

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

-Amortization is the reduction of a loan balance because of payments made over a period of time. 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?

-Disability insurance isn't as widely known as auto insurance, homeowners insurance and life insurance, but it's also important during financial planning. Accidents and illness that put you out of work can't be predicted. You should have disability insurance that covers at least two-thirds of your income to be in a safe place if you become unable to work. Insurance is a necessary component of your financial plan. Even if you have an emergency fund, you should have insurance. You don't want to dip into your emergency fund if you could have the majority of costs covered by your insurance policy. Some situations are expensive without insurance, so to protect your finances and peace of mind, it's important to have types of insurance that are relevant to you.

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

-Life insurance is a contract between an insurance policy holder and an insurer or assurer, where the insurer promises to pay a designated beneficiary a sum of money (the benefit) in exchange for a premium, upon the death of an insured person (often the policy holder). Depending on the contract, other events such as terminal illness or critical illness can also trigger payment. The policy holder typically pays a premium, either regularly or as one lump sum. Other expenses, such as funeral expenses, can also be included in the benefits.

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?

-In this case, the allocation of asset in other company, sector or industry will help them reduce risk of losses. In Economic downturn, there will have some companies' that will benefit in this situation and these companies' stock will increase. So if they invest in stock of many different companies that have negative correlation to each other, it will have benefit of some companies' stock that will reduce the losses that they face.