

STUDY OF DIFFERENCES IN TIME VALUE OF MONEY WITH ECONOMIC VALUE OF TIME ON SHARIA PERSPECTIVE

**Rahmayati¹
Ulfa Mardiah²**

¹Faculty Of Islamic Studies, Universitas Muhammadiyah Sumatera Utara, Indonesia,
(e-mail: rahmayati@umsu.ac.id)

Abstract: *The development of this increasingly modern era in the daily life of many Muslims doubts existing transactions. It is important to understand the difference between the time value of money and the economic value of time for Muslims so they are not trapped in ribawi transactions. In writing this journal, the method used is descriptive qualitative. The conceptual difference is that the time value of money means that money has a time value, while the economic value of time means that time has an economic value. By calculating the time value of money using a discount or interest rate while the economic value of time uses a ratio based on holding money over time. The purpose of using the time value of money is the maximum utility of the commodity while the goal of the economic value of time is the maximum masalah in accordance with the concept of Islamic economics. According to the completeness of sharia, the time value of money is not in accordance with the sharia concept, namely the use of interest and this is included in usury, while the economic value of time is in accordance with sharia because it does not contain usury because it is time based. Therefore, it is necessary to socialize and educate the public about the difference between the Time Value of Money and the Economic Value of Time.*

Key Word: *Time Value of Money, Economic Value of Time, Differences*

Introduction

The emergence and development of Islamic economics as a form of economic system has spawned many controversies and various reflections on the form and formulation of Islamic economic concepts and theories. The Islamic economic system is an economic system that is completely different from conventional economic concepts and stands alone or has several similarities, one of which is being debated is the concept of money in the Islamic economic system. Over time, the old economic system turned into a modern economy, with increased productivity and market expansion due to scientific and technological developments, money has long been a very complicated medium of exchange, with the use of money as a medium of exchange or buying, selling, renting, leasing, and others create favorable conditions for transactions. (Katman & Akmawanti, 2021)

According to the Muslim view of time, time is the same for everyone, namely 24 hours a day, 7 days a week. The value of time from person to person will vary qualitatively. So what determines the value of time is how one uses it. The more efficient

(correct) and efficient (in a good direction), the higher the time value. Efficiency and effectiveness will benefit the world for everyone who does it. Therefore whoever does this regardless of ethnicity, religion and race, according to the sunnah of Allah, he will benefit in the world. (Muhammad, 2012)

Money has indirectly become the most important object in economic life, so that financial matters need to be discussed seriously, the success of financial management is determined by the management principles applied. Islam teaches the principles of managing and managing finances for both business and investment activities, although the principles taught in Islamic economics sometimes conflict with conventional economics, we must know that Islamic economics always prioritizes the common good, and all the principles and concepts teach from Al-Quran, As-Sunnah and the discussion results of the scholars.

Discussion regarding the concept of the time value of money (TVM) has become an urgency in the accounting and finance literature, because TVM has become a basic element in the current financial system. (Ananda, Irianto, & Adib, 2021)

Technically the concept has influenced financial recording and reporting. One of them is the conventional cash flow statement (Velayutham, 2014). The results of future value and present value calculations in the TVM concept can show that decisions that are not appropriate in estimating the value of money can cause inaccuracies in accounting records, as well as affect estimated losses in financial statements. TVM is defined as the difference between the present value of money and a similar future monetary value (future value), in which money is now worth more in the future. Recognition of the practice of time value of money in the traditional economy ultimately leads to conventional economic practices that are close to the practice of riba' which is forbidden in Islam and ultimately to Islamic economic practices that recognize the economic value of time which is considered fair and in accordance with economic activities. existing sharia nomi. (Amir, 2014)

In fact, people are sometimes confused by the concept of the economic value of time that exists in the current practice setting. Public confusion is more caused by the method of calculating and determining percentages and other calculations related to Islamic finance which are similar to the methods of calculating and determining the rate of return and profit sharing percentages in general economic concepts. If in traditional economics the concept of time value of money means the time value of money where money is now more valuable than money in the future, Islamic economics prioritizes the concept of time value of money meaning that every time has economic value. By maximizing funds within a certain period of time, the concept of the economic value of time is a suitable concept to be applied in financial management. Based on this, the researcher wants to discuss the difference between the time value of money and the economic value of time based on sharia principles.

