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Major 1 Content

Executive Summary

The Islamic Economic System is a comprehensive framework derived from practical religious legislation (Shari'a) that governs the earning, spending, and investment of money. Its ideological foundation rests on the principles that all wealth ultimately belongs to Allah, with humans acting as stewards, and that a balance must be maintained between individual prosperity and social justice. Key characteristics include a system of dual property (protecting both private and public interests), restricted economic liberty guided by moral and legitimate regulations, and a strong emphasis on social solidarity through mechanisms like Zakat (obligatory alms).

This system stands in contrast to conventional economic models. Unlike Capitalism, which champions absolute individual liberty and self-interest, the Islamic model filters economic decisions through a moral framework, prohibiting earning “at any way.” Unlike Socialism, which centralizes ownership and control in the state, the Islamic economy recognizes and protects private property while ensuring community welfare.

Public finance within this system is distinct, with revenue sources divided into periodic (Zakat, Jizya, Kharaj) and non-periodic categories (spoils of war, customs duties). Public expenditure is strictly governed by principles of beneficial use (maximizing utility), economic use (avoiding extravagance), and official authorization, with the overarching goal of fulfilling public needs and ensuring social security.

1. Foundations of the Islamic Economy

The Islamic economic system is defined by its unique ideological, theoretical, and applied aspects, all rooted in religious principles.

Definition and Core Concepts

- **Linguistic Origin:** The term “economy” in Arabic derives from the word *قصد* (*qasd*), which signifies “the straightness of the road” and “the rationing of something,” implying a moderate path between immoderacy and scrimping.

- **Formal Definition:** Islamic Economy is the knowledge of practical religious legislations, derived from detailed proofs, that regulates the earning, spending, and investing of money.

Ideological Framework

The economic activity in Islam is based on a set of controlling regulations and values:

- **Divine Ownership of Wealth:** The foundational belief is that all money and resources belong to Allah, and humans are appointed as guardians or successors over them. This stewardship comes with accountability.
 - **Quranic Basis:** "spend out of that in which He has made you successors" (وأنفقوا مما جعلكم مستخلفين فيه).
 - **Prophetic Teaching:** "Man's feet will not move on the Day of Resurrection before he is asked about his life, how did he consume it, his knowledge, what did he do with it, his wealth, how did he earn it and how did he dispose of it, and about his body, how did he wear it out."
- **Economic Balance and Social Justice:** While Islam permits variations in wealth and income among individuals, it mandates the maintenance of social justice, economic balance, and good living standards for all members of the community.
- **Dual Property Rights:** The system upholds and protects both private and public forms of property.
 - **Prophetic Example:** The Prophet (ﷺ) forbade city-dwellers from acting as brokers for desert-dwellers to prevent price inflation (protecting public property) and prohibited buying from foreign merchants before they knew the market price (protecting private property).

Analytical and Applied Aspects

- **Theoretical/Analytical Aspect:** This involves analyzing economic phenomena and relationships through the lens of Islamic principles. It often challenges the assumptions of non-Islamic economics. For example, while conventional theory suggests consumption rises with income, Islam advises against extravagance.

- **Quranic Guidance:** "And do not make your hand [as] chained to your neck or extend it completely and [thereby] become blamed and insolvent."
- **Prophetic Warning:** "May he be miserable, the worshipper of the dinar and dirham... If he is given anything, he is satisfied; but if not, he is unsatisfied."
- **Applied Aspect (Economic Policy):** This is the study and implementation of policies and applications that align with Islamic rules to address the economic problems of a community at any given time.

Relationship with Other Sciences

- **Islamic Jurisprudence (Shari'a):** Jurisprudence identifies the religious verdict on an economic issue (e.g., usury is forbidden), while economics studies the effects of that verdict (e.g., the impact of prohibiting usury on money and investment).
- **History:** The economic events, ideas, and systems from Islamic history provide crucial data and concrete proofs for researchers to analyze past and present economic phenomena.
- **Mathematics and Statistics:** These sciences are important tools for economic researchers to analyze transactions and design programs and plans to achieve society's economic goals.

2. Comparative Analysis of Economic Systems

The Islamic economic system possesses unique characteristics that distinguish it from Capitalism and Socialism.

Characteristics of the Islamic Economy

1. **Dual Property:** It seeks a balance between the interests of the individual and the community, provided they do not contradict.
2. **Restricted Economic Liberty:** Economic freedom is not absolute; it is governed by legitimate regulations on how money is earned and spent. The accountability for wealth is a central theme.
3. **Social Solidarity:** The system mandates social support through the obligation of fulfilling Alms (Zakat), charities, and other acts of benevolence.

Comparison with Conventional Systems

Feature	Capitalism	Socialism / Communism	Islamic Rationalism
View of Life	Worldly life & confused about Hereafter life	Worldly life is the only life & no Hereafter life	Worldly life & Hereafter life
Primary Goal	Self-satisfaction	Self-satisfaction through state intervention	Satisfaction of ALLAH
Decision Making	Self-interest & Rationalism is the sole authority	Rationalism and state is the sole authority	Individualism & Rationalism through moral filtering
Market Structure	Competitive market: survival for the fittest	State control the market	Combination of competition and state intervention: Humanity & Philanthropy
Value System	No value judgment	No value judgment	Social, national, cultural values are considered
Role of Religion	Independent of revealed religion; Religion is unreliable	No religion	Religion is key determinant
Method of Earning	Earning at any way	Earning at any way	Earning at honest way

Disadvantages of Conventional Systems

- **Capitalism:**
 - Imbalance in wealth distribution among people.
 - Occurrence of crises and unemployment.
 - Leads to merchandise monopoly.

