Calculate the present value and future value of various cash flows using proper mathematical formulas The concept of Time Value of Money: An amount of money received today is worth more than the same dollar value received a year from now In this chapter, we use the concept of time value of money to calculate exactly how much a dollar received or paid some time in the future is worth today, or vice versa It turns out that money paid today is better than money paid in the future (we will see why in a moment). ¤ All cash flows have to be brought to the same point in time, before comparisons and TIME VALUE OF MONEY. Understand the concepts of time value of money, compounding, and discounting. , · As a result, time value of money is considered the most important concept in finance. The future value of cash is manually calculated for each time period. The time value of money is at The long-form approach begins with drawing a time line of the problem. ¤ That point of time can be today (present value) or a point in time in the future (future value) Compounding refers to the growth of a dollar amount TIME VALUE OF MONEY. Compounding refers to the growth of a dollar amount through time via reinvestment of interest earned. This idea is called the time value of money. The simplest tools in finance are often the most powerful. This approach is important to In this chapter, we use the concept of time value of money to calculate exactly how much a dollar received or paid some time in the future is worth today, or vice versa¨PrincipleCash flows at different points in time cannot be compared and aggregated. It is also the process of determining the future value of an investment¨PrincipleCash flows at different points in time cannot be compared and aggregated. ¤ All cash flows have to be brought to the same point in time, before comparisons and aggregations are made. The simplest tools in finance are often the most powerful. This approach is important to understand intuitively how to solve time value of money problems. Cash Flow Time Lines—a very important tool that helps you to visualize the The concept of Time Value of Money: An amount of money received today is worth more than the same dollar value received a year from now It turns out that money paid today is better than money paid in the future (we will see why in a moment). The future value of cash is manually calculated for each time period. This idea is called the time value of money. Objectives: After reading this chapter, you should be able to. Present value is a concept that is intuitively appealing, simple to compute, and has a wide range of applications The four parts are the present value (PV), the future value (FV), the discount rate (r), and the life of the investment (t). However, it is not practical when numerous time periods are involved TIME VALUE OF MONEY. The time value of money is at the center of a wide variety of financial calculations, particularly those involving value The long-form approach begins with drawing a time line of the problem. Present value is a concept that is intuitively appealing, simple to compute, and has a The four parts are the present value (PV), the future value (FV), the discount rate (r), and the life of the investment (t).