

FN221/FN281 Group Assignment 2 (Group 9)

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

Amortization is paying or accounting loans or debt with the fixed repayment over a period of time. It is common for mortgage and car loan.

A larger down payment decreases amount of loans so the consumer can pay less in both fixed amortized amount and amortized periods. we can determine the amortized amount to be more or less depending on the small or large down payment.

In addition, loan duration affects amortization by telling how long the loans is going to be repaid. The loan duration, shorter or longer, determines the amount of amortized payment to be higher or lower respectively. Hence, the longer the loan duration, the lower the amortized amount.

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

For the important of health insurance in personal finance planing. We know that no one expect to get sick or hurt, but most of the people would get sick or hurt at some point and they all need to pay for the medical cost. Health insurance can solve this problems which will cover the cost and offer many benefits for the buyers. For example, health insurance can protect you from unexpected high medical cost, provides important financial protection when you face a serious accident or sickness or if you have marketplace plan or a qualifying coverage plan, you don't have to pay the penalty. So, the most important reason of health insurance is to support your family's economic condition.

For the important of disability insurance in personal finance planning. We can show an example when something bad or unexpected event occur it can cause disability to people and can easily bring people into serious situation and make people's retirement plans come sooner. Imagine that one people face with some disabilities that are caused by illnesses such as heart disease and cancer. Then people can't go to work and do anything because people suffer a disability. So the disability insurance come to solve this problem. If people are disabled and cannot achieve the principal duties of the job that people currently have because of people's disability then people get paid people's disability benefit even if people can do some other tasks. Then the disability insurance is help people to achieve your financial plan.

Therefore, health insurance and disability insurance help people to protect people family's economic security.

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

Life insurance is a protection against the loss of income that would result if the insured passed away. In exchange for premium payments, the insurance company provides a payment, known as a death benefit, to beneficiaries upon the insured's death. Typically, life insurance is chosen based on the needs and goals of the owner which they will vary with your age and responsibilities.

The purpose of life insurance

- Fill in the gap of lost income when you dies

Life insurance helps bridge the gap between the financial needs of your dependents and the amount available from other sources, is the amount to be provided by life insurance.

- Maintaining standard of living

Life insurance policies are frequently based upon your current standard of living and are designed to help your family maintain your lifestyle after the loss of income that often comes alongside a tragic death.

- Achieving long-term goals

The death of a provider can make it challenging to save for college, retirement and other long-term goals. Life insurance can prevents you from abandoning future goals, and some life insurance policies are specifically designed to help parents ensure they have enough money to send their children to college.

The principle of life insurance compose as follow:

- Principle of utmost good faith

Under the life insurance contract, both party, offered contract and accept contract party, should have faith each other. It applies also to the duty of disclosure regarding its duration to life insurance and material facts which must be disclosed and those which need not be disclosed. Any fraud or misrepresentation of facts can result into cancellation of the contract.

- Insurable interest

An insurable interest is an economic stake in an event for which an insurance policy is purchased to mitigate risk of loss. The insured must have monetary interest on subject matter of life insurance contract. The company can't issue the policy, if there are no interest in the subject matter in life insurance. Its makes an insurance contract legal and valid and protects against intentionally harmful acts.

4. Jane and Bob 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 until the last five years. Then, with the economic downturn, they encountered major losses. How could asset allocation have reduced the dollar amounts of the Bob's losses?

Asset allocation is the investment strategy that separate investor's assets among different types of investment whice bear different risks.

With asset allocation, Jane and Bob can allocate different percentage of their assets to invest in different types of securities such as government or corporate bonds, mutual funds, real estate, cash, or stocks of other companies such as consumer products or oil and gas, in proportion according to thier risk tolerance and financial goals. This way, very high and low returns cancel out and do not affect the expected return of the portfolio. They will be able to diversify the market risks and reduce the losses during market downturn as compared to investing all the money in high-tech stocks.

Securities like bonds can generate a flow of income and can be considered a safe investment if held to maturity as investors will recieve the same return stated on the day of purchase. During the economic downturn, bond price may also increase as investors will demand more for a 'safer investment.' This could also offset the loss in vlaue of high-tech stocks. This way, Bob's losses can be reduced.