

## Draft And Implementation *Time Value of Money* in Financial Decision Making

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### ABSTRACT

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*Time Value of Money* (TVM) is a fundamental concept in financial science which explains that the value of money today is more valuable than the value of the same money in the future. front. Difference mark the influenced by factor time, level ethnic group flower, risk, and inflation. This study aims to examine the concept and application of *Time Value of Money* in financial decision making through a literature review approach. The method used in this study is a literature study by reviewing various scientific sources in the form of financial textbooks and national and international journals that are relevant to *Time Value* topic of *Money*. The data that obtained analyzed in descriptive and This study aims to identify the main concepts, influencing factors, and implications of the application of *Time Value of Money* in investment, financing, and financial planning decisions. The results of the study indicate that understanding the concept of *Time Value of Money* plays a significant role in improving the quality of financial decision-making. The application of the time value of money allows individuals and organizations to evaluate decision alternatives rationally, objectively, and with a long-term orientation. Furthermore, the literature also confirms that low financial literacy can be an obstacle to the optimal application of this concept. The conclusion of this study confirms that *Time Value of Money* is not only theoretical but also has significant practical implications. in support taking decision finance Which effective And Therefore, improving understanding of the concept of *Time Value of Money* is important for individuals, practitioners, and educational institutions.



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### Introduction

Financial decision-making is a crucial aspect of both individual and organizational life because it directly impacts future financial conditions. Every financial decision, whether related to investment, financing, or financial planning, always involves considering the value of money based on the time it is received. Therefore, understanding basic financial concepts is an integral part of rational, long-term decision-making (Gitman & Zutter, 2015). One of the fundamental concepts that is the basis for financial decision making is *the Time Value of Money*. Draft This explain that mark Money moment This more tall compared to with the same monetary value in the future due to investment opportunities, risks, and the effects of inflation. Brigham and Houston (2019) state that *Time Value of Money* is a core principle in financial management used to assess the feasibility of various financial decisions through calculations of present and future value. In practice, the concept of *Time Value of Money* is widely applied in various activities. finance, like evaluation eligibility investment, calculation instalment loan, And long-term financial planning. Ross et al. (2018) emphasized that without considering the time value of money, decision-makers could potentially make mistakes in assessing the benefits and costs of a financial decision. However, the level of understanding

public to *Time* concept *Value of Money* Still relatively low, especially in individuals who have limited financial literacy (Lusardi & Mitchell, 2014). Based on these conditions, a study of the concept and application of *Time Value of Money* in financial decision-making is essential. Through a literature review approach, this research attempts to systematically examine the concept of *Time Value of Money*, the factors that influence it, and its implications for supporting rational and effective financial decision-making. It is hoped that the results will... This study can provide theoretical and practical contributions to the development of financial science and increasing financial literacy in society.

## Literature Review

### Understanding *Time Value of Money*

*Time Value of Money* (TVM) is a fundamental concept in finance that states that money is worth more today than the same amount in the future. This is due to the potential for money to generate profits when invested. According to Gitman And Zutter (2015), *Time Value of Money* explain that Money The money currently held can be used to generate greater value in the future through interest or investment mechanisms. Meanwhile, Brigham and Houston (2019) stated that the difference in the value of money over time is influenced by the level of interest rates, risks, And period time. Based on this understanding, it can be concluded that *Time Value of Money* is an important basis for making financial decisions both at the individual and company level.

### Draft And Component *Time Value of Money*

The concept of *the Time Value of Money* is built on several interrelated key components: present value, future value, interest rate, and time period. These four components form the basis for assessing the value of money over time. Present value is mark Money moment This from a number of Money Which will accepted in time front with take into account level ethnic group flower certain. On the contrary, future value is mark Money in time front Which originate from a number of Money Which owned at this time after experiencing growth over a certain period of time (Ross et al., 2018). Besides That, level ethnic group flower own role important in draft *Time Value of Money* because it reflects the expected rate of return on the use of money. The higher the interest rate, the greater the difference between the current and future value of money. mark Money in time front. Temporary That, period time show duration investment or delay reception Money Which participate influence big small the value of the money (Brigham & Houston, 2019). Thus, the relationship between present value, future value, interest rates, and period time become base main in implementation *Time* concept *Value of Money* in various financial decisions. In financial practice, the concept of *Time Value of Money* plays a crucial role in supporting rational and efficient financial decision-making. This concept is used to assess the feasibility of a decision by considering the value of money based on the time of its receipt.

