NATIONAL OPEN UNIVERSITY OF NIGERIA
PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA
FACULTY OF MANAGEMENT SCIENCES
JANUARY 2018 EXAMINATION

COURSE CODE: BFN721   **CREDIT UNITS: 2**
COURSE TITLE: Investment and Portfolio Management
TIME ALLOWED: 2 Hrs
INSTRUCTIONS: 1. Attempt question number one (1) and any other (2) questions.
                         2. Question number 1 carries 30 marks, while the other two (2)
                              questions carry 20 marks each.
                         3. Present all your points in coherent and orderly manner.

1a. Security X and Y have the following expected returns and Probabilities. **20Marks**

Probability	Security X	Security Y
0.3	20%	18%
0.2	25%	27%
0.4	30%	35%
0.1	50%	40%

Required:

Calculate the Expected Return and Risks

b. Discuss the limitations of Markowitz Model. **10Marks**

2a. State and discuss the functions of Central Bank of Nigeria. **15Marks**
b. State five (5) functions of Money Market. **5Marks**

3a. What do you understand by the Weak Form Efficiency?   **10Marks**
b. Endurance Plc is proposing to take over Quickwin Ltd. Presently Quickwin Ltd is valued at
PE ratio of 16. It has in issue 1,000.000 at ordinary share and earned profit after tax of N200,000
per annum.
Required:

How much will Endurance Plc pay for the share of Quickwin Ltd using PE ratio approach. **10Marks.**

4a. Assume two securities A and B with the flowing information

	Current Market Price	Good state	Bad state
A	N1.50	N1.90	N1.30
B	N0.90	N1.20	N0.50

Required

Determine the price to offer for the securities under the state of nature. **12Marks**

b. Discuss the risk Management Strategies. **8Marks**

5a. Given the following two securities with the attached standard deviation and expected value of cash flows

	Security A	**Security B**
Standard deviation	N5.60	N 8.60
Expected value	N12.00	N15.5

Required

Estimate their coefficient of variation and decide on the riskier security. **8Marks**

b. Explain the following terms in relation to classification of investment relationship
   (i) Positive Correlation. **4Marks**
   (ii) Negative Correlation. **4Marks**
   (iii) No correlation **4Marks**