NATIONAL OPEN UNIVERSITY OF NIGERIA
Plot 91, Cadastral Zone, Nnamdi Azikiwe Express Way, Jabi-Abuja
Faculty of Management Sciences, Department of Financial Studies
JULY Examination 2017

Course Code: MGS 721   **Credit Unit: 2.**
Course Title: SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT
Time Allowed: 2 Hours.
Instructions:
          1. Attempt Question 1 and any other two (2) Questions.
          2. Question 1 is compulsory and carries 30 marks
             while the other Questions carry 20 marks each.
          3. Present all your points in a coherent and orderly manner.
Questions

(1a). Stock prices are heavily influenced by the state of the economy and by economic events. Discuss

(1b). Discuss the theory of market segmentation in the context of Interest Rate Determination.

(1c). Dr. Justice Johnson is to invest N10millon in a bank for 4years at annual interest rate of 10%.

Required:

    i.   What is the future value of the investment?

    ii.   What is the interest element?

2a. Differentiate between Par Value and Stock Value in security analysis

2b. Aside inflation, there are at least five (5) other important economic variables that can significantly affect the level of interest rates. Expatiate on these economic variables.

3a. Debentures are unsecured bonds protected only by the general credit-worthiness of the borrowing corporation. They may contain a "covenant of equal coverage" Elucidate.

3b. Flourish Johnson Plc is proposing to take over Access Ltd. Presently; Access Ltd is valued at price-earnings ratio of 16. It has in issue 10,000,000 at ordinary share and earned profit after tax of N2,000,000. You are required to determine the Earnings Per share of Access Ltd with the information available to you.

1

4a. What do you understand by preferred stocks? Discuss its advantages and disadvantages to investors.

4b. As an investment analyst, explain briefly the concept of Term Structure of Interest Rate

(5a) To most financial theorists, the two assumptions of fundamental analysis seem reasonable, however, there are advocates who do not accept these assumptions. Discuss briefly the hypothesis of "Efficient Market" that appears to be the recommended antidote.

(5b) What do you understand by Call Risk in Security analysis?