- Allows for absolute freedom in earning and expenditure, regardless of moral implications.
- **Socialism:**
 - Contradicts the human instinct for ownership preference.
 - Demotivates individuals by reducing them to a machine-like status, thereby demolishing productivity motives.
 - Historically associated with hard poverty in nations that adopt it.

3. Key Economic Terminology

The following terms are central to understanding economic discourse, with specific conditions added by the Islamic framework.

- **Wealth:** The sum of productive and consumable economic assets possessed by an individual or society at a given moment. The concept does not include services.
- **Commodity:** A tangible economic product that has a physical form. For a good to be considered a commodity in Islamic economics, it must meet four conditions:
 1. It must be beneficial.
 2. It must be relatively rare.
 3. It must be tradable.
 4. **It must be permissible according to Islamic law (Shari'a).** This condition takes precedence over all others.
- **Services:** An intangible economic product with no physical form. Like commodities, services must be permissible under Islamic law. Therefore, services from establishments like cinemas and nightclubs are not recognized.
- **Income:** The return received by an owner of a production factor for contributing to the production process.
- **Utility:** The inherent ability or power of a good or service to satisfy a specific human need.
- **Consumption:** The portion of income spent on consumer goods and services that directly satisfy needs.
- **Saving:** The portion of income that is not spent on consumption.

- **Investment:** The creation of new tangible capital (e.g., buildings, machinery, infrastructure) that represents a net increase in the productive capacity of society.
- **Public (Governmental) Sector:** The part of the national economy owned and operated directly by the state or its authorities (e.g., oil extraction, water desalination).
- **Private Sector:** The part of the economy not controlled by the government, including for-profit businesses run by individuals or companies.

4. Public Finance: Revenues and Expenditures

The management of state finances in the Islamic system is structured around unique revenue sources and ethically guided principles of expenditure.

Public Revenues in the Islamic Economy

Islamic revenue sources are categorized as periodic (the main, recurring resources) and non-periodic.

1. Periodic Resources:

- **Zakat (Alms):** The third Pillar of Islam, an obligatory annual giving of 2.5% of a Muslim's disposable income and wealth above a minimum threshold (*nisab*). It is a form of worship and self-purification, strictly designated for eight categories of recipients mentioned in the Quran, including the poor, the needy, and freeing captives.
- **Jizya:** A per capita yearly tax levied on certain non-Muslim subjects (*dhimmi*) in exchange for state protection, exemption from military service, and the right to practice their religion. Women, children, the poor, the elderly, and monks were typically exempt.
- **Al-Kharaj (Land Tax):** A tax levied on agricultural land, particularly land acquired during Islamic conquests.

2. Non-Periodic Resources:

- **Fifth of the Spoils of War:** Movable property seized from an enemy during armed conflict. Four-fifths are distributed among the soldiers, while one-fifth is allocated for the welfare of the Muslim community.

- **Fay’**: Money or assets obtained from non-Muslims without fighting, such as through peace treaties. It is spent for the benefit of the Muslim community.
- **Al Eshour (Customs Tax)**: Fees collected from merchandisers, Muslim or non-Muslim, passing through Muslim lands. It served as a toll for protection and market access.
- **Loose Money**: Assets with no known owner, such as an inheritance with no heirs.
- **Charitable Endowments (Wakf)**: An inalienable charitable endowment under Islamic law, where assets (land, buildings) are donated for religious or charitable purposes.

Public Expenditure in the Islamic Economy

The primary goal of public spending is to satisfy public needs, categorized as public services and social security services.

Historical Evolution of the Treasury:

- **Prophet Mohammed’s Era**: No formal treasury (*Bait Almal*) was needed. Revenues, mainly from wars, were distributed immediately.
- **Abu Bakr’s Era**: Maintained the same system and notably fought those who refused to pay Zakat, affirming its obligatory nature.
- **Omer Ibn Alkhattab’s Era**: As the Islamic state expanded, revenues increased. He established the state treasury (*Bait Almal*) and organized government affairs by creating ministries (*Aldewan*).
- **Othman Ibn Affan’s Era**: Revenues continued to grow and were distributed through increased salaries and grants.
- **Ali Ibn Abe Taleb’s Era**: Focused on economic development and land improvement.

Governing Rules of Public Expenditure:

1. **The Rule of Beneficial Use**: Spending must be directed to achieve the highest level of utility at the minimum cost, providing prosperity for the largest number of people.
2. **The Rule of Economic Use**: Spending must avoid extravagance and waste, focusing on basic and essential needs.

3. **The Rule of Authorization:** Money can only be spent after approval from the competent legislative authority through an officially approved law.

Study Guide for Islamic Economic System

Short-Answer Quiz

Instructions: Answer the following questions in two to three sentences, based on the provided source material.

1. What is the linguistic origin of the word “economy,” and what is the formal definition of Islamic Economy?
2. What are the three aspects that constitute the “Subject of Economy” within the Islamic framework?
3. Describe the core characteristics of the Islamic economic system as outlined in the lectures.
4. According to the source, what are the primary disadvantages of the Capitalist and Socialist economic systems?
5. What four conditions must be met for an item to be considered a “commodity” in Islamic economics?
6. Explain the difference between consumer goods and production goods, providing an example of each.

7. List and briefly describe at least three sources of public revenue in non-Islamic economic systems.
8. What are the two main categories of public revenue sources in the Islamic Economy, and what do they consist of?
9. Define Zakat and explain its purpose, its required rate, and who is obligated to pay it.
10. What are the three primary rules that govern public expenditure in Islam?