Methods

This research is included in the category of library research or library research, namely research activities carried out by: First of all collecting data from various works

in the form of books, scientific journals and several articles related to the topic of discussion. In addition, this article focuses on how to get to the truth carefully and clearly. In collecting data, secondary data was used from publications including scientific journals, books, websites and newspapers to make this matter discussed in research. The purpose of this study is to provide an understanding to the public about the difference between the time value of money and the economic value of time based on sharia principles.

Results and Discussion

1.1 The concept of Time value of money

Time value of money is a concept which states that one rupiah that can be received today is worth more than one rupiah that can be received in the future. Therefore, this money will receive a better return when invested than money that can only be received for future use. (Yuliono, 2014)

According to Ja'far al-Jazzar in the book *al-Bunūk fi al-'Alam: Anwā'uhā wa Kayfa Tata'āmalu ma'ahā*, that the time value of money is a term used in the operational system of conventional banks based on their performance advantages using standard flower raw. While the interest itself is the value of the price that must be paid as a reward for using money. Or an additional price value as a reward from a term loan. (Mujibatun, 2016)

The concept of Time Value of Money is basically a Biological Concept Intervention in the Economics Sector (Permana 2016). The concept stems from the idea that silver is embedded in living cells, which can grow and develop in units of time. This forces us to understand that money is not a living thing and its value can change over time. In economic theory something can be small or large, it can be caused by business or in economic theory it is called a graph of returns. In this way, it is natural for one to increase or decrease the amount of money. In Islam there is no known time value of money, what is known is the economic value of time. The theory of time value of time is a big mistake because it takes from the science of finance. The practice of time value of money in the conventional economy ultimately has the consequence that conventional economic practices are closer to the practice of usury. This is because they regard money as a commodity that can develop. And this practice is called discounting. (Fajar, 2021) In Conventional Economics the time value Of Money is defined as: "a dollar today is worth more than a dollar in the future because a dollar today can be invested to get a return", which means : a dollar today is more valuable than a dollar in the future, because today's dollar can be invested to get it back (Adiwarman Azwar Karim 2001: 16) in (Purnamasari 2014). The concept of Time Value of Money means that the current value of money is more valuable than the value of money in the future because current money can be invested and then get a profit or the value of money changes (tends to decrease) over time. (Wisdom 2015)

The concept of time value of money (TVM) in financial management means that the value of an amount of money increases over time, due to a combination of the (initial) value of the investment and the rate of return on investment. TVM is closely related to the concept of interest-based discounting. The determination of the time value of capital

and investment uses interest as a measure, arguing that the difference between present value and future value is return. An annuity is a cash flow in which both income and expenses consist of the same amount in each period. The result is a potential reduction in cash flow for the lender leading to lower expected cash flows from the contract, which naturally increases the expected loss. William R. Lasher (2008) suggests that the time value of money is based on the idea that the amount in one's hand today is more valuable than the same amount promised in the future. The concept of the time value of money is very important for a financial manager to understand, because this concept is the basis for:

1.2 The concept of Economic Value Of Time

In Islamic economic theory it is recognized that humans have needs in accordance with their nature. However, in the way that is taken to fulfill these needs, humans are not free to do whatever they want. Because humans are limited by law (shari'a) and the values they believe in (aqidah and morals). In Islamic finance there is no assumption that a certain amount of money will provide a fixed income because Islamic finance does not have the concept of a fixed pre-determined return through the concept of interest (interest based economy). (Yudiana, n.d.)

