



**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**Plot 91 Cadastral Zone NnamdiAzikiwe Express Way, Jabi, Abuja**  
**FACULTY OF MANAGEMENT SCIENCES**  
**2024\_2 EXAMINATION**

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**COURSE CODE:** BFN 403 **CREDIT UNIT:** 3  
**COURSE TITLE:** CAPITAL MARKET AND PORTFOLIO THEORY  
**TIME ALLOWED:** 2<sup>1/2</sup>HOURS  
**INSTRUCTIONS:** 1. Attempt question number one (1) and any other three (3).  
2. Question number 1 is compulsory and carries 25 marks while the other 3 questions carry 15 marks each. Present all your points in coherent and orderly manner.

**1a.** Briefly explain the following:

- i. Script issue (2<sup>1/2</sup>marks)
- ii. Right issue (2<sup>1/2</sup>marks)
- iii. Issue at par (2<sup>1/2</sup>marks)
- iv. Nominal value (2<sup>1/2</sup>marks)
- v. Stock exchange (2<sup>1/2</sup>marks)
- vi. Shares issues at discount (2<sup>1/2</sup>marks)

**b.** Enumerate five assumptions underlying Capital Assets Pricing Model(CAPM)? (5marks)

**c.** Given a security with an expected return of 9% and a market return of 12%. Also given that government security rate is 7%. Calculate the Beta factor? (5marks)

**Q2a.** Indicate five major types of investment risks Investors are subject to? (10marks)

**b.** State five significant factors that can influence interest rate? (5marks)

**Q3.** Enumerate five implications of Capital Assets Pricing Model (CAPM) in relation to investors, risk and returns on investment? (7<sup>1/2</sup>marks)

**3b.** State five implications of beta factor/coefficient ranging from zero to one? (7<sup>1/2</sup>marks)

**Q4a.** The information below is in respect of TS Ltd, Abuja. Compute expected return using:

- i. The risk free rate of return is 8%
- i. The market rate of return is 15%
- ii. The standard deviation of return on the market as a whole is 50%; B =1.2
- iii. The co-variance of return for the market with returns for the shares of Endurance Ltd over the same period has been 19.2%. (4<sup>1/2</sup>marks)

4b. Given a security with an expected return of 10% and a market return of 15%.; also given that government security rate is 8%. Calculate the Beta factor. **(6marks)**

4c. Enumerate three benefits of convertible securities **(4½marks)**

**Q5.** Explain the concepts briefly:

- a. Liquidity preference theory **(3marks)**
- b. Market segmentation theory **(3marks)**
- c. Expectation Hypotheses; **(3marks)**
- d. Investment value and; **(3marks)**
- e. Preferred Stock **(3marks)**