Answer Key

1. Linguistically, the word “economy” derives from the Arabic word (قصد), which means the straightness of the road and rationing, signifying a middle path between immoderacy and scrimping. The Islamic Economy is formally defined as the knowledge of practical religious legislations that regulate the earning, spending, and investing of money, as derived from detailed proofs.
2. The three aspects are the ideological, the theoretical/analytical, and the applied. The ideological aspect covers values and rules, such as money belonging to Allah. The theoretical/analytical aspect involves analyzing economic phenomena, while the applied aspect is the study of policies that handle a community’s economic problems.
3. The core characteristics of the Islamic economy are dual property, which balances individual and community interests; restricted economic liberty, which means earning and spending are governed by legitimate regulations; and social solidarity, which is fulfilled through obligations like Zakat and other charities.
4. The disadvantages of Capitalism include an imbalance in wealth distribution, the occurrence of crises and unemployment, merchandise monopoly, and absolute freedom in earning and spending. The disadvantages of Socialism include fighting the human instinct for ownership,

turning humans into machines which demolishes productivity, and the prevalence of hard poverty in socialist nations.

5. For an item to be a “commodity,” it must be beneficial, relatively rare, and tradable among society members. Crucially, Islamic economics adds a fourth condition that takes precedence: the commodity must be permissible according to Islamic law (Shari’a).
6. Consumer goods are tangible products that directly satisfy human needs, such as food (single-use) or a car (durable). Production goods are items used in the production process to create other goods, such as raw iron (single-use) or machinery (durable).
7. Sources of public revenue in non-Islamic systems include:
 - **Taxes:** An obligatory monetary deduction levied by the government on income and business profits.
 - **Fees (Charges):** A monetary cut paid by a person in exchange for a special service provided by the government.
 - **Public Loans:** Money borrowed by a government from banks, individuals, or other countries to finance public spending, which creates national debt.
8. The two categories are periodic and non-periodic resources. Periodic resources are the main, recurring sources and consist of Zakat, Jezia (Jizya), and Al Kharaj (land tax). Non-periodic resources are non-annual and include the fifth part of booties, heirless heritage, Al Fe’e (pillage), and Al Eshour (customs tax).
9. Zakat is a compulsory charitable donation, considered a religious obligation and the third Pillar of Islam. It is a set proportion of wealth (customarily 2.5%) paid by Muslims whose disposable income exceeds a minimum amount (nisab) to purify their wealth and support specific categories of recipients, such as the poor and needy.
10. The three rules governing public expenditure are:
 - **The rule of beneficial use:** Directing expenditures to achieve the highest utility with minimum cost for the most people.
 - **The rule of Economic use:** Avoiding extravagance and spending on basic needs without waste.
 - **The rule of Authorization:** Spending money only after approval from the competent legislative authority.

Essay Questions

Instructions: Formulate comprehensive answers to the following questions, drawing upon all relevant information from the source material. Answers are not provided.

1. Using the table “Economic Doctrines of life and Main theme of Rationalism,” compare and contrast the fundamental principles of Capitalism, Communism, and Islam across at least five different dimensions (e.g., life philosophy, decision-making authority, market structure, religious role).

2. Discuss the relationship between Islamic jurisprudence (Shari'a), history, mathematics, and the science of economics. Explain how these fields interact and provide examples for each relationship as detailed in the source.
3. Elaborate on the concepts of “dual property” and “restricted economic liberty” within the Islamic economic system. How do these principles aim to create a balance between individual interest and public welfare, and how do they fundamentally differ from the philosophies of Capitalism and Socialism?
4. Provide a detailed overview of the primary sources of public revenue in an Islamic state. For Zakat, Jizya, and Al Kharaj, describe what each tax is, who is obligated to pay it, who is exempt, and what the funds are generally used for.
5. Trace the evolution of the state treasury (Bait Al Mal) and public expenditure management from the era of the Prophet Mohammed through the caliphates of Abu Bakr, Omer Ibn Alkhattab, and Othman Ibn Affan. Describe the key economic changes and administrative developments that occurred in each era and the reasons behind them.

Glossary of Key Terms

Term	Definition
Al Eshour (Customs tax)	Fees collected by the government from a merchandiser who passes through Muslim land or access roads. It acts as a toll for protection or a duty on foreign goods.
Alms (Zakat)	The allocated amount in the wealth of certain individuals for a certain group of people at a certain time. It is a compulsory giving of a set proportion of one's wealth (customarily 2.5%) to charity, regarded as a type of worship and self-purification.
Capitalism Economy	An economic system based on the idea that the person is the sole owner of the money he earns and has full discretion to do whatever he wants with this money.
Commodity	A tangible economic product that is beneficial, relatively rare, tradable, and permissible according to Islamic law.
Consumption	The portion of income spent on consumer goods that directly satisfy needs.
Economy (Linguistic Origin)	From the Arabic word (قصد), meaning the straightness of the road and the rationing of something, indicating a balance between immoderacy and scrimping.
Fay'	Money that returns to Muslims from non-Muslims without fighting, through peace treaties, or from their own money. It is spent for the benefit of Muslims.
Fees (Charges)	A monetary cut by the government, or one of its administrative organizations, obligatory paid by a person for a special service which is fulfilled by the government to cover his needs.
Fifth of the spoils of war	One-fifth of all movable property captured from an enemy during armed conflict. This portion is for Allah, the Messenger, his relatives, orphans, servants, and needy travelers, to be spent on the welfare of Muslims.
Income	The return received by the owner of a production member in return for contributing to the production process.
Islamic Economy	The knowledge of the practical religious legislations through the detailed proofs that regulates earning, spending and investing money.
Investment	The creation of new tangible capital, represented by productive capacity. It is a net increase in the real capital of society (e.g., buildings, machinery, infrastructure).

