

Islamic Economic and law of contract

Introduction of economics

Three economics system

Islamic law of contract

Economics

اقتصاديات و معاشيات

- Economics is a branch of social **science focused on the production, distribution, and consumption of** goods and services.
- The study of how people allocate their limited resources to satisfy their unlimited wants
- **Resources**
Things used to produce other things to satisfy people's wants
- **Wants**
What people would buy if their incomes were unlimited

Four fundamental issues of Economics

To try to satisfy people's unlimited wants with limited resources, we must first determine:

- Determination of priorities (what to produce?)
- Allocation of the resources (labor, land, capital)
- Distribution of Income (on which criteria/basis)
- Development and progress (manufacturing quantity, quality etc.)

Three popular economic systems

- **Capitalism/Market Economy**

Capitalism is an economic **system in which monetary goods are owned by individuals or companies**, and workers earn only wages.

The production of goods and services under capitalism is based on **supply** and **demand** in the general market—known as a market economy—rather than through central planning—which is known as a planned economy or command economy.

In capitalism, distribution of income is also based on demand & supply divine rule:

(Rent for **land**, wages for **labor**, interest for **capital**, profit for **entrepreneur**)

Capitalism ideals are:

- Private property
- Self profit motive
- Laissez Faire (leave alone)

Three popular economic systems

- **Socialism**

Socialism is a populist economic and political system based on **collective, common, or public ownership of the means of production.**

Those means of production include the machinery, tools, and factories used to produce goods that aim to directly satisfy human needs. (Land government, and Labor wages.)

Socialist ideals include:

- Collective property
- Collective interest
- Planning
- An equitable distribution of wealth and material resources among all people
- No more competitive buying and selling in the market
- Free access to goods and services.

Three popular economic systems

- **Islamic economic system**

- أَهُمْ يَقْسِمُونَ رَحْمَتَ رَبِّكَ ۚ نَحْنُ قَسَمْنَا بَيْنَهُمْ مَعِيشَتَهُمْ فِي الْحَيَاةِ الدُّنْيَا ۚ وَرَفَعْنَا بَعْضَهُمْ فَوْقَ بَعْضٍ دَرَجَاتٍ لِّيَتَّخِذَ بَعْضُهُمْ بَعْضًا سُخْرِيًّا ۗ وَرَحْمَتُ رَبِّكَ خَيْرٌ مِّمَّا يَجْمَعُونَ
 - it they who distribute your Lord's mercy? **We 'alone' have distributed their 'very' livelihood among them** in this worldly life and raised some of them in rank above others so that **some may employ others in service**. 'But' your Lord's mercy is far better than whatever 'wealth' they amass.

The Employer has **demand** and the employee is **supply**

" لَا يَبِيعُ حَاضِرٌ لِّبَادٍ دَعَا النَّاسَ يَرْزُقُ اللَّهُ بَعْضَهُمْ مِنْ بَعْضٍ "

'A town-dweller should not sell for a direst-dweller. Leave the people alone and let Allah provide for them from one another.

Islamic economic system

- **Islamic economic system**

The Islamic economic system is the collection of rules, values & standards of conduct that organize economic life and establish relations of production in an Islamic society.

These standards are based on the Islamic order as recognized in the Quran and Sunnah and the corpus of Islamic jurisprudence.

- Islam has generally recognized the two forces of the market, **supply and demand**, just as Islam has generally accepted the rule of profit based on self-interest.
- However, Islam has imposed three types of restrictions on a Muslim/businessman/trader:
 - **Divine Restraints** (i.e. Interest, gambling, keeping stock of necessities, future sale, forward sale, selling pork, wine, human organs...)
 - **State restrictions** (selling weapons during war to enemy, export grain, wheat during famine etc.)
 - **Moral restrictions** (Al-Iqalah: the cancelation of the sale, the aim shouldn't only to sell your product but also to make profitable for others etc.)
- Islamic economics system doesn't differentiate between **Capital and Entrepreneur**. So, we are not allowed to pay interest on capital. And there are differences between land rent and capital interest (i.e. Risk of owner, devaluation of land, land itself profitable)

Finance

- **Finance**

- Finance is a term broadly describing the study and system of money, investments, and other financial instruments.
- Finance is the soul of our economic activities. It is now organized as a branch of Economics. Now Finance lies between economics and accounting.
- Finance can be divided broadly into three distinct categories: public finance, corporate finance, and **personal finance**.

- **Note**

In upcoming lines, we are just enlightening **personal finance**, particularly a basic guideline about the execution of a trade contract & leasing contract between two individuals/firms as per Sharyah aspect.

Islamic law of Contract (عقد)

- **Contract**

Offer & Acceptance between two or more parties for a specific purpose/benefit or a specific thing (Subject Matter or Usufruct) in such a way that it results in Shariyah effects is called "Contract".

Such as the transfer of ownership as a result of acceptance between the seller and the buyer in the sale and purchase (Transfer of Ownership) takes place. This is a Shariyah effect.

So, the contract has four elements:

1. Offer
2. Acceptance
3. Compensation (i.e. Goods vs. Money, usufruct vs. rent or service charges)
4. Completion & Transfer of Ownership (or usufruct)

Contract of Sale/Purchase

- **Sale/Purchase**

A contract of sale/purchase is executed when there is an **offer** of selling or buying at the current date and time from one side and the **acceptance** from other.

- **Offer** refers to a particular way for selling or ask to buying a specific product by specific price at current time
- **Acceptance** refers to the answer of given offer in same manner.
- **Once** a contract has been executed as per above detail, the ownership of product will be transferred to the buyer, and he will bound to pay the price to the seller.

Some characteristics of offer and the acceptance

- **Offer**

1. Must be clear
2. Should be addressing a specific client.
3. Should be intended right now and not in the future.
4. Can be verbally, in written form or through action.

- **Acceptance**

1. Should be just after the offer.(or the given time)
2. As per offer.
3. Should be intended right now and not in the future.
4. Can be verbally, in written form or through action

Some characteristics of product/ trade good and price

- **Trade good**

1. Permissible in Shariyah for buying or selling
2. Completely defined by its quantity, weight, quality, brand etc.
3. Should be in the ownership of seller (unless he is selling the item on someone's behalf)
4. Should be in the possession of seller
5. Should exist at the time of contract. (except the Salam contract)
6. Must be transferable to the buyer
7. As per agreed in the contract.

Some characteristics of product/ trade good and price

- **Price**

1. Permissible in Shariyah for giving as a compensation
2. Completely defined by its quantity, currency, mode.
3. If the price has been discussed to pay later during contract(in case of credit purchase), the time of payment should be specified by its time and date.
4. As per agreed in the contract.
5. should be transferable to the buyer.

Deferred sale/sale on Installment

Deferred sale is permissible in Shariyah considering below detail:

1. It is permissible to fix an increased price for a commodity sold on deferred payment, as compared to its cash price. But the sale cannot take place until the parties agree to contract a particular mode of payment and specify whether the payment is in cash or deferred.
2. Both parties must agree on payment date (or dates in term of installment.)
3. It is not permissible, in installments sale, to fix the spot price on cash basis, then to charge interest expressly tied with different periods, as separate from the price of the commodity.
4. If the buyer/debtor delays the payment of installments after the specified date, it is not permissible to charge any amount in addition to his principal liability.(in term of price)
5. The seller has no right to secure the ownership (of the sold commodity) after the sale has taken place.