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

Amortization is the process of paying off a balance over time with regular, equal payments. This is common with monthly payments on loans. With loans, each monthly payment looks the same, but the payment is made up of several parts that change over time. At the beginning of the loan, interest costs are at their highest. Each period, the amortization decrease as the higher amount of the down payment. And the longer duration of the loan will generate the less payment of the amortization in each period with higher interest rate as period increase.

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

Health insurance is a tool hedge against the probability that if and when someone unexpectedly becomes sick, requires expensive treatments, or is at the condition that requires long-term care they will not fall into financial problem. For the disability insurance, it can protect your mortgage and car payments by providing you an income if you are sick or hurt and unable to work. Even if you don't own a home, it provides you an income to cover your daily living expenses. So, it is important for an individual to have these in their personal financial planning in order to reduce risk from unpredictable situation.

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

Life insurance is a contract between you and a life insurance company. You agree to pay for the policy on a regular basis, and the insurer agrees to pay a sum of money to your beneficiaries if you die. Term life insurance is designed to provide financial protection for a specific period of time, such as 10 or 20 years. With traditional term insurance, the premium payment amount stays the same for the coverage period you select. Generally, the purpose of life insurance is to provide peace of mind by assuring that financial loss or hardship will be alleviated in the event of the insured person's death.

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?

For this situation, the allocation of asset in other company, sector or industry will help them reduce the risk of having losses. In economic downturn, there will have some companies which get benefit from this situation and the companies' stocks will increase. So, if they invest in stock of any different companies that have negative correlation to each other, this will generate benefit of some companies' stock which can help in reducing the losses they face.