Copyright UMK PRESS, 2022

All rights reserved. No part of this publication may be reproduced, stored in production transmitted in any form, whether electronic, mechanical, photocopying, recording or otherwise, without having permission from the UMK Press.

Perpustakaan Negara Malaysia Cataloguing-in-Publication Data

Hazriah Hasan

ISLAMIC ECONOMICS : PRINCIPLES AND SYSTEMS / Author: HAZRIAH HASAN, ISMAIL AHMAD.
ISBN 978-967-0021-00-3
I. Ismail Ahmad. II. Title.
332.088297


Publish by:
UMK Press
Universiti Malaysia Kelantan
The Office of Library and Knowledge Management
16300 Bachok, Kelantan
(Member of Malaysian Scholarly Publishing Council (MAPIM))
(Member of Malaysian Book Publisher Association (MABOPA) Membership No. : 201903)

Printed by:
Reka Cetak Sdn. Bhd
NO.12 & 14 Jalan Jemuju Empat 16/13D
Seksyen 16, 40200 Shah Alam
CONTENTS

List of Figures xi
List of Tables xvii
List of Abbreviations xix
Preface xx

PART 1 : FOUNDATION OF ISLAMIC ECONOMICS
CHAPTER 1 : THE GLOBAL VIEW OF ECONOMIC SYSTEM

Learning Outcomes 1
Introduction 1
Present Islamic Economic System 3
Various Definitions of Economics by Islamic Scholars 4
Scope Covered in Islamic Economic 5
The Philosophy of Islamic Economic 6
Basic Principles of Islamic Economic 8
Benefits of Islamic Economics in Humankind Well-Being 9
The Implementation of Islamic Economy 9
Islam Focuses on the Distribution of Wealth, Not Just the Production 9
All Basic Needs Guaranteed 10
Wealth Distribution as an Obligation 11
Prohibition of *Riba* vs Encouragement to Invest 12
Real Economy and Islam Prohibition in the Current Financial Markets 13
Certain Prohibition in Business Transaction 14
Free Market vs Command Economic 15
Gold and Silver Standard for Currency vs Fiat Money 15
Early Days of Islam 17
Contribution of Eminent Jurists, Philosophers and Sufis 17
CHAPTER 4 : THEORY OF PRODUCTION

Learning Outcomes
Introduction
Objective of the Firm in Islamic
Overview of The Production Theory
Factors of Production
Market Equilibrium
Market Equilibrium from Conventional and Islamic Perspective
General Differences Between Conventional and Islamic Economics in Production
Conditions of Market Equilibrium
Law of Demand
Law of Supply
Changes in Demand, Supply, and Market Equilibrium
Price Ceiling and Floors
Factors Influences Market Equilibrium
Determinants of Demand
Determinants of Supply
Equilibrium of a Muslim Consumer
Conceptualization of Theory of Market Price from Islamic Perspective
Competition and Monopoly
Competition Policy
Benefits of Competition Policy
Importance of Competition Policy for Consumer
Importance of Competition Policy for Producer
CHAPTER 6 : PUBLIC FINANCE AND THE ROLE OF THE STATE

Learning Outcomes 173
Introduction 173
The Role of the State in Islamic Economy 174
Baitul Mal: History and Current Practice 177
Source of Revenue and Taxation 181
Current Practice of Baitul Mal in Malaysia 191
Can Modern Taxes Are Levied on Islamic State? 192
Definition of Tax 193
Conditions for the Fulfilment of Taxes 194
Tax Rates 195
Classes of Income 195
The Objectives of Tax Policy 197
Types of Taxes 197
Who are Taxpayers? 198
The Important Role of Taxes 200
Institution of Zakat and Its Role 202
Definition and Types of Zakat 202
Benefits of Zakat 203
Purposes of Zakat 204
The Pillars of Zakat 205
The Recipients of Zakat (Zakat Asnaf) 206
Types of Zakat 209
Importance Role of Zakat in Economic Empowerment 210
Infaq 212
Definition 213
Conditions for Infaq Stated by Quran 213
Benefits of Infaq Mentioned in the Quran 214
Roles of Infaq in the Income Distribution 214
CHAPTER 7: MONEY AND THE FINANCIAL INSTITUTIONS

Learning Outcomes 241
Introduction 241
Definition of Money 242
Types of Money 243
Money from an Islamic Economics Perspective 244
Roles and Functions of Money 245
Time Value of Money in Islamic Perspective 247
CHAPTER 8: MONETARY POLICY IN AN INTEREST FREE ECONOMY

Learning Outcomes 261
Introduction 261
Understanding of Monetary Policy 264
Inflation 265
Monetary Policy 266
Interest Free Economy 269
Instruments of Monetary Policy in Interest Free Economy 272
Monetary Transmission Mechanism 276
Challenges of Islamic Monetary Policy 279
Interest Economy 279
Instruments of Monetary Policy in Interest Economy 281
Monetary Transmission Mechanism in Islamic Banking System and Islamic Financial Markets 282
Comparison of Monetary Policy in Interest and Interest Free Economy 285
Monetary and Fiscal Policy Limitations 286
Introduction to the “Trilemma” 286
Development of Trilemma in Industrialized and Developed Countries 289
Measures Toward the Trilema Dimensions 293
Three Policies (Trilemma) and Inflation Volatility 303
Summary 305
Review Questions 306
### CHAPTER 9: TRADE AND THE GLOBAL ECONOMY

