

FN281: Assignment 4**1. Explain what amortization is and how a down payment and loan duration impact it.**

- Amortisation is a process of paying off a balance over time, with regular equal payment. The down payment is an initial payment made when something is bought on credit so this will reduce the payment amount and monthly payment. The loan duration is the time period that you have to pay for a loan, longer loan duration means that the amount that you have to pay each month will be less so amortisation will be less as well.

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

- Health insurance is a type of non-life insurance, it covers different types of medical expenses in the case that someone suffer from illness or surgery, so this will help reduce the cost. The importance of it is that it offers the family of the insured a physical and emotional protection. Disability insurance is important because it provides coverage if the insured has an accident or illness and become disabled and is not able to work, however there is no guarantee that the insured will become disabled, the other principles are similar to normal insurance.

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

- Life insurance is an insurance that provides compensation to the beneficiaries upon the death of the insured. The purpose is to provide a measure of financial security for your family after you dies, life insurance will only be bought if you have someone depending on your income. Its principle is that many individuals will come together as a group and each person shares the risk of death of another person in the group.

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?

- Asset allocation is the diversifying of investment among a combination of equities. When there's an economic downturn, if Joe and Jane invest in different assets, the losses they encounter would be less because the risk is spread among the assets. The nature of each companies Joe and Jane could be different so some will gain profit and some will make loss, this is better than investing in one company that could either have a very good or a very bad performance.