

**FAST**

# ISLAMIC & RELIGIOUS STUDIES

LECTURE NO 12  
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# ISLAMIC ECONOMIC SYSTEM

BASIC CONCEPTS

# What is Economics?

“To utilize the limited resources in a way that maximum needs and wants are met to ensure the well being of all members of the human society.”



# The four basic economic problems:

- **Determination of Priorities;**
- **Allocation of Resources (Land, Labor, Capital, Entrepreneur);**
- **Distribution of Income;**
- **Development;**



# Determination of Priorities

## Capitalistic Approach

- Every individual has an unconditional and absolute right to participate in any business to maximize profits;
- Concept of Self Interest;
- Supply and Demand will be determined through priorities;

## Socialistic Approach

- No individual has the right to participate in any business independently;
- State will determine the priorities as per the overall planning;
- Concept of collective interest;



# Development

## Capitalistic Approach

- Market forces will decide;

## Socialistic Approach

- Govt. will decide



# Allocation of Resources (Land, Labor, Capital, Entrepreneur)

## Capitalistic Approach

- Market forces will decide where to invest resources;

## Socialistic Approach

- Govt. will decide where to allocate resources





# Distribution of Income:

## Capitalistic Approach

➤ Reward will be given to factors of productions:

- Land - Rent;
- Labor - Wages;
- Capital - Interest;
- Entrepreneur - Profits;

## Socialistic Approach

➤ Factors of production are limited to Government;

- Land – Rent fixed by Govt.
- Labor – Wages fixed by Govt.





# Right to Wealth

## Capitalistic Approach

- Right to wealth is with the factors of production only;

## Socialistic Approach

- Right to wealth is limited to the Government which then distributes it among the factors of production;



# FLAWS OF CAPITALISM

It is merely a Logic based system with no enlightenment from revelation (Wahy) therefore:

- No bindings/restrictions in creation of wealth
- The main object is how to maximize the wealth;
- Market forces work in violation of Allah's rules and guidelines causing injustice to society by exploitation of labor and poor people;
- No moral values;
- Monopolies and Cartels exploit the society as a whole;
- Under the umbrella of free market sources, government and wealthy people join hands for mutual benefit and make laws according to their own Interests;
- Imbalance distribution of income and wealth
- Circulation of wealth within Lords



# FLAWS OF SOCIALISM

Another pure logic-based system;

- No enlightenment from revelation (Wahee) therefore;
- The other extreme emerged;
- Natural freedom is stopped;
- Perfect Planning is assumed to be the “Cure of all ills”;
- Governments are assumed to be angels which can’t commit a deliberate mistake while the case proved to be reverse;
- Cannot work without forceful dictatorship;
- Creates overall inefficiency in the society;
- There is no incentive to work efficiently as there is no individual profit motive;



# Islamic Economics Guidelines

- Islam is a perfect religion Dīn which gives guidance for all aspects of human life;
- `Aqaa'id (beliefs), `Ibadāt (Worships), Mu'ashrat (Social life), Akhlāq (Ethics) and Mu'aamlaat (dealings) are some of aspects covered in Islam;
- The ultimate goal is different for Muslims;
- Achieving the well being of human being cannot be attained by material approach only; e.g. Maximization of wealth as the main objective of Economics, which is a poor and lower target set for human being in capitalistic approach
- Wealth and its creation are very important issues in life of human being, but they are not all-in-all for human society;



# Islamic Economics Guidelines

- To obtain the ultimate target of human being which is the success on the day of resurrection and to balance between all aspect of life, all human activities are linked to each other and therefore all activities should be helping each other;
- Interest based debt payments, alcoholism, drug addiction and many other activities are declared Haram therefore its inclusion in economic activities are also not accepted by Islam;
- Islam accepts the market forces of supply and demand but within general limits;
- Islam accepts the right to private property and accepts the right to maximize profits;
- But these rights are not unconditional rather there are some prohibitions;





# Divine Prohibitions and guidelines:

- Islam has prohibited some economic activities that are not allowed at any time at any place.(Interest, Gharar, Gambling, Hoarding etc.);
- General rules for financial contracts;
- Profit and loss sharing and risk and rewards distributions;
- Islam allows Govt. to intervene where it feels appropriate, but these restrictions are temporary as per the need of the time;



# Factors of Production in Islam

➤ In Islam there are three factors of production:

–Land;

–Labor;

–Entrepreneur;

- Entrepreneur & Capital is a single factor of production.
- As interest is Haram, the risk of profit & loss is with the capital.
- Anyone investing capital must also take the risk of the investment.







