

3.11: Key Takeaways

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Time value of money is one of the most powerful and most important concepts in finance. It essentially is as simple as recognizing that because we can earn a return on our money, the value of money changes depending on when it is received or spent. One dollar today is worth more than one dollar received next year. The value of the dollar initially is referred to as a present value while the value of the dollar at a later point in time is referred to as the future value. Compound interest implies that money will grow exponentially over time instead of linearly. This means that relatively small increases in rates of return or time horizons have more power to increase wealth. After completing this chapter, you should be comfortable performing many calculations to see exactly how time value of money can work for you.

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