Jayziah (Jizya)	A per capita, yearly tax historically levied by Islamic states on certain non-Muslim subjects (dhimmi) in exchange for protection, exemption from military service, and the right to practice their faith.
Land tax (Al Kharaj)	A tax levied on agricultural land, particularly land that was acquired during Islamic conquests.
Loose money	Money which has no owner, such as a heritage which has no heirs or deposited money which has no holder.
Private Sector	The part of the economy that isn't controlled by the government, including any for-profit business run by individuals or companies.
Public (Governmental) Sector	The part of the national economy that is owned and operated directly by the state or through other public authorities established by the state.
Public Loans	A sum of money obtained by a government from other countries, banks, or individuals, with an obligation to return the payments and pay interest. Also known as national or sovereign debt.
Public revenues	A state's annual income from which public expenses are met.
Saving	The portion of income that is not spent; the portion remaining after consumption.
Services	An intangible economic product that has no physical form. Can be consumer services (education, transportation) or productive services (training, maintenance).
Socialist Economy	An economic system based on the idea that wealth and production means are property of the whole community. Individuals have no rights to them and only take rewards for services provided.
Spoils of war (booty)	Movable property, goods, money, or resources lawfully captured or seized from an enemy during armed conflict.
State Budget	The financial activity of the government that means obtaining the technical resources of the country and spending them to fulfill public needs and realize social and economic targets.
Taxes	The obligatory monetary deduction of an individual's revenue according to his potentialities levied by the government on workers' income and business profits, or added to the cost of some goods, services, and transactions.

The charitable endowments (Wakf)	An inalienable charitable endowment under Islamic law, typically involving donating a building, land, or other assets for Muslim religious or charitable purposes with no intention of reclaiming the assets.
Utility	The ability or power of a good or service to satisfy a specific human need.
Wealth	At the individual level, the sum of productive and consumable economic assets possessed at a given moment. At the macro level, the sum of productive and consumer economic resources existing in the overall society.

Major 2 Content

Principles and Foundations of Islamic Economics: A Comprehensive Briefing

Executive Summary

The Islamic economic framework is built upon the synthesis of material necessity and spiritual responsibility. Unlike secular models that often view resource scarcity as an absolute failure of supply, the Islamic perspective defines “Relative Scarcity” as a divine test and a catalyst for human labor and earth’s construction. Economic activity—encompassing consumption, production, and market engagement—is elevated to a form of worship when conducted with the right intention and within the bounds of Sharia law.

Key pillars of this system include:

- **Rationalized Consumption:** A rejection of luxury (*Taraf*) and waste (*Israf/Tabtheer*) in favor of moderation and the fulfillment of basic needs.
- **Ethical Production:** The view of humans as “Caliphs” (successors) tasked with developing the earth through mastered, honest labor and the productive use of capital.
- **Market Integrity:** Strict prohibitions against usury (*Riba*), monopoly, and deceptive trade practices, balanced by a mandate for leniency and fairness.
- **Resource Management:** A critique of Malthusian theories, asserting that starvation and poverty stem not from a lack of divine provision, but from human failure in distribution, spiritual crises, and the mismanagement of resources.

The Economic Dilemma and Relative Scarcity

The core of the economic dilemma is the impossibility of satisfying all human needs and desires in every time, place, and form. This is defined as **Relative Scarcity**.

Functions of Scarcity

In the Islamic context, scarcity serves two primary purposes:

1. **Motive for Labor:** It encourages “earth construction,” as individuals are urged to walk the slopes of the earth and seek provision.
2. **Divine Test:** It serves as a trial of faith, testing patience through fear, hunger, and loss of wealth or life.

Critique of the Malthusian Theory

The document rejects the Malthusian theory—which posits that population growth outstrips fixed resources, leading to “misery” (famine, war, disease) as a check on growth. This theory is considered flawed for several reasons:

- **Resource Renewal:** While some resources (land) are fixed, others (fish, forests) are renewable.
- **Innovation:** Science continuously reveals new resources and alternatives.
- **Empirical Failure:** Modern studies have shown Malthus’s predictions to be inaccurate on a global scale.

True Causes of Starvation

The source context identifies that starvation in specific regions is not due to a lack of global resources, but rather:

- Inequitable distribution of wealth and population.

- Human failure to utilize available resources.
- Exaggeration of needs and a “spiritual crisis” leading to bad behavior toward the needy.
- A test from Allah.

Consumption Theory and Consumer Conduct

Consumption is the final purchase or use of goods and services. Islamic consumption theory is governed by three primary elements:

1. Rationalization

Consumers must follow specific guidelines to manage wealth responsibly:

- **Prohibition of Luxury (*Taraf*):** Indulgence in excessive luxury is viewed as a cause for divine punishment.
- **Prohibition of Waste:**
 - ***Israf*:** Exceeding the limits of temperance.
 - ***Tabtheer*:** Spending money on wrongful or unworthy things (spendthrifts are described as “brothers of the Shayatin”).
- **Moderation:** Consumers are encouraged to find a middle ground between miserliness and extravagance.
- **Legitimacy:** Prohibiting harmful commodities such as intoxicants and gambling.

