



NATIONAL OPEN UNIVERSITY OF NIGERIA
Plot 91 Cadastral Zone Nnamdi Azikiwe Express Way, Jabi-Abuja
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2025_2 EXAMINATIONS

Course Code: BFN403

Credit Unit: 3

Course Title: CAPITAL MARKET & PORTFOLIO THEORY

Time Allowed: 2^{1/2} HOURS

Instructions:

- 1. Attempt Question 1 and any other three (3) Questions.**
- 2. Question 1 is compulsory and carries 25 marks while the other 3 Questions carry 15 marks each.**
- 3. Present all your points in a coherent and orderly manner.**

1a. If CAPM says a 16.5% return should be expected from Company A shares, is that found to be the case in practice? Discuss **5Marks**

b . Analyse investor's choice of selecting any of the following portfolios:

Portfolio	Expected return %	Risk %
A	6.0	4.0
B	7.0	3.0
C	9.0	5.5
D	8.0	6.0

6Marks

c. The CAPM assumes that investors hold diversified investment portfolios and are therefore concerned with systematic risk only and not unsystematic risk. Compared systematic risk of a security with the systematic risk in the market portfolio as a whole. **7Marks**

d. The risk-free rate of return is 4% and the return on the market portfolio is 8.5%.

What is the expected return from shares in companies X and Y if:

- i) the beta factor for company X shares is 1.25**
- ii) the beta factor for company Y shares is 0.90?**

7Marks

2a. With reference to international currency market, explain the term “currency futures”.

2 Marks

2b. Beauty Plc processes and exports wood to foreign countries. In 60 days' time, the company is due to receive a sum of US \$150,000 (One Hundred and Fifty Thousand US Dollars) from processed wood recently shipped to USA. Beauty also has financial obligation to some major suppliers of timber in the South Western part of Nigeria. The total amount of indebtedness is N12.45 million. The Finance Director of Beauty Plc is relying on the proceeds of the exportation

for the settlement of the whole debt. To ensure that the company is not exposed to any foreign exchange risk, the company decides to take cover in the currency futures market. Quotation in the futures Forex market for 60 days is N140.005/140.322 N/U.S \$.

You are required to:

(i) Advise whether the company should enter the currency futures market as a “buyer” or “seller” of U.S Dollars. **1 mark**

(ii) Calculate the opportunity gain or loss the company would make in each case assuming the spot rates 60 days later are:

Buying/Selling

a. 138.008/138.346

b. 140.005/140.323

c. 142.050/142.399

12Marks

Ignore transaction costs and taxation.

15Marks

3a. Discuss any six (6) special financial problems which a multinational company faces which a domestic company does not face. **12 Marks)**

b. Explain three (3) forms of capital market efficiency

3 Marks

4. Ms Damaris a valued client of your stock broking firm has asked for your advice on her investment portfolio. Details of his securities in the stock market (which is regarded as efficient) with the associated risk characteristics are given below:

SECURITIES	X	Y	Z
Standard deviation (%)	5	15	14
Correlation coefficient (%)	80	40	60
Proportion of amount invested (%)	30	30	40

The expected return on shares in general and on the basis of past return and inflationary expectation was estimated to be 20%. It is expected that the risk premium will be about 5%. The risk of the market as measured by its standard deviation is 8%. All the three securities lie on the Securities Market Line (SML).

You are required to prepare the following computations for a discussion with Ms Damaris, as a prelude to your advice:

(i) The expected portfolio return.

10 Marks

(ii) The risk of the portfolio.

5 Marks

5a. In relation to overseas investment decision, distinguish between Foreign Direct Investment and Foreign Portfolio Investment. **10 Marks**

b. Explain five (5) special borrowing facilities at International Monetary Fund (IMF). **5Marks**