

Islamic Economic and law of contract

Three economic systems

Finance

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

- Determination of priorities
- Allocation of the resources
- Distribution of Income
- Development and progress

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.

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Capitalism ideals are:

- Private property
- Self profit motive
- Laissez Faire

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**

دعو الناس يرزق الله بعضهم عن بعض

Islamic economic system

- **Islamic economic system**

- 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/business man/trader:
- **Divine Restraints** (i.e. Interest, gambling, keeping stock of basic necessities, future sale, selling pork, wine,...)
- **State restrictions** (selling weapons during war to enemy etc.)
- **Moral restrictions** (we all have to return to our creator, 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 ..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 going to discuss just about personal finance, particularly how to conduct a trade 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 Shariah 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 Shariah 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 execute 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.
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 Shariah 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 be exist. (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 Shariah 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.