2. Economic Liberty

Islam does not support absolute consumer liberty (predominance of full power). Instead, it advocates for **Rational Freedom**, which balances individual interests with the well-being of the community.

3. Comparison of Interest and Gratification

The following table contrasts the Islamic view of utility with non-Islamic economic attitudes:

Feature	Islamic Economy	Non-Islamic Economy
Concept of Interest	Material and spiritual enjoyment; linked to reward/punishment in the afterlife.	Purely material enjoyment; satisfying material desires.
Consumer Authority	Authority is limited to legitimate (Halal) commodities.	Absolute authority to consume anything.
Utility and Happiness	Rationale is imperative; extravagance is forbidden.	Increased consumption leads to bigger utility and luxury.

Production and Factors of Return

Production is defined as the persistent effort to invest resources for the prosperity of society and its supreme values.

Motives for Production

- **Worship:** Production is a methodology of worship if linked to the correct intention.
- **Caliphate:** Humans act as “successors” on earth, tasked with its development for current and future generations.
- **Subservience of the Universe:** Recognizing that Allah made the heavens and earth subservient to humankind for the purpose of development.

Factors of Production

1. **Work:** Physical or mental effort to produce legitimate benefits. Ethics include mastery (*excellence*), honesty, and choosing roles suited to one’s capability.

2. **Capital:** The portion of wealth used to produce goods.

- **Saving vs. Hoarding:** Saving (deducting income for investment or emergencies) is encouraged, while hoarding (withholding money from circulation) is prohibited.
- **Investment Forms:** Includes profit-sharing partnerships, brokerage (effort from one, capital from another), and direct trade.

3. **Natural Resources (Land):** Includes all minerals, crops, and surrounding resources.

Methods of Utilizing Land

The document outlines specific Islamic methods for agricultural production and return:

- **Musaqah (Sharecropping):** An agreement where a worker irrigates and cares for trees/crops in exchange for a known share of the produce.
- **Muzara'ah (Sharecropping):** An agreement where a worker cultivates land in exchange for a known share of the crops.
- **Requirements:** The worker's portion must be a known, agreed-upon percentage (e.g., half or a third) of the *entire* product.

The Market and Ethical Dealings

The market is an arrangement for exchange where pricing is determined. Islam imposes strict ethical rules to ensure justice.

Rules of Market Conduct

1. **Fair Measures:** Injustice in weights and measures is considered a major sin.
2. **Prohibition of Usury (Riba):** Usury is forbidden. When exchanging usurious goods (gold, silver, wheat, etc.) of the same type, they must be equal in weight and

exchanged immediately. If types differ (e.g., riyal for dollar), weights may differ, but exchange must still be immediate.

3. **Honesty and Anti-Cheating:** Deceptive practices are strictly forbidden.
4. **Prohibition of False Bidding:** Artificially inflating prices by bidding on a product one does not intend to buy is a sin.
5. **Anti-Monopoly:** A monopoly, used to exclude competitors and raise prices, is prohibited. Withholding grain for forty days to force high prices is specifically condemned.
6. **Property Rights:** One cannot sell what they do not yet possess or have full property rights over.
7. **Leniency:** Sellers and buyers are encouraged to be lenient and facilitating in their dealings and payment processes.

Islamic Economics and Market Ethics: A Comprehensive Study Guide

This study guide provides an exhaustive review of Islamic economic principles, covering the nature of the economic dilemma, production factors, consumption ethics, and the regulatory framework of the market as outlined in the provided source material.

1. The Economic Dilemma and Relative Scarcity

In the Islamic concept, the core of the economic dilemma is not a lack of absolute resources but rather **Relative Scarcity**. This refers to the impossibility of providing every human being with all their needs and desires at the exact time, place, and form they wish.

The Purpose of Scarcity

Relative scarcity serves two primary functions:

- **Motive for Work:** It encourages humans to “walk among the slopes” of the earth and seek provision, contributing to earth’s construction.
- **Divine Test:** It is a means by which Allah tests individuals through fear, hunger, and loss of wealth, rewarding those who remain patient.

Sufficiency of Resources

Islamic doctrine posits that resources are globally sufficient to secure a good life. Shortages and starvation are attributed not to a lack of divine provision, but to human factors:

1. Inequitable distribution of fortune and population.
2. Failure to utilize provided resources effectively.
3. Exaggerated human needs and desires.
4. Spiritual crises leading to the neglect of the poor.

Critique of Malthusian Theory

Malthus argued that population growth inevitably outstrips food resources, leading to cycles of misery. Islamic economic thought identifies three errors in this theory:

- Some resources (forests, fish) are renewable.
- New alternatives to natural resources emerge through science.
- Empirical studies have proven Malthus’s predictions to be inaccurate.

2. Factors of Production and Returns

Production in Islam is the persistent effort to invest wealth and increase yields for the prosperity of society. It is considered a form of worship when performed with the correct intention.

Elements of Production

Element	Definition and Islamic Perspective
Work	Physical or mental effort to create legitimate benefit. It requires mastery (<i>Ihsan</i>), suitability for the worker's skills, and honesty.
Capital	The portion of wealth used for production. It includes cash and real assets (machines, buildings). Islam encourages investing surplus income over hoarding.
Natural Resources	Land and surrounding resources (minerals, water, crops). These are subjected by Allah for human development.

Capital and Partnership Forms

Islam identifies various ways to manage and invest capital:

- **Joint Capital & Labor:** Partners contribute both money and work, sharing profits.
- **Mudarabah (Brokerage):** One partner provides capital, the other provides labor; profits are shared per agreement.
- **Trade:** An individual trades with their own money.
- **Leasing:** Real capital (tools/machines) is invested through rental agreements.