### Implementation *Time Value of Money* in taking Decision Finance

In financial practice, the concept of *Time Value of Money* plays a crucial role in supporting rational and efficient financial decision-making. This concept is used to assess the feasibility of a decision by considering the value of money based on the time it is received. One of the primary applications of *Time Value of Money* is in investment decisions. Investors use the concepts of present value and future value to compare the current value of money invested with the value of returns to be received in the future. According to Brigham and Houston (2019), decision investment Which Good must based on on mark Now from current expected cash, so investors can assess whether an investment provides a reasonable return. In addition, *Time Value of Money* is also applied in financing decisions, such as valuation. credit And loan. Draft This help individual and company in determining the amount of installments, interest, and total obligations to be paid in the future (Gitman & Zutter, 2015). By understanding the time value of money, financing decisions can be made in a more planned and measured manner. In the context of corporate financial management, *Time Value of Money* is used in the assessment of investment projects through cash flow analysis. Ross et al. (2018) stated that companies need consider mark time Money For ensure that the projects being implemented are able to provide added value to the company. Therefore, the implementation of draft *Time Value of Money* become base important in various financial decisions, both at the individual and organizational level.

### Study Previously

research has been conducted on *the Time Value of Money* in the context of financial decision-making. Research by Sari (2020) shows that understanding the concept of *Time Value of Money* significantly impacts students' ability to make investment decisions. The results indicate that the better the understanding of the time value of money, the more rational the investment decisions made. Another study by Putra and Wijaya (2021) discuss implementation draft *Time Value of Money* in planning Corporate finance. Research results show that using the time value of money concept in financial analysis can improve the effectiveness of fund management and help companies minimize financial risk. At the international level, research by Lusardi and Mitchell (2014) confirms that literacy finance, including understanding mark time Money, own role important in individual financial decision making. Individuals with a high level of financial literacy Which more tall tend capable make decision finance Which better And oriented term long. Besides That, study by Al-Tamimi And Son Kalli (2009) found that understanding financial concepts, including *the Time Value of Money* , influences investors' investment decisions. This research shows that investors who understand basic financial concepts are better able to evaluate investment risk and returns effectively. The following table summarizes previous research.

No	Researchers & Year	Research Title	Method	Research result
1	Sari (2020)	The Influence of TVM Understanding on Students' Investment Decisions	Quantitative	Understanding TVM has a significant impact on decision investment
2	Son & Wijaya (2021)	Implementation of TVM in Corporate Financial Planning	Descriptive	TVM increases effectiveness financial management
3	Lusardi & Mitchell (2014)	The Economic Importance of Finance Literacy	Literature Review	Financial literacy influences financial decisions
4	Al-Tamimi & Bin Kalli (2009)	Financial Literacy and Investment Decisions	Quantitative	Financial literacy has an impact on investment decisions

### Framework Thinking

Framework thinking in study literature This arranged based on draft *Time Value of Money* as the main basis for making financial decisions. *Time Value of Money* explains that the value of money is influenced by time, so that the money received moment This own mark Which different with Money Which accepted in The future. This concept consists of several main components, namely present value, future value, interest rate, and time period.



Understanding the components of *Time Value of Money* forms an understanding time value Money for individuals and organization. This understanding forms the basis for applying *the Time Value of Money concept* to various financial activities, such as investment, financing, and project assessment. Through this application, economic actors can compare the benefits and costs of a financial decision more objectively. Based on previous research reviewed, the application of *the Time Value of Money concept* has been shown to play a role in improving the quality of financial decision-making. Therefore, the conceptual framework in this literature review confirms that understanding and applying *the Time Value of Money* contributes to the creation of rational, effective, and long-term economic value-oriented financial decisions.

