ELIZADE UNIVERSITY, ILARA-MOKIN, ONDO STATE

FACULTY: HUMANITIES, SOCIAL & MANAGEMENT SCIENCES
DEPARTMENT: ACCOUNTING & FINANCE
FIRST SEMESTER EXAMINATIONS 2020/2021 ACADEMIC SESSION

COURSE CODE: BFN 401

COURSE TITLE: CAPITAL MARKET AND PORTFOLIO THEORY

DURATION: 2 Hours 30 minutes

INSTRUCTION: ANSWER ANY FOUR (4) QUESTIONS IN ALL

QUESTION 1

A. Write short note on the following terminologies:
   - Security **(1 mark)**
   - Fixed income securities **(1 mark)**
   - Variable income securities **(1 mark)**
   - Securities market **(1 mark)**
   - Listing **(1 mark)**
   - Primary market **(1 mark)**
   - Secondary market **(1 mark)**
   - Initial public offer (IPO) **(1mark)**

B. How is efficient market hypothesis different from Random walk theory? **(2 marks)**
C. Explain each of the three forms of efficient market hypothesis and the identify methods of testing for each of them **(5 marks)**

(Total = 15 marks)

QUESTION 2

A. List and explain three benefits of investing in the capital market **(3 marks)**
B. Define capital market instruments **(1 mark)**
C. **Davidson Ltd** has two – security portfolios in the stock market of Ghana. Each security of portfolio has 50% weight each. The variance of security A is 6 while that of security B is 4. If the correlation coefficients in the portfolio are 1.0, 0.5 and –1.0 respectively, you are required to determine the diversification effect of the two – security portfolio **(6 marks)**.
D. Write a short note on the historical development of the Nigerian capital market **(3 marks)**
E. Differentiate first-tier market from second tier security market **(2 marks)**

(Total =15 marks)

QUESTION 3

A. List and explain 5 conditions necessary for the growth of securities market **(5 marks)**
B. Differentiate emerging market from frontier market **(2 marks)**
C. An investment manager in **Abai Plc** has just created a portfolio in stock A and stock B. Stock A has an expected return (mean) of 20% and a weight of 30% in the portfolio. Stock B has an expected return of 15% and a weight of 70%. You are required to determine the expected return of the portfolio **(2 marks).**
D. What is the essence of diversification in portfolio theory? **(1 mark).**
E. List and explain various types of capital market instruments known to you **(5 marks)**

(Total= 15 marks)

QUESTION 4

A. What is capital market? **(1 mark)**
B. Explain the difference between portfolio selection and efficient portfolio **(2 marks)**
C. **Mr. Seriki** owns portfolio consisting of two financial and one non- financial security. While the analysis by a financial expert shows that each security return is completely not correlated with returns of the other securities, the returns however have joint probability distribution between 2013 and 2017 as follows:

Year	Probability	Equity	Bond	Real Estate
2013	0.20	15	9	9
2014	0.30	-2	6	8
2015	0.20	3	10	4
2016	0.13	5	18	10
2017	0.17	8	5	12

D. Required:
E. i. Compute the portfolios expected return and risk if **Mr. Seriki** invested 33% in Bond, 30% in Equity and 37% in Real Estate **(8 marks)**

F. What is the difference between risk and return **(1 mark)**
G. What is beta? **(2 marks)**
H. What is portfolio theory? **(1 mark)**

(Total= 15 marks)

QUESTION 5

A. **Buhari Plc** return on stock (R_i) for the past five months and the market returns are given as follows

Month	**Stock return**	**Market return**
1	15	5

2	10	3
3	13	11
4	16	7
5	6	1

You are required to calculate:

(i) The expected return on the stocks **(1 mark).**
(ii) The return on the market **(1 mark)**
(iii) The variance of the market $(\sigma^2 m)$ **(1 mark)**
(iv) The co-variance **(1 mark)**
(v) Variance of the stock **(1 mark)**
(vi) Coefficient of variation **(1 mark)**
(vii) Beta (β) **(1 mark)**
(viii) The intercept **(1 mark)**
(ix) Co-efficient of determination **(1 mark)**

B. Briefly explain the following terms:

i. Positive correlation **(1 mark)**
ii. Negative correlation **(1 mark)**
iii. Neutral correlation **(1 mark)**
iv. Absolute Risk Aversion **(1 mark)**
v. Relative Risk Aversion **(1 mark)**
vi. Portfolio variance **(1 mark)**

(Total= 15 marks)