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Time Value of Money and Economic Value of Time

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Abstract:

In the present and today, it is seen from the daily activities of Muslims in addition to technology that continues to develop rapidly, especially in transaction activities in the economic world, so it is important to understand the economic value of time and the time value of money, as well as their differences. Muslims need to know now, understand and practice the difference between the economic value of time and the time value of money so as not to get caught in usury or transactions that contain usury. However, Islam does not allow a predetermined time value of money. The study used a qualitative descriptive method, in which the collection of literature reviews was obtained through journals. The results we get are, the time value that of money means that money has a time value, while the economic value of time means that time has economic value. Then when viewed from sharia rules, the time value of money is not included in the essence of sharia because it is not by sharia perceptions, namely using additional or interest, and this is usury. While the economic value of time is included in the essence of sharia because the assessment uses a time basis, so it is free from usury.

Keywords: Time value of money, the economic value of time, usury.

1. Introduction

Muslims are starting to worry about developments and sophistication in daily transaction activities. So Muslims need to know, understand and practice the difference between the time value of money and the economic value of time Muslims so that they are not trapped in usury or usury transactions. There is something that is not accepted in society on interest or usury that there is uncertainty about the function of money, namely to make an exchange and to estimate assets (Hamza & Jedidia, 2017).

In Islam, the time value of money derived from the concept of interest is strictly prohibited. Where the total money today is considered valuable later, the total money should be multiplied by a certain amount or level of interest (Muda & Hasibuan 2018). The time value of money is considered to be the most important perception in how the economy works (Zhi et al., 2019). Can draw a common thread in the theory of the time value of money, an economic actor is thought to be more inclined to save money in the present than in the following years (Hamza & Jedidia, 2017).

The time value of money usually refers to the amount of money that corresponds to the total money spent. But many experts or economists define this theory in various ways so that for many people it is different and all related to costs (Banke-Thomas et al., 2017).

Many things need to be considered in the Islamic perspective peraboutrious techniques in conventional economics in evaluation. Even the fact that until now this has not been solved in a conventional (Khan, 1991).

Meanwhile, in the principle of economic value, it is considered that it can increase the economic value of money within a certain period. The basic estimate of the time-value milestone is called interest, while the base estimate of the time-value milestone is called the ratio. Even from the point of view of Islamic economics, no one thinks that money can facilitate the opinion that it remains with no reason, there is a determination in returns from a conventional point of view, namely interest (Muda & Hasibuan 2018). So in this paper, it is compiled starting from the time value of money, the time value of money from an Islamic perspective, and the economic value of time.

2. Methods

In our research, we searched for journals that focused on “time value of money and economic value of time” research. The method we use is the descriptive qualitative method, using a literature study. The data we get comes from several journal publications, books, and websites. From the amount of data we get, we collect the journals that we find which we then select and review the journals. Which will produce a conclusion from the journal and other data. After that, we summarize the conclusions of the journals. From that conclusion, we also have to develop the research results found in the research journal by adding several books and websites. After everything is finished, we mix and match into one to become a journal that focuses on the subject being discussed.

3. The Results

of the analysis in this journal reveal the differences between the economic value of time and the time value of money; the economic value of time with time value of money when viewed from an Islamic perspective; how do Muslims know, understand and practice the economic value of time with the time value of money so as not to get caught in transactions that contain usury.

3.1. Report Interpretation

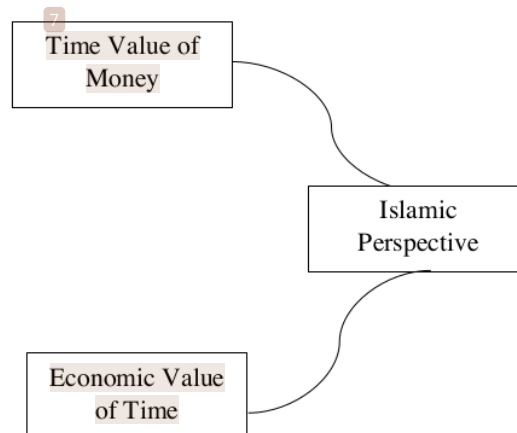
Based on the sub-chapters that we present in this journal. There are 4 sub-chapters that we want to describe in the main research that we identified in this study, and we found the invention by doing different triangulation to test the results of the previous analysis to facilitate the legality of our findings. We present the results of the analysis that have been triangulated in Table 1. After that, we connect the flow of relationships between themes and we state them in the diagram in Figure 1.

