

## **FN281 Personal Finance**

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### **Question 1. Explain what amortization is and how a down payment and loan duration impact it?**

*Answer.* Amortization is one types of debt repayment method in which the scheduled periodic payment will be consist of both interest and principle so that at the maturity date, the principle will depreciate to be zero. Moreover, the amount of down payment and loan duration will affect the periodic payment in amortization method. Higher degree of down payment and loan duration will lower the periodic payment since high level of down payment will lessen the amount of debt and it will be repaid at long maturity according to extended loan duration vice versa.

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

*Answer.* In personal financial planning, health insurance and disability insurance are the main important insurance that everyone should have. For health insurance, it is an insurance for coverage that pays for individual medical and surgical expenses incurred by the insured. For example, expense incurred from illness or damageable, or pay the care provider directly. For disability insurance, it is an insurance that insures us in case of an accident. It offers income protection to individuals in case of becoming disabled for a long period of time, and as a result can no longer work during that time period.

### **Question 3. What is life insurance? What is its purpose and principle?**

*Answer.* Life insurance is the contract between the insurance company and the insurer where the insurance company will pay the beneficiary sum of money when the insurer is dead exchange with the premium. The purpose and principle of life insurance is to provide the financial stability to the insurer's family after their dead in order to maintain standard of their living for example, pay off the mortgage loan, education or income to their children etc.

### **Question 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 Joe's and Jane's losses?**

*Answer.* Great asset allocation will reduce the risk of portfolio through diversification. More assets added to portfolio, less risk of portfolio will be. From the fact that extra money of Joe and Jane was only invest in high-tech stocks, it is not surprising that they encountered a major losses when there were an economic downturn. However, as mentioned above, asset allocation can reduce the portfolio risk. If two different assets with the negative correlation combined, their price movement would be in opposite direction. Therefore, when the high-tech stocks yield negative return, the other assets would yield positive return which will definitely reduce the amount of losses.