### Method

This research uses a qualitative approach with a literature review method. Method This chosen For study And analyze draft as well as application of *Time Value of Money* in financial decision making based on relevant scientific sources. Data collection techniques were conducted through documentation studies, namely collecting and reviewing literature in the form of books and journal articles related to the research topic. Literature was selected based on relevance, author credibility, and year of publication to ensure the data used remained up-to-date and scientifically accountable.

### Results and Discussion

#### Compliance Draft *Time Value of Money* with Objective Study

The discussion of *Time Value of Money* (TVM) in this literature review aligns with the research objective, which is to understand the concept and its application in financial decision-making. Financial literature consistently emphasizes that TVM is a key foundation in financial management because it explains the differences in the value of money based on the time dimension (Brigham & Houston, 2019). Therefore, this study is relevant to addressing the research objective, which emphasizes the importance of the time value of money in the context of rational financial decisions. The concepts of present value and future value discussed in the literature provide a clear analytical framework for decision makers in assessing the economic benefits of an decision finance (Ross et al., 2018). Matter This show that study The literature conducted is in accordance with the direction and focus of the research.

#### Analysis Critical Implementation *Time Value of Money* in Decision Finance

The results of the literature review indicate that the application of *Time Value of Money* is not merely theoretical but has significant practical implications for financial decision-making. In investment decisions, for example, the use of the Net Present Value and Internal Rate of Return methods allows decision-makers to evaluate project feasibility more objectively by considering the time value of money (Gitman & Zutter, 2015). However, some literature also emphasizes that the application of *Time Value of Money* has limitations, especially if the assumptions used, such as interest rates, are flower And estimate

current cash, No reflect condition Actually. By Therefore, a good conceptual understanding must be accompanied by risk and sensitivity analysis so that the decisions taken are not biased (Ross et al., 2018).

### Factor Determinant And Challenge in Implementation *Time Value of Money*

The literature identifies level ethnic group flower, inflation, risks, and period time as a factor main Which influence mark time Money. Level ethnic group flower play a role as a discount rate that reflects opportunity costs and expected rates of return (Brigham & Houston, 2019). Meanwhile, inflation affects purchasing power of money so that need taken into account in analysis mark real current cash (Lusardi & Mitchell, 2014). The main challenges in implementing *the Time Value of Money* lie in future uncertainty and limited financial literacy. Literature shows that individuals with low financial literacy tend to ignore the time value of money in decision-making, potentially leading to suboptimal financial decisions (Lusardi & Mitchell, 2014).

### Implications Theoretical And Practical to Retrieval Decision Finance

Theoretically, this literature review reinforces the view that *the Time Value of Money* is a core concept linking financial theory to decision-making practice. This concept provides a logical basis for assessing the trade-off between current consumption and future benefits (Brigham & Houston, 2019). In a way practical, implementation *Time Value of Money* help individual And organization in making more rational, measurable, and long-term financial decisions. By considering the time value of money, decision-makers can minimize the risk of misjudgment and increase the effectiveness of financial management (Gitman & Zutter, 2015).

### Conclusion

*Value of Money* (IVM) in financial decision-making, it can be concluded that *Time Value of Money* is a fundamental concept in finance that emphasizes the differences in the value of money based on the time dimension. Financial literature consistently states that money received today has a higher value than money received in the future due to investment opportunities, risk, and inflation (Brigham & Houston, 2019). This study shows that understanding the main components of *Time Value of Money*, that is present value, future value, level ethnic group flower, And period time, become an important basis for assessing the feasibility of a financial decision. The application of this concept has proven relevant in various contexts, such as investment decisions, financing, and financial planning, at both the individual and organizational levels (Gitman & Zutter, 2015; Ross et al., 2018). Furthermore, literature reviews indicate that understanding *the Time Value of Money* contributes to improving the quality of financial decision-making, making it more rational, objective, and long-term oriented. Individuals and companies that apply the concept of the time value of money tend to manage financial resources more effectively and minimize the risk of decision-making errors (Lusardi & Mitchell, 2014). With thus, can concluded that *Time Value of Money* No only acts as a theoretical concept, but also as a practical analytical tool that has significant implications in supporting efficient and sustainable financial decision-making.

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