Land Utilization Methods

- **Musaqah:** A contract where a worker irrigates and cares for crops in exchange for a share of the produce.
- **Muzara'ah:** A contract where a worker cultivates land in exchange for a share of the harvest.

3. Consumption and Consumer Conduct

Consumption is the final purchase or use of goods by individuals and serves as a proxy for the economy. Islamic consumption is governed by three pillars:

I. Rationalization

Consumers must follow specific guidelines to manage wealth:

- **Prohibition of Luxury (*Taraf*):** Avoiding excessive indulgence and the use of gold/silver utensils.
- **Prohibition of Extravagance (*Israf*):** Exceeding limits of temperance in spending.
- **Prohibition of Wastefulness (*Tabtheer*):** Spending money on wrongful or unworthy things.
- **Moderation:** Maintaining a balance between stinginess and overspending.

II. Economic Liberty

Islam does not support absolute consumer liberty. Instead, it promotes “rational freedom,” which balances individual interests with the needs of the community and restricts consumption to legitimate (*Halal*) goods.

III. Interest and Gratification

Unlike Western concepts that focus purely on material utility, Islamic gratification includes spiritual enjoyment. Utility is derived from satisfying desires within the frame of rewards and punishments in the Hereafter.

4. Market Ethics and Rules

The market is an arrangement where buyers and sellers meet for exchange and pricing. Islam imposes strict ethical rules to ensure fairness and prevent exploitation.

Prohibitions in the Market

- **Usury (*Riba*):** Prohibited in sales involving an increase or delay when exchanging specific goods (gold, silver, currencies, grains).
- **Monopoly:** Controlling a commodity to raise its price by excluding competitors is strictly forbidden.
- **False Bidding (*Najsh*):** Artificially inflating prices by bidding on an item one does not intend to buy.
- **Cheating:** Includes lying about specifications, reducing weights/scales (*Al-Mutaffifin*), or devaluing commodities brought by outsiders.
- **Unearned Sales:** Selling something one does not yet possess or has not fulfilled full property rights for.

Market Best Practices

- **Honesty:** Transparency in all dealings.
- **Fairness:** Accuracy in using scales and measurements.
- **Leniency:** Being easy and kind in buying, selling, and demanding payment.

5. Review Quiz

Instructions: Answer the following questions in 2–3 sentences based on the source text.

1. How does the Islamic concept of “Relative Scarcity” differ from the idea of absolute resource insufficiency?
2. What are the two spiritual and practical purposes of scarcity according to the text?

3. Why is production considered a “worshipping methodology” in Islam?
4. Define the difference between *Israf* and *Tabtheer*.
5. What are the requirements for selling usurious assets of the same type (e.g., gold for gold)?
6. Explain the concept of “False Bidding” (*Najsh*) and why it is prohibited.
7. What is the Islamic critique of Malthus’s theory regarding land and natural resources?
8. How does the role of a “Caliph” (successor) influence production and inheritance?
9. Describe the two methods of land utilization: *Musaqah* and *Muzara’ah*.
10. What are the three elements required to characterize “needs” within the Islamic concept?

6. Quiz Answer Key

1. **Answer:** Relative scarcity is the inability to satisfy every desire at any time, rather than a global lack of resources. The text emphasizes that Allah has provided sufficient depositories of resources, but they are sent down in measured amounts to secure a good life for humanity.
2. **Answer:** Scarcity serves as a motive for humans to work and construct the earth by seeking provision. It also acts as a divine test from Allah to examine a person’s patience and faith through periods of hunger or loss of wealth.

3. **Answer:** Production is viewed as worship because it is linked to the development of the earth as a divine responsibility (Caliphate). When performed with the correct intention and for the prosperity of society, the effort itself becomes a rewarded act of worship.
4. **Answer:** *Israf* refers to exceeding the limits of temperance and moderation in spending on allowed things. *Tabtheer* is more severe, referring to the wasteful spending of money on wrongful, unworthy, or prohibited things.
5. **Answer:** When selling usurious assets of the same type, such as gold for gold or a specific currency for itself, two conditions must be met. The exchange must be equal in weight or value (like for like) and must occur immediately (hand to hand).
6. **Answer:** False bidding occurs when a person who has no intention of buying a commodity increases its price to trick someone else into paying more. This is prohibited because it involves deception and causes the seller and bidder to fall into sin.
7. **Answer:** The text argues Malthus was wrong because while some resources like land are fixed in size, others (like fish and forests) are renewable. Additionally, modern science continuously reveals alternatives to disappearing resources, and empirical studies have refuted Malthus's predictions.
8. **Answer:** As a Caliph, a person realizes that they are a successor on earth meant to develop it for themselves and future generations. This encourages production beyond personal need, as the Prophet advised leaving heirs independent of means rather than poor.
9. **Answer:** *Musaqah* involves a worker caring for existing crops or trees in exchange for a shared portion of the fruit. *Muzara'ah* involves a worker cultivating and farming the land itself in exchange for a shared portion of the harvest.
10. **Answer:** Needs must fall within the frame of allowed (*Halal*) items and should focus on the basic requirements of life like food and clothing. Furthermore, spiritual needs are considered to be of equal importance to material needs.

7. Essay Questions

Instructions: Use the provided source material to develop comprehensive responses to the following prompts.

1. **The Ethics of Labor:** Analyze the Islamic guidelines for work ethics, focusing on the concepts of mastery, suitability, and the role of the government in regulating labor.

