

Assignment4 FN281

Q1: Explain what amortization is and how a down payment and loan duration impact it.

Ans 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.

Q2: What is the importance of health insurance and disability insurance in personal financial planning?

Ans Both protections should be a part of your overall insurance program to safeguard your family's economic security.

Q3: 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. Most people buy life insurance to protect someone who depends on them from financial losses caused by their death. Fundamental to the life insurance principle is the predictable mortality experience of a large group of individuals.

Q4: 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 The most important benefit of asset allocation is that it reduces your overall risk. Asset allocation as a strategy simply works because every asset class carries a different potential of risk and growth. For instance, while equities are high-risky investments, they could also offer the highest possible returns. Likewise, fixed deposits come with relatively lower risk, but also give stability. So, even if one category fails to perform, the rest will make up for it. In this case, if Joe's and Jane's have fixed deposits in the portfolio, the loss that cause from the economic downturn will be less.