



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.**
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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:

- Explain to your uncle the differences between savings and investment. **(4 marks)**
- 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)**
- 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)**
- 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)