

Assignment 4

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

Ans: *The write off of an asset over its expected period of use, which shifts the asset from the balance sheet to the income statement. It essentially reflects the consumption of an intangible asset over its useful life.*

A down payment helps decrease the amount of money a consumer has to ask for in a loan thus causing the payments and the loan period to be less.

Loan duration is an important part of amortization because it tells you how long the loan is for. If you make payments that are higher than the minimum set payment amount the loan duration will shorten.

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

Ans: *Both insurance should be a protection and guarantee to safeguard your and family's financial situation during the emergency time.*

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

Ans: *Life insurance is a contract between an insurance company and a policyholder under which the company agrees to pay a specified sum to a beneficiary upon the death of the insured.*

People buy it for protection which depends on them from financial losses caused by death.

Life insurance principle is the predictable mortality experience of people.

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?

Ans: *Asset allocation is the process of spreading your assets among several different types of investments to lessen risk.*

In place of all of money was invested high-tech stocks, they could have taken a more diversified investment with money invested in other stocks or funds. Depending on their risk, they should have more than half of their investments in growth oriented investments. The remainder of their money should be invested in safer, more conservative investments.