Economics Value of Time is a concept where time has economic value, but money has no time value. Economics Value of Time can be interpreted as maximizing the economic value of a fund at periodic times. The basis for calculating the principle of the value of money based on time is interest, while the basis for calculating the principle based on the economic value of time is the ratio. (Youth & Hasibuan, 2018)

The concept of fixed pre-determined return is the concept of ensuring profit over a certain amount of money, so it is very logical that people would prefer to hold money now rather than later, because there is a definite advantage by holding money now, or if someone has to hold money later then they have to there is compensation for the benefits that he "should" get. Profits in the context of Islamic economics must be obtained after carrying out business activities. What is still a question is what measure can be used to determine the amount of profit forecast?, whereas in modern finance we recognize the interest rate which is prohibited by Islam. In Islamic economics the use of a kind of discount rate in determining bai' mu'ajjal (deferred payment) can be justified with reasons 1) buying and selling and leasing are the real sector which generates economic value added and (2) the right of the seller (payment of money) which has carried out its obligations (delivering goods and services) is suspended, so that it cannot carry out its obligations to other party. Likewise with the use of the discount rate in determining the profit sharing ratio. The ratio must be multiplied by actual income (actual return) not by expected income (expected return). In principle, profit sharing transactions are different from buying and selling transactions or leasing transactions. In profit sharing transactions, the relationship that occurs is the relationship between the investor (shahibul maal) and the manager (mudharib). The right for shahibul maal and mudharib is to share the results of the income or profits obtained in accordance with the initial agreement.

1.3 Differences between the concepts of Time Value of Money and Economic Value of Time

If in conventional economics the concept of Time Value of Money is known, namely money has value over time and means that money in the present is more valuable than money in the future. Islamic economics is more familiar with the concept of Economic Value of Time, the view of Islamic economics related to this concept is that time has economic value. Money in Islamic economics basically functions as a means of payment and cannot be used as an object of profit, as is the case with the advantages of borrowing based on the term and interest rate with a previous agreement. This is prohibited in Islam because it is included in the category of usury. Thus, the sharia concept of the time value of money may not be realized and instead justifies the concept of economic time value.

According to (Maghfiroh 2019) explaining the Muslim view of time, time for everyone is the same, namely 24 hours a day, 7 days a week and so on. But what distinguishes the quality of the value of people's time is the use of that time. If a person uses his time efficiently and effectively, they will surely gain in the world. But in Islam, profit is earned not only in this world but also in the hereafter.

Therefore, if you want to get benefits in the next life, you need to use your time effectively and efficiently, and must be accompanied by faith to get benefits in this life and the next. In Islamic consumption there is the concept of *maslahah*. *Maslahah* is all kinds of conditions, both material and immaterial that can elevate humans as the most noble creatures. The achievement of *maslahah* is the goal of Islamic law, which of course must be the goal of consumption activities. *Maslahah* as an intermediate goal to achieve *falah*. In a noble and prosperous life in the world and in the future, this can be achieved if the needs of human life are met in a balanced manner. Fulfillment of community needs will cause an effect called *maslahah*. According to As Shatibi, the basic *maslahah* for human life consists of five things, namely religion (*dien*), soul (*nafs*), intellectual (*'aql*), family and offspring (*nasl*), and material (wealth). These five things are basic human needs. Kurniati (2006) explains the relationship between motives and consumption goals in conventional economics and Islamic economics. In the consumption concept of Islamic economics, the motive is needs, while in conventional economics, the motive is desire.

The goal of consumption in conventional economics is maximum utility, while in Islamic economics the final goal is *falah* and the intermediate goal is maximum *maslahah*. (Kurniati, 2016) Based on the description above, we as Muslims in conducting economic transactions need to pay attention to our goal, namely *falah*. Included in us using money need to use the concept of Economic Value of Time.

Conclusion

Based on the discussion above, it is conceivable that the time value of money or positive time preference is a concept which states that the present value of money will be more valuable in the future. Therefore, money must always increase and increase over time to form a correlation between the value of money and time. This is an

implementation of a system of interest rates (interest) or usury. From an Islamic economic point of view, it does not recognize the time value of money because the concept only increases the value of money by increasing time and not effort which actually leads to ribawi transactions according to Imam Nawawi, who defines adding money value only based on time value is usury. Islam actually recognizes the economic value of time, namely time has economic value. Based on the description and discussion above, it can be concluded that sharia principles are the concept of Economic Value of Time. Therefore, it is necessary to socialize and educate the public about the difference between the Time Value of Money and the Economic Value of Time

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