TedEd-13

The Time Value of Money

ENGLISH BELL online

VOCABULARY

*__Present Value of Money__ – the current value of a future sum of money given a specified rate of return

*__Future Value of Money__ – the value of a current asset at a future date based on an assumed rate growth

*__Time Value of Money__ – the concept that money available at the present time is worth more than the identical sum in the future due to its potential earning capacity

*__Convertible__ – a car with a soft roof that can be folded down or removed

*__Burning a hole in your pocket__ – you are very eager to spend it as soon as possible, especially on something you do not really need but would like to have

COMPREHENSION

1. What is the financial term for the time value of money?

2. If we know the value of an investment today, the investment period and the interest rate, what can we calculate then?

3. What do we call the number of years of a particular investment?

4. If I invested $10,000 for two years, earning a 5% interest rate, how much would the value of my investment at the end of the two years be?

5. We've learned to connect present value of an investment with its future value, based on an investment period and an interest rate. How would you calculate the present value of an investment if you know its future value, its investment period and interest rate?

6. Could you, using the concepts we learned linking Present Value and Future Value, determine the implied interest rate needed to make a value of $10,000 today (Present Value), equal $11,000 (Future Value), one year from now?

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LET'S TALK

1. Are you saving up for anything at the moment? If so, where, in the bank or on your own?

2. Do you think it's best to save your money in the bank if you're planning for a big purchase? Why?

3. If you were Timmy, would you deposit your money in the bank and wait that long until you can afford to buy your dream car?