Table 1. *Table of Analysis*

Themes	Competent Analysis
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Time value of money	The time value of money is a valuable instrument in helping us, especially in understanding the importance of cash in time.
Islamic Perspective on the Time Value of Money	When viewed from the sharia rules that the actual time value of money is not included in the essence of sharia by using interest it is called usury.
The Economic Value of Time	The conception that time has an economic value while money has no value at that time is called the economic value of time.
Islamic Perspective on the Economic Value of Time	In the Islamic perspective, the use of money in every activity must use the concept of the Economic Value of Time.

Figure 1. The flow of Relationships between Themes



4. Discussion

4.1. Time Value of Money

The time value of money is an important essence to help the community, especially to help deepen the subject of money or cash with time (Ahmad & Hassan, 2006). Judging from this description, it can be called an equation that always appears and is used by financial actors to deepen the value of money and then consider the estimated value in the future. In essence, to assess how much money at present it is judged whether it is appropriate to use and be used for investment through methods or provisions that have a higher value in the future than today, the concept is considered to be very sustainable with development opportunities that will arise in the future. The time value of money is the essence of the fundamental use of investment in conventional economics. With regard about statement, in terms of Islamic economics, it does not take these considerations into account, because in Islam it is strictly forbidden to borrow and borrow for the reason of eliminating the price of commodities in the contract of selling and selling activities if anything in the future must be settled or paid for. However, if viewed from this all the time value of money is made a very important part of lending and borrowing activities. In terms of Islamic economics, there is a stipulation that if in a borrowing relationship, if you choose a predetermined maturity, then the person must pay the same amount, no more, no less. There are many views or opinions where whatever is relevant in the example is agreed if there is a difference between the product money and the credit price and it grows with respect for the reduction of the total of all that is borrowed is considered as in paying for the loan process at the beginning.

So it can be concluded that if you look at time from money, you can get a decision where you have the opportunity to flow behavior in periodic time around the environment and even one world. As for the new developments that have emerged, it can be hypothesized that they usually refer to something that is increasing at that time, namely money. For example, there is a relevant example, namely using data from a study, a sura large scale, it can be seen that humans are sulking and unwilling to agree in behavior to the idea that they are paid only per hour (Whillans et al., 2015). The expression regarding the value of time is that money can be useful for the head of the motor to make decisions on how and when to use resources and determine the time in determining the increase in company assets to be given. If the total amount of money can be obtained easily in the future, it must have a limit with the method of having loan admin fees, for example, the size of the total money must be increased by certain financing admin fees.

4.1.1. Islamic Perspective on the Time Value of Money

The concept that exists in conventional economics considers the point of time as two different things because of the related time element. It can be concluded that current consumption is higher than future consumption, the future value needs to be adjusted to be equal to the current value. In this sale, the price of goods sold either in installments or down payment may differ from the original price or the actual price. According to the expert, it can be seen that Islam recognizes differences in values because of the time element. This means, that Islam already has a concept of time. Fiqh jurists no longer doubt or allow a distinction between cash prices and installments of an item. But

in this case, it does not mean that it is possible to obtain a predetermined time value on money. The difference in the present value delivered and the future value of the same item is not always considered lawful simply because of the time element involved. Lawyers may allow this distinction because they also recognize that the effects of supply and demand differ at different times. Perhaps, this is one of the reasons they consider reasonable future prices to be more expensive, or cash, paper or the same. Perhaps the agreed price was lower when the contract was signed. This is a justified threat if the market price is higher than the agreed contract price. The purpose of this time value should be further explored. Rent is allowed in Islam, but its value cannot be more expensive than the current price of the goods. The conclusion that the economic money can be interpreted as rent can be defined as the time value of money.

