Principle of banking and finance

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).

Reference

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