

# [Principle of banking and finance](https://assignbuster.com/principle-of-banking-and-finance/)

[Finance](https://assignbuster.com/essay-subjects/finance/)

1. Loan Amortization Schedule for Bank A End of year: Installment payment Interest Principle payment Ending balance 0 1280000 57344 6144 512001228800
2
57344
5898
51446
1177354
3
57344
5651
51693
1125661
4
57344
5403
51941
1073720
5
57344
5154
52190
1021530
Total
286720
28250
258470
1021530
Calculations
80% of 1600000= 1280000 (total amount loaned)
Total interest paid:
12% x 1280000/25= 153600
Principle + interest = 1433600
Amount of annual installment = 1433600/25 = 57344
Loan Amortization Schedule for Bank B
At 4. 88% per month for 20 years: per annum it will translate to 4. 88%x12 =
For 1280000, the interest will be 4. 88% x 1280000/ 12= 5205 per month
End of month:
Installment payment
Interest
Principle payment
Ending balance
0
1280000
1
5594
260
5334
1274666
2
5594
259
5335
1269331
3
5594
258
5336
1263995
4
5594
257
5337
1258658
5
5594
256
5338
1253320
Total
27970
1290
26670
1253320
Question C
I would work with bank B. this is because its accumulated interest is much less than that of bank A. after 5 years, I will have paid 28250/60 = 471 per month as interest while in bank B, I am paying slightly above 260 per month interest.
2. Difference between a stock and a bond
Stocks, also referred to as shares are ownership units that represent an individual’s interests in a corporation. In this case, a company is subdivided into small units-stocks-where each unit is sold to investors at a prescribed fee. Each stock earns dividend when the company earns profit. As such, the return on investment when a person buys stocks from a given company is the dividend. However, it is notable that the dividend is paid only if the company makes a certain amount of profit, Finn (1999).
On the other hand, a corporate bond is a long-term debts owed to individuals. In this case, the corporate that issues the bond enters into a contract with the person that purchases the bond. In the contract, the company promises to pay the total amount of debt after a prescribed period. In addition, to this, the corporate gives interest after every 6 months on each bond and in accordance with the term of the bond contract.
3. Importance of stock market to individuals, corporation and the economy
Stock market plays a pivotal role in the economy as it is a key to the growth of commerce and industry and as such affects the economy to a large extent. The government can watch on the happenings of various sectors of the economy by a mare look at the trends in the stock market. Equally, individuals who want to invest can compare the figures given in the stock market so as to make important investment decision, Elmuti (2003).
For the corporate, they can either take a credit facility when they need to finance a project or float some of its stock in the stock market. As such, investors are able to buy the stock and thereby allowing the bank to raise the required capital, Fang (2006).
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