- 2. Resource Management vs. Starvation:** Discuss the Islamic perspective on why starvation exists in the world despite the claim that resources are sufficient. Contrast this with Malthusian theory.

- 3. The Framework of Economic Liberty:** Compare and contrast the Islamic concept of “rational freedom” in the market with the Western concept of “absolute liberty.”

- 4. Monopoly and Market Manipulation:** Evaluate the various prohibitions in the Islamic market (monopoly, cheating, false bidding) and explain how these rules protect the community’s interests.

- 5. Capital and Investment:** Discuss the importance of capital in the production process and the Islamic policies aimed at preventing hoarding and encouraging the circulation of wealth.

8. Glossary of Key Terms

- **Caliph:** A successive human authority on earth responsible for its development and management according to divine entrustment.
- **Capital:** The portion of wealth (cash or real assets like machines/buildings) used in the production process.
- **Hoarding:** The act of withholding money from circulation and treasuring it without paying Zakah or investing it.
- **Israf:** Extravagance; exceeding the limit of moderation in spending, though typically less severe than luxury.
- **Mudarabah (Brokerage):** A partnership where one party provides capital and the other provides labor, with profits shared by agreement.
- **Monopoly:** A dominant position where one entity excludes competitors to raise prices on necessary commodities.
- **Musaqah:** A sharecropping arrangement specifically for the irrigation and care of trees or crops.
- **Muzara'ah:** A sharecropping arrangement where a worker cultivates land in exchange for a portion of the produce.
- **Najsh (False Bidding):** Artificially inflating the price of a commodity by placing fake bids without the intent to purchase.
- **Relative Scarcity:** The economic condition where human desires exceed the available resources at a specific time and place, despite global resource sufficiency.

- **Riba (Usury):** An unjustified increase or delay in the exchange of specific usurious goods; strictly prohibited in Islamic finance.
- **Tabtheer:** Wastefulness; the act of spending money on wrongful or unworthy causes.
- **Taraf:** Luxury; excessive indulgence in a lifestyle that leads to spiritual negligence and divine punishment.

Principles of Pricing and Market Regulation in Islam

Executive Summary

The Islamic approach to economics prioritizes the lawfulness and wholesomeness of earnings, seeking to eliminate exploitation and injustice. Central to this framework is the principle of price freedom, where market rates are generally left to fluctuate based on natural forces rather than state intervention. This stance is rooted in prophetic precedent and the theological belief that price determination—driven by the laws of supply and demand—is a manifestation of divine decree.

However, this policy of non-interference is not absolute. While the state is discouraged from intervening in price fluctuations caused by natural market shifts, it has a mandate to intervene when high prices result from human misconduct, such as monopoly, greed, or cheating. In such instances, regulatory intervention is permitted to restore fairness, ensuring that neither the producer, the seller, nor the consumer is unjustly harmed.

Theological Foundations of Pricing

Islamic jurisprudence regarding market prices is heavily influenced by the teachings and actions of the Prophet Muhammad. The foundational stance is one of non-interference, even during periods of economic strain.

The Prophetic Precedent

During a period of rising prices in the Prophet's lifetime, the community requested that he personally set price controls. He declined this request based on the following principles:

- **Divine Sovereignty:** The Prophet identified God as the ultimate "Provider" and the "One who sets prices," asserting that the bestowal or withholding of resources is a divine prerogative.
- **Prevention of Injustice:** Setting a price was viewed as a potential act of injustice against property owners. The Prophet expressed a desire to meet God without anyone having a claim against him for injustice regarding "blood or property."
- **Origin of Freedom:** Based on these teachings, the fundamental state of the market is one of freedom in price determination.

The Economic Mechanics of Supply and Demand

Islamic economic thought recognizes the objective laws of supply and demand as the primary drivers of market value. These forces are considered to be under divine decree rather than human control.

Definitions of Market Drivers

The interaction between two core components determines the price of goods:

- **Supply:** Refers to the availability of goods, production levels, existing stock, inventory, and total output.
- **Demand:** Refers to the consumer's desire or need for a product, their purchasing power, and general buyer interest or appetite.

The Law of Price Relationships

The relationship between price and quantity is categorized by two distinct patterns:

1. **Demand Relationship (Inverse):** As the price of a good increases, the quantity demanded by consumers decreases. Conversely, when the price falls, the quantity demanded rises.
2. **Supply Relationship (Direct):** As the price of a good increases, the quantity supplied to the market typically increases.

Influencing Variables

Several secondary factors can influence these primary relationships, including:

- Fluctuations in consumer income.
- Changes in production costs.
- General market volatility and fluctuations.

Regulatory Intervention and Market Justice

While price freedom is the default state, Islamic principles allow for state intervention under specific conditions of market failure or human-driven injustice.

Grounds for State Intervention

The ruler or governing authority has the right to interfere in the market when price increases are not the result of natural supply and demand, but are caused by:

- **Monopolistic Practices:** Traders or suppliers exerting unfair control over the market.
- **Greed and Exploitation:** Unjust actions by producers or suppliers to drive up costs.
- **Deceptive Practices:** Engaging in cheating or other forms of market manipulation.

Criteria for Fair Pricing

When the state chooses to intervene and set prices to curb exploitation, it must adhere to a standard of fairness that balances the interests of all market participants:

Stakeholder	Regulatory Requirement
Producers & Sellers	Must not be harmed by prices set so low that they cannot sustain their business.
Buyers & Consumers	Must be protected from high prices driven by artificial scarcity or greed.

In summary, the ruler's intervention is focused on cracking down on those who cheat or monopolize, ensuring that the market remains a space for lawful and wholesome exchange.