# ISLAMIC LAW OF CONTRACT

**BASIC CONCEPTS**

# What is Contract?

- Legally a contract is an agreement between two or more persons or parties for doing something;
- According to Islam every action or work that takes place between two or parties is a contract;
- Therefore, exchange of goods, receiving a gift, accepting a woman as wife through Nikah and agreement on partnership etc. are also a contract.
- Contract has different types for which the rules and law are different;
- A contract can be of a financial or social nature



**CONTRACT**

**FINANCIAL CONTRACT**

**SOCIAL CONTRACT**

Trade

NIKAH

Leasing

GIFT

Hiring

LENDING

Partnership

GUARRANTEEE

AGENCY

NON-PAID  
AGENCY



# Basics of a contract

➤ A Financial Contract is allowed in Islam with some conditions:

1. The contract should not contain any element of Riba (explicit or implicit);
2. The contract should not have element of Gharar (excessive uncertainty);
3. The contract should conform to the rules laid down by Shari'ah for execution of contracts;
4. The contract should not be for those activities which have been considered impermissible (Haram) i.e. general prohibitions;



# Elements of a Contract

- Every contract has some basic elements which should conform to the rules of Shari'ah;
- The elements of a contract usually are:
  1. Parties/persons to contract (those who enter in a contract);
  2. Wordings of contract;
  3. Subject matter of contract (the thing/task meant by the contract);
  4. Compensation (remuneration/price for exchange);
  5. Mechanics of the contracts (rights and responsibilities);



# Parties of Contract should be:-

- 1. Eligible to enter in such a contract;
- 2. Sane;
- 3. Mature enough to understand the nature of transaction;
- 4. Legally allowed for executing of such transaction (licence/permit requirement etc. etc.);





# Wordings of a contract should:

- Contain Offer from one party and Acceptance from other ( Ijab-o-Qobool) in session of contract (Majlisul A'qd);
- This Offer and Acceptance can be:
  - Oral/verbal (Qauli), through bargaining;
  - Implied/understanding (Ishsraa), purchase in supermarket;
  - Be in Present tense, they must create sense of immediate effect (words give sense of future are not allowed, “I will buy it” does not make sense of immediate effect);
  - Unconditional – conditional wording do not create immediate effects, “I will accept if my father allow it” is a conditional wording;
  - Non-contingent – same reason as above, “I accept it if Pakistan wins the match” is a contingent (dependent on future event) wording;





# Subject matter of a contract should be:

Lawful – legally and Islamically allowed;

- Subject matter and the underlying cause must be lawful;
- The transacted object must be legally owned by the parties to a contract;
- Existent – something that exists, contract of supplying mangoes in January;
- Deliverable – can be transacted and exchanged, sale of fish in water or bird in air;
- Specified in clear manner, Toyota corolla, XLi, engine # and chassis #;
- Quantified if quantifiable, X1000 kg of wheat



# Compensation (remuneration/price for exchange

- Conditions apply to Subject matter also apply here;
- In case of barter system the application becomes important;
- Lawfulness, Existence, Deliverability, Specifiability and Quantifiability become important;
- In normal trade specification of currency is enough;



# Mechanics of the contracts (rights and responsibilities) should be clear;

- Both parties should bear the responsibility and have the rights which are required by the nature of transaction;
- In case of sale ownership related risks should be born by owner during the ownership, after its transfer the owner is not responsible, (reason behind the secured nature of credit sale);
- Any condition inserted which is against the mechanics of the contract is invalid, (making a lessee in a lease transaction responsible for ownership related expenses is not allowed. Guaranteeing of principle in a partnership is not allowed whether both parties agree on it or not);




# Conditional contract

Conditional contract are not permissible in Islam;

- However, business norms allow conditional contracts especially in current business scenario;
- Ulema and scholars have described the method for conditionalizing a contract;
- Three types of conditions are allowed while one type is not allowed;



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1. A condition, which is not against the basic objective of the contract, is a valid condition, e.g. a condition of free delivery to buyer's premises;
  2. A condition, which is against the basic objective of the contract, but is in the market practice, is also a valid condition, e.g. condition of five-year warranty and one year free service;
  3. A condition, which is against the basic objective of the contract, not in the market practice and not in favour of any contractor, is a valid condition, e.g. a charity imposed on a transaction;
  4. A condition that is against the basic objective of the contract and not in market practice and favours one of the contractors or subject matter or price, is a void and invalid condition, e.g. selling a car with a condition from seller of its free use for two days every month;