<table>
<thead>
<tr>
<th>Learning Outcomes</th>
<th>307</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>307</td>
</tr>
<tr>
<td>Wave of Integration</td>
<td>310</td>
</tr>
<tr>
<td>Objective of Regional Integration</td>
<td>311</td>
</tr>
<tr>
<td>Three main Theories on Regional Integration</td>
<td>313</td>
</tr>
<tr>
<td>Major Development of Regional Integration</td>
<td>314</td>
</tr>
<tr>
<td>Rule of Thumb of Regional Integration</td>
<td>315</td>
</tr>
<tr>
<td>Regional Integration Among Developing Nations</td>
<td>318</td>
</tr>
<tr>
<td>Recent Changes on Regional Integration Among Developing Countries</td>
<td>319</td>
</tr>
<tr>
<td>Benefits of Regional Integration</td>
<td>320</td>
</tr>
<tr>
<td>Effect on Regional Integration</td>
<td>322</td>
</tr>
<tr>
<td>Barrier of Integration</td>
<td>323</td>
</tr>
<tr>
<td>OLI Theory</td>
<td>325</td>
</tr>
<tr>
<td>Absolute Advantage Theory</td>
<td>331</td>
</tr>
<tr>
<td>Comparative Advantage</td>
<td>335</td>
</tr>
<tr>
<td>Economic Gains from Trade</td>
<td>340</td>
</tr>
<tr>
<td>Summary</td>
<td>343</td>
</tr>
<tr>
<td>Review Questions</td>
<td>345</td>
</tr>
</tbody>
</table>

### PART 4: SELECTED ISSUES IN ISLAMIC ECONOMICS

### CHAPTER 10: CONTEMPORARY ISSUES IN ISLAMIC ECONOMICS AND THE MUSLIM COUNTRIES

<table>
<thead>
<tr>
<th>Learning Outcomes</th>
<th>347</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>347</td>
</tr>
<tr>
<td>Poverty in the Malaysia Context</td>
<td>348</td>
</tr>
<tr>
<td>Roles and Responsibility</td>
<td>350</td>
</tr>
<tr>
<td>Microfinance Program in Malaysia</td>
<td>352</td>
</tr>
<tr>
<td>The Benefits of Microfinance Credit</td>
<td>355</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-----</td>
</tr>
<tr>
<td>The Financing</td>
<td>357</td>
</tr>
<tr>
<td>The Payment of Zakat and Waqf of Wealth in Private Sectors</td>
<td>359</td>
</tr>
<tr>
<td>The Guidelines Applied by Private Sector and Waqf Corporation for the Poor and Needy</td>
<td>361</td>
</tr>
<tr>
<td>Islamic Economics</td>
<td>364</td>
</tr>
<tr>
<td>The Objective of an Islamic Economics</td>
<td>366</td>
</tr>
<tr>
<td>The Principles of Islamic Economics</td>
<td>371</td>
</tr>
<tr>
<td>Comparison Between the Islamic Economics and Conventional Economics</td>
<td>374</td>
</tr>
<tr>
<td>Economic of Riba</td>
<td>376</td>
</tr>
<tr>
<td>Al-Quran Prohibits Riba in Four Different Places</td>
<td>377</td>
</tr>
<tr>
<td>Types of Riba</td>
<td>380</td>
</tr>
<tr>
<td>Reasons of Prohibition of Riba</td>
<td>383</td>
</tr>
<tr>
<td>The Effect of Riba Towards Muslims</td>
<td>385</td>
</tr>
<tr>
<td>The Effect of Riba Towards Society</td>
<td>385</td>
</tr>
<tr>
<td>Financial Crisis</td>
<td>386</td>
</tr>
<tr>
<td>The Cause of the Financial Crisis</td>
<td>387</td>
</tr>
<tr>
<td>Actions Taken by Malaysian Government</td>
<td>389</td>
</tr>
<tr>
<td>Financial Crisis: Conventional vs Islamic Point of View</td>
<td>390</td>
</tr>
<tr>
<td>Conception of Industrial Policy</td>
<td>396</td>
</tr>
<tr>
<td>Industrial Promotion Policies</td>
<td>397</td>
</tr>
<tr>
<td>Six Phases of Industrialization Strategies in Malaysia</td>
<td>400</td>
</tr>
<tr>
<td>Success Story of Asian Industrial Policies</td>
<td>410</td>
</tr>
<tr>
<td>Impact of Industrialization for the Economic Growth</td>
<td>413</td>
</tr>
<tr>
<td>Summary</td>
<td>414</td>
</tr>
<tr>
<td>Review Questions</td>
<td>416</td>
</tr>
</tbody>
</table>

**References** 417

**Index** 429

**Authors’ Biographies** 433