4.1.2. Application of Time Value of Money

If a person has \$100,000. Then he bought a house and rented it out for \$2000 per year. He will earn a net profit of 0.5% per year. But this is only the net he gets. This is not the net income of the homeowner. He as the owner of the house must be responsible for his house. He is also responsible for the cost of house maintenance for the duration of his contract. Therefore, if the lease is thought to involve a time value, the amount here cannot be determined before the contract is completed. To further clarify this point, Islam has forbidden a predetermined time value of money. In leasing, financial lending, physical assets (conditions) are leased as follows:

1. The lessee is responsible for all maintenance of the goods he uses.
2. The lessee must promise to buy the goods after the contract according to the agreement.
3. Contracts made cannot be canceled.

From the things above, it can be concluded that there is an economic value to money, so it can only be ex-post.

If someone wants to sell goods for \$ 1000 if paid directly and will get a price of \$ 1200 in one-year installments. So to find out the value of money, the following must be considered:

- a. Time gap, which is where the buyer does not pay attention to the time gap when transacting.
- b. The occurrence of bargaining where this shall be carried out with consideration of future prices.

So, it can be concluded that Islam forbids and forbids the time value of money.

4.2. Economic Value of Time

The concept that time has economic value while money has no value from that time is called the economic value of time. Meanwhile, if viewed from the essential point of view, economic value is considered to increase the economic value of a certain amount of money within a certain period. The base amount against the time-value milestone is called interest, while the base amount on the economic time-value milestone is called the ratio. If it is seen from the sharia rules that the value of money is not included in the essence of sharia by using interest so it is called usury, it is different from the economic value of time, this theory is included in the essence of sharia free from usury.

4.2.1. Islamic Perspective on Economic Value of Time

From the perspective of Islamic economics if no matter how much money can provide profits in a fixed nature, there is no argument for that because there is no essence in terms of being returned with a fixed amount that is determined at the beginning as in conventional economics through interest (Fajar, 2021). Most people will be more sulk sulkier money now if they can determine their income later than in the future, believing that there is still a definite advantage to saving money now. In other words, people have to get compensation for the income they will get later.

In ethics to always, respect time is a well-known custom in Islam. Values held between individuals with other individuals will differ in quality. It can be concluded that the individual's successful use of time is what influences the size or value of money. The high and low values also affect the effectiveness or efficiency of each. The application of the interest flow is based on how individuals can manage financial efficiency and equity, which is also acceptable from an Islamic perspective.

Islamic economics teaches that using a kind of so-called discount rate effect on ensuring that the mu'ajjal price can be justified. Buying and selling with the method of having debts to other people that the seller will give the goods he owns at a predetermined price by mutual agreement, the method of paying is not in cash but is deferred until a certain time is called mu'ajjal (Syarifuddin et al., 2021). The reason is justified because the seller's right to pay has been suspended, who has succeeded in carrying out his obligations in providing goods or services, so he cannot perform his obligations to other people other than those agreed upon.

This discount rate also applies to determine what profit sharing ratio can be done or not. This ratio will be multiplied together with the actual income or the so-called actual return, not the expected income or the so-called expected return. The character of the economic actor is strongly influenced by the size of the belief or faith of an individual or group which then builds to refer to consumption and production behavior in the market (Muhammad, 2012).

In conventional economics, the goal of consumption is what is called maximum utility. In contrast to the aspect of Islamic economics, it aims at maximum maslahah and has the ultimate goal of falah. Based on this opinion, it can be concluded that Muslims in carrying out transaction activities must pay attention to the final goal, namely falah (Kumiati, 2017). This also applies to the use of money in any activity must use the concept of Economic Value of Time.

5. Conclusion

The time value of money is a valuable instrument in helping us, especially in understanding the importance of cash for time. The time value of money is a basic investment concept and a basic element in conventional financial theory. However, Islam does not allow a predetermined time value of money. From the existing discussions, the researcher tries to determine that if there is a

concept of the time value of money in Islam, it can only be ex-post. From this discussion, it can be concluded that Islam has nothing to do with the realization of the time value of money. If it is seen from the sharia rules that the actual time value of money is not included in the essence of sharia by using interest it is called usury. But Islam recognizes the economic value of time, this theory is included in the essence of sharia free from usury. In the perspective of Islamic economics, if any amount of money can provide a permanent profit, there is no thesis about it because there is no essence in terms of being returned with a fixed amount that is determined at the beginning as in the conventional one.

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