Time value of money

Finance

TIME VALUE OF MONEY Time value of money is a term that measures the increase or decrease in the value of money with respect to time. The buying powerassociated with certain amount of money; do change as the time passes and multiple factors such as inflation, exchange rates, interest rate and other fluctuations economic conditions come into play. Two factors are central in this concept; present value and future value of money (Homer and Leibowitz, 269-276).

One of the important financial decisions that many people make at individual level, is regarding their retirement planning. In this situation as well, time value of money provides an idea about the future worth of the particular amount of money being invested today at specific point of time in future. How one can use this idea for personal benefit is by estimating his future requirements, these requirements may be some monthly income, university fees for his children, house rent or anything. The sum total of these amounts is calculated and then by using the concept of time value of money, a person can easily find out as to what amount of money he needs to save in bank now to reach to that sum total of future requirement. This can work vice versa, even if a person is unaware of his future requirements and just only know about his present amount of saving, he can even then estimate the amount he would be able to save till the time of his retirement. Overall it is a significant tool used for retirement planning decisions.

Work Cited

Homer, Sidney, and Martin L. Leibowitz. " The Time Value of Money." Inside the Yield Book: The Classic That Created the Science of Bond Analysis, Third Edition (2013): 269-276.