



# ELIZADE UNIVERSITY, ILARA-MOKIN, ONDO STATE

**FACULTY:** SOCIAL & MANAGEMENT SCIENCES  
**DEPARTMENT:** ACCOUNTING & FINANCE  
**FIRST SEMESTER EXAMINATIONS:** 2018/2019 ACADEMIC SESSION  
**COURSE CODE:** BFN 401  
**COURSE TITLE:** CAPITAL MARKET AND PORTFOLIO THEORY  
**DURATION:** 2 HOURS 30 MINUTES  
**INSTRUCTION:** ATTEMPT TWO QUESTIONS IN ALL. QUESTION ONE (1) IS  
**COMPULSORY**

## QUESTION ONE

- A. Capital market can be regarded as the engine of economic growth. Robustly discuss (5 marks).
- B. February 2019 was fixed as general elections in Nigeria by the chairman of the independent electoral commission (INEC). Following this, investors began to exercise caution at investing in stocks in the Nigerian stock market. This was apparently due to uncertainty and likelihood of the impact of pre-election activities/ policies on investment. Financial analysts had to analyze various happenings in the general economy all with a view to enabling investors to profit from the market. In the light of this, succinctly elucidate on how investors can employ the tools of fundamental and technical analysis to take advantages of the Nigeria stock market. (10 marks)
- C. Write short note on the following
- i. Beta (2 marks) ii. Coefficient of determination (2 marks) iii. Standard deviation (2 marks) iv. Coefficient of correlation (2 marks) v. Mean- variance(2 marks)
- D. Akeredolu Security LTD seeks to invest in securities next year. The probability distribution and sales revenue are indicated below:
- | Quarter | Probability | Sales (N, million) |
|---------|-------------|--------------------|
| 1       | 0.10        | 16                 |
| 2       | 0.30        | 15                 |
| 3       | 0.30        | 14                 |
| 4       | 0.30        | 13                 |
- REQUIRED: Determine the mean and variance and report to the management the implication of your analysis (5 marks).
- E. Assuming the variance of stock is 350 and the variance is 150 and the covariance between stocks and bonds is 80. Also assume that the portfolio weight is 0.5 for both stocks and bonds. Determine the portfolio variance (5 marks).
- F. According to Markowitz theory, all efficient portfolios occupy the efficient frontier. Elucidate (5 marks). **Total marks= 40 marks**

## QUESTION TWO

- A. What is efficient market hypothesis and how is it different from random walk? (3 marks)

- B. Robustly discuss the three forms of the efficient market hypothesis and the tests for each of them **(10 marks)**.
- C. Explain the difference between efficient and inefficient market **(3 marks)**.
- D. Differentiate between systematic risk and unsystematic risk with lucid examples**(4 marks)**

**Total marks= 20 marks**

### QUESTION THREE

- A. i. Distinguish between capital market and money market **(2 marks)**.
  - ii. Identify 3 functions of the capital market **(6 marks)**.
  - iii. Briefly explain 3 participants in the capital market **(6 marks)**.
- B. Differentiate and discuss the two segments of the capital market and securities traded in them **(2 marks)**.
- C. Investors do have three basic attitudes to risk and return in terms of investments. Expatiate on this assertion **(2 marks)**.
- D. How is portfolio different from security? **(2 marks)**

**Total marks= 20 marks**