Study Guide: Principles of Pricing in Islam

This study guide examines the theological and economic frameworks of pricing within the Islamic tradition as outlined in the provided source materials. It explores the relationship between market forces, divine decree, and the conditions under which state intervention is permitted to ensure justice.

Part 1: Short Answer Quiz

Instructions: Answer the following questions in two to three sentences based on the provided text.

1. What is the fundamental requirement for a Muslim's earnings according to Islamic principles?
2. How did the Prophet Muhammad respond when the people asked him to set prices during a period of inflation?

3. According to the Prophet Muhammad, who is the ultimate authority that determines the rise and fall of prices?
4. How is the relationship between price and the quantity demanded described in the text?
5. What is the nature of the relationship between price and the quantity supplied?
6. What external factors can influence the standard relationships of supply and demand?
7. Why is the origin of price determination considered to be "freedom" in an Islamic context?
8. Under what specific circumstances does a ruler have the right to interfere in the market?
9. What are the primary goals of a ruler when "Fairness in pricing" is implemented?
10. What was the Prophet Muhammad's personal concern regarding the potential for setting prices?

Part 2: Answer Key

1. **What is the fundamental requirement for a Muslim's earnings according to Islamic principles?** Islam requires that a Muslim's earnings must be lawful and wholesome. They must be generated through means that are entirely free from exploitation and injustice.

2. **How did the Prophet Muhammad respond when the people asked him to set prices during a period of inflation?** The Prophet refused to set prices, stating that God is the provider who withholds and bestows. He expressed a desire to meet God without anyone having a claim of injustice against him regarding their property.
3. **According to the Prophet Muhammad, who is the ultimate authority that determines the rise and fall of prices?** The Prophet identified God as the "One who sets prices" and the "Provider." This suggests that price fluctuations occurring through natural market shifts are a result of divine decree.
4. **How is the relationship between price and the quantity demanded described in the text?** There is an inverse relationship between price and the quantity demanded. This means that as the price of a good rises, the quantity that consumers are willing or able to demand decreases.
5. **What is the nature of the relationship between price and the quantity supplied?** The relationship on the supply side is direct rather than inverse. When the price of a good rises, the quantity supplied to the market by producers also increases.
6. **What external factors can influence the standard relationships of supply and demand?** Market relationships are not static and can be influenced by consumer income and production costs. Additionally, general market fluctuations play a role in how supply and demand interact.
7. **Why is the origin of price determination considered to be "freedom" in an Islamic context?** Because price changes driven by supply and demand are viewed as Allah's decree, humans generally have no control over them. Therefore, the market is intended to operate freely without human-imposed price fixing.
8. **Under what specific circumstances does a ruler have the right to interfere in the market?** A ruler may interfere if traders engage in greedy or monopolistic practices or if producers act unjustly. Intervention is permitted to crack down on those who cheat or exploit the market.
9. **What are the primary goals of a ruler when "Fairness in pricing" is implemented?** The goal is to ensure that no party is harmed; the price should not be so low that it hurts the producer or seller, nor so high that it harms the buyer. It is a balancing act to maintain justice for all participants.
10. **What was the Prophet Muhammad's personal concern regarding the potential for setting prices?** The Prophet wanted to avoid any accusations of injustice regarding blood or property. He feared that by setting prices, he might inadvertently wrong someone, and he wished to meet God free of such claims.

Part 3: Essay Questions

Instructions: Use the provided source context to develop comprehensive responses to the following prompts.

- 1. The Divine and the Market:** Discuss the theological reasoning behind the Prophet Muhammad's refusal to set prices. How does the concept of "Allah's decree" interact with the economic laws of supply and demand?
- 2. Market Mechanics:** Explain the inverse relationship between price and demand versus the direct relationship between price and supply. How do factors like production costs and consumer income complicate these basic laws?
- 3. Justifiable Intervention:** Analyze the conditions under which an Islamic authority may move from a policy of non-interference to active price setting. What specific behaviors by traders or producers necessitate this shift?
- 4. The Concept of Fairness:** Define "Fairness in pricing" as presented in the text. Evaluate how a ruler must balance the competing interests of the seller and the buyer to avoid "harm" to either party.
- 5. Ethical Earnings:** How does the Islamic requirement for "lawful and wholesome" earnings serve as a foundation for the broader economic principles of price freedom and anti-monopoly measures?

Part 4: Glossary of Key Terms

Term	Definition
Allah's Decree	The theological concept that natural market fluctuations and price determinations are under divine control, rather than human control.
Demand	The desire, need, interest, and purchasing power of consumers for a particular good or service.
Direct Relationship	An economic state where two variables move in the same direction; in this context, as price rises, the quantity supplied also increases.
Fairness in Pricing	A state of market equilibrium where the price is high enough to sustain the seller but low enough to remain accessible to the buyer without causing harm to either.
Inverse Relationship	An economic state where two variables move in opposite directions; in this context, as price rises, the quantity demanded decreases.
Lawful and Wholesome	The Islamic standard for earnings, requiring that wealth be acquired through just means and free from any form of exploitation.
Monopolistic Practices	Unjust actions taken by traders or suppliers to control the market, often involving greed or cheating to manipulate prices.
Price Setting	The act of an authority or ruler fixing the cost of goods, an action generally avoided in Islam unless injustice or monopoly is present.
Supply	The availability of a product, including production levels, inventory, stock, and total output.
Withholder and Bestower	Attributes of God used by the Prophet to describe the source of provision and the ultimate control over the abundance or scarcity of resources.