

TIME VALUE OF MONEY



vEcoSys

Time Value of Money
– By Prof. *Simply Simple*™



TIME VALUE OF MONEY

- ❑ Some people put their money in a bank account; some make investments in stocks and bonds.
- ❑ Different people follow different strategies to keep their money on the move.
- ❑ All of them consciously or unconsciously realize time is the biggest enemy of idle money.
- ❑ So, the concept of time value of money always influences our decision about what we intend to do with our money.



TIME VALUE OF MONEY

- ❑ But what makes a rupee in our hands today worth more than a rupee tomorrow?
- ❑ What is so different about currencies made of paper that the value of the same amount of money diminishes with time?



TIME VALUE OF MONEY

Well...

- You need not be a philosopher to understand the concept of time value of money.
- A Rs. 100 note today in our pocket is worth more than a Rs. 100 note that we may get after five years. All of us intuitively know that.
- But let's try to understand what actually makes the present value of money worth more than the value of the same amount of money after five years.



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Remember...

- Money is just another name for new opportunities.
- The money that you have now can open the doors for many opportunities. Different uses of money may have different advantages.
- Some of these opportunities may look very small but some of them might really put you on the fastest track to the future.



TIME VALUE OF MONEY

Here's a new term for you to know!

- ❑ If you invest your money now, you would earn a return which would make your money grow in the next five years.
- ❑ But the problem is you can choose only one of the many equally advantageous opportunities. All of us try to use our money for the best possible opportunity.
- ❑ The advantage that we forego by not putting our money in another possible opportunity is what is called the **Opportunity Cost of Money**.



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For example...

- ❑ So, if you are investing your money in a 10-year bond that pays you 10% interest, then you are foregoing an opportunity of putting the same money in a 10-year term deposit that pays you 8% interest.
- ❑ In this case, your actual advantage is only the 2 percentage points more interest that you earn on your investment in bonds.
- ❑ But always remember that different opportunities have different risks. Investment in bonds may be riskier than investment in term deposits.
- ❑ So you should always compare the risk-adjusted return to find out whether you are gaining or losing in making a particular use of money.



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It is better to eat your breakfast before inflation eats your money!

- Today you can buy four pastries for Rs100, but maybe after five years you would be able to buy only two.
- So you have to think - if I give you an option of either taking four pastries today or two pastries after five years, which option would you choose?



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How can you use the concept of time value of money to make intelligent decisions about your money?

- The first thing you must keep in mind is that you should never keep your present money idle.**
- Money has to grow with time. Invest it in stocks or bonds so that the return is good enough to at least preserve its present value.**
- And still better, take the mutual funds route to take advantage of professional fund management services.**



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To Sum Up

- ❑ If you invest Rs. 1 lakh now, what should its worth be after 30 years if you are earning 10% return per annum compounded annually?
- ❑ For your knowledge, let me tell you that Rs. 1 lakh would be worth Rs. 17.45 lakh after 30 years.
- ❑ The concept of time value of money says that the value of money at present is worth more than the same amount of money in the future.
- ❑ By making appropriate investment decisions, we can make money grow with the passage of time.



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**Hope you have now understood
the concept of Time Value of Money**

Thinking of Investment

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