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Essay #3-Time Value Of Money
Financial Management

Time Value Of Money

What is the time value of money? The time value of money is a financial principle that states that the worth of a dollar today is worth more than the value of a dollar in the future. Now you might ask yourself, given inflation rates these days, things will only be more expensive in the future. This financial principle means that if you invest your dollar today, it will grow into a bundle of more money in the future when you compare that first dollar to the future one. The value of the future's cash is computed by dividing the future cash flow by a discount that incorporates the amount of time that will pass with expected interest rates. The time value of money's purpose is to show a steady, strategic way of making long-term financial decisions the best way possible.

If you were to take $100 today and invest it into something, not touching it, it will eventually grow into a larger sum of money in your future. The time value of money is not only important to a regular person trying to make smart money choices, but also to businesses deciding which project would be substantial for the biggest cash flow outcome. Investors use the time value of money principles frequently, understanding the true value of their money at a given time, and of course in the future. Calculating the time value of money is pretty simple, if there is an interest rate of 5% yearly, on that same $100 that you had invested, after one year that $100 would turn into $105. Making clear that same $100 bill now turned into a greater number just by investing it. Time value of money can help you overall save your money, while also investing it and making more money off the original money you invested. The actual written formula for the future value of money is as follows: future value = present value multiplied by one plus the added yearly interest rate. Time value of money should definitely be spoken about more in today's time with inflation rates. Time value of money creates a beneficial way for people to save for their future and live comfortably after retirement.