5 marks)

Question 3

You have just been informed that the next strategic planning meeting of your firm is to review your investment company's portfolio and strategies. The focus will be "PEALS" this is a group of the ten most important companies you invest in. In fact, they usually take as much as 60% of non-gilt portfolio. Your firm has managed to obtain their management accounts for year 2020.

Required

- (i) Identify 5 classes of ratios you think will need to be computed in assessing the performance of the firms fly (5 marks)
- (ii) List two ratios in each of the above classes of ratios and explain what they measure as well as why you think the measure is crucial in this exercise. (8 marks)
- (iii) Explain the concept of gilt and non-gilt portfolio. (2 marks)

Question 4

- (a) Distinguish between efficient portfolio and efficient market (5 marks)
- (b) What does the random walk hypothesis state? Give the foundations and assumptions of the RWH (5 marks)
- (c) What role may the RWH play in an efficient portfolio and efficient market? (5 marks)

Question 5

- (a) Distinguish between risk free rate of return, portfolio return and market return. (5 marks)
- (b) Given that:
 $R_f = 7.5\%$
 $R_m = 11.05\%$
 $Cov R_m/R_p = 0.128$;
Determine R_p (5 marks)
- (c) Did this investment do well or not in the period under review? (5 marks)