

# Time Value of Money

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## Chapter 4 Part I



# Introduction

## ❖ Time Value of Money (TVM)

- Powerful financial decision-making tool
- Used by financial *and* nonfinancial business managers
- Key to making sound personal financial decisions

## ❖ TVM Decision Based on:

- Size of cash flows
- Time between cash flows
- Rate of return



# Introduction

- ❖ TVM Basic Concept:
  - \$1 today is worth more than \$1 next year
- ❖ Inflation reducing the value
- ❖ How much more is a dollar today than a dollar tomorrow

**\$Today**

**>**

**\$ Next Year**

