

1. Explain what amortization is and how a down payment and loan duration impact it.

**Answer:** Amortization is the paying of debt with a fixed repayment periodically over a period of time. Periodic payment consists of both the repayment of principal and interests. When a payment has been made, principal reduces. Hence, next period interests decrease.

A down payment, initial cash upfront, reduces the remaining amount of the debt that has to be paid. The longer the loan duration is, the less payment has to be paid in each periods but the total interest will be higher.

2. What is the importance of health insurance and disability insurance in personal financial planning?

**Answer:** Health insurance and disability insurance are defensive tool against the loss of income due to illness, injury, partial and total disability. Sometimes, life can be unpredictable. It is better to have some measure to counter the unexpected scenario. By using an insurance, it reduces the risk of losing wealth. Additionally, it can make hospital issues smoother and make those who depends on your income not get into financial troubles.

3. What is life insurance? What is its purpose and principle?

**Answer:** Life insurance is a contract between an insurance policy holder and an insurer or assurer, where the insurer promises to pay a designated beneficiary a sum of money (the benefit) in exchange for a premium, upon the death of an insured person (often the policy holder). Depending on the contract, other events such as terminal illness or critical illness can also trigger payment. The policy holder typically pays a premium, either regularly or as one lump sum. Other expenses, such as funeral expenses, can also be included in the benefits.

It is created as a tool to ensure that people that are depend on you and your income will not suffer much financial loss due to your departure.

4. Joe and Jane are both 35 years old. Although they graduated from college almost 15 years ago, they have never developed a diversified investment program. What extra money they had was invested in high-tech stocks that did quite well. Then, with the economic downturn, they encountered major losses. How could asset allocation have reduced the dollar amounts of the Joe's and Jane's losses?

**Answer:** Diversification will reduce what is called unsystematic risk and only market risk or systematic risk remains. This result will occur if asset is allocated among assets those have the properties of negatively correlated. When one return from one stock goes down, return from other one may goes up or only fall slightly which would make the average loss less severe.