Chapter Three: Consumer Behavior in Islam (Part one)

Dr. Md. Arif Billah[1]

Consumer

"A consumer is an individual who purchases, has the capacity to purchase, goods and services offered for sale by marketing institutions in order to satisfy personal or household needs, wants, or desires."

Consumer behavior as: " ... the process whereby individuals decide whether, what, when, where, how, and from whom to purchase goods and services."

“The study of the buying units and the exchange processes involved in acquiring, consuming, and disposing of goods, services, experiences, and ideas". This definition focuses on buying units in an attempt to include not only the individual but also groups that purchase products or services.

Types of consumer

Two different types of consumers can be distinguished, namely **personal and organizational** consumers.

Personal consumers purchase products and services for personal or household use or as a gift to someone else. Personal consumers, therefore, purchase for final consumption.

Organizational consumers on the other hand purchase products and services to run an organization, including profitable and non-profitable organizations, government organizations and institutions.

Importance of consumer behavior

"Consumers determine the sales and profits of a firm by their purchasing decisions. As such, their motives and actions determine the economic viability of the firm". To be a successful seller of products and services (as can be concluded from the statement above), organizations need to understand consumer needs and behavior and draft their marketing strategies to incorporate such behavioral needs of consumers.

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[1] ***Associate Professor of Economics, Faculty of Shariah, IIUC, Executive Member of research panel at Islamic Economics Research Bureau (IERB), President of Poverty Reduction Economic Movement (PREM)***

Islamic Consumer

The Islamic consumer is likely the consumer who seeks to consume some specific products and services that create and symbolize a particular Islamic social identity.

Principles of Consumption

1. **Consumption of Halal Goods and Services are Allowed**

Allah declares that useful goods and services are permissible whereas those goods that are harmful are not allowed (AL-Quran: 7: 157). Prophet Muhammad (PBUH) has clearly mentioned that all drinks and food that are harmful are considered Haram and not allowed to consume (Al-Bukhari: 492, Muslim: 4956). In various verses, The Quran persuades consumer to use useful and goods items and deject useless, needless and wasteful expenses in order to ensure good value and transparency (AL-Quran: 2: 172, 5: 4-5, 16: 114). On the other side, The Holy Quran also discourages use of

2. **Consumption for Heavenly (life hereafter) and Worldly (life here)**

An Islamic consumer considers his life in two periods i.e. life here and hereafter for his options of consumption. His options for consumption have two interrelated stages. The first stage relates to the life before death (worldly life) and second stage relates to the life after death (heavenly life). Now a Muslim consumer picks that consumption pattern that is useful for both stages of life (life here and life hereafter). For example use of interest free loans, gives assistance to the deprived and poor people, spending for benefit of general people and society, etc. all are those activities that are beneficial not only in this world but also in that world.

3. **Spending Pattern**

Spending for the welfare of people and welfare of society considered as the act of worship in Islam. In the holy Quran, Allah promises to reward those who spend for the needy, for orphans and for welfare of society (Al-Qur'an, 2: 215). The Messenger of Allah, Prophet Muhammad (PBUH) has also said that Allah regards those donations earned from the lawful income directly and this income increases day by day and becomes larger than a big mountain (Al-Tirmidhi: 661).

4. **Human Wants are Unlimited but Consumption should be Balanced**

Human wants are unlimited and a customer or consumer can never satisfy all of his wants. In this regard, Messenger of Allah Muhammad (PBUH) has pointed out that if Allah gives man a valley full of gold, he will ask for the second; if Allah gives him second, he will ask a third.

5. Standard of Living

Standard of living means approach of living and the comfort level that is necessary to live a life. Islam suggests a moderate level neither miserliness nor extravagance. Both extremes are prohibited in Islam because at one side miserliness creates unnatural asceticism and on the other side extravagant makes people profligate and selfish. The messenger of Allah, Muhammad (PBUH) has preferred and led a simple and modest life standard. Four caliphs also continued prophet's (PBUH) tradition of living a simple life after him. Therefore, it is recommended in Islam for a Muslim consumer to lead a simple and moderate life. Shariah reassures to live a simple and modest life.

6. Hoarding

A Muslim consumer is not allowed to hoard wealth by Quran and Sunnah. The Holy Quran says; those who hoard wealth in few hands they are directly or indirectly creating scarcity in the level of consumption, production and employment in the community (Al Quran, 102:1). Prophet Muhammad (PBUH) has mentioned that the person who hoards is an offender (Sahih-Muslim: 3910-12). For a Muslim consumer, it is suggested not to withhold their currency by calculating it (or hoarding his wealth) and if he continues hoarding, Allah will also withhold His blessing from that person (Sahih-Bukhari: 514).

7. Consideration of Permissible (Halal) and Not Permissible (Haram)

Halal goods and services are allowed to consume in Quran and Sunnah and Haram goods and services are not allowed to consume. Last Messenger of Allah, Prophet Muhammad (PBUH) informs Muslims that in future a worst era will come where no one will care about Halal and Haram earning methods (Sahih-Bukhari-3:275). Nevertheless, only a true follower will take care of having Halal (permissible) and avoiding Haram (not permissible) in their consumption.

Model of Consumer Behavior (Consumers Equilibrium)

By now, you are clear about indifference curves and the budget line. Let's look at consumer's equilibrium next. A consumer is in equilibrium when he derives maximum satisfaction from the goods and is in no position to rearrange his purchases.

Assumptions

The key assumptions are as follows.

a) Consumer behavior is based on Economic Rationalism and fear of Allah. A consumer designs his consumption pattern to please Allah, the omnipotent. It is a matter of Gratefulness; it is also an act of worship (Ibadah).

b) A consumer is regarded as economic and moral utility maximizer. He determines his consumption in terms of moral and ethical principles. Ethics can be defined as the moral principles that make a distinction between right and wrong and between good and bad

c) He can control his wants as well as demand. He preferred leading a simple as well as moderate life.

d) Utility or Satisfaction derived from worldly (life before death) and Heavenly (life after death) consumption.

e) He only consumes useful while avoid harmful goods and services, for himself and for whole society. Moreover, be co-operative and socially responsible, who always consider the disadvantages of other consumers in society.

f) Spend in moderation neither as miser nor extravagant, both for here (worldly) and hereafter (Heavenly) life.

g) Strictly consider Halal (legal) and Haram (illegal) in consumption

h) He does not hoard his wealth.

Consumers Equilibrium

In order to display the combination of two goods X and Y, that the consumer buys to be in equilibrium, let's bring his indifference curves and budget line together.

We know that,

- Indifference Map – shows the consumer's preference scale between various combinations of two goods
- Budget Line – depicts various combinations that he can afford to buy with his money income and prices of both the goods.

In the following figure, we depict an indifference map with 5 indifference curves – IC_1, IC_2, IC_3, IC_4, and IC_5 along with the budget line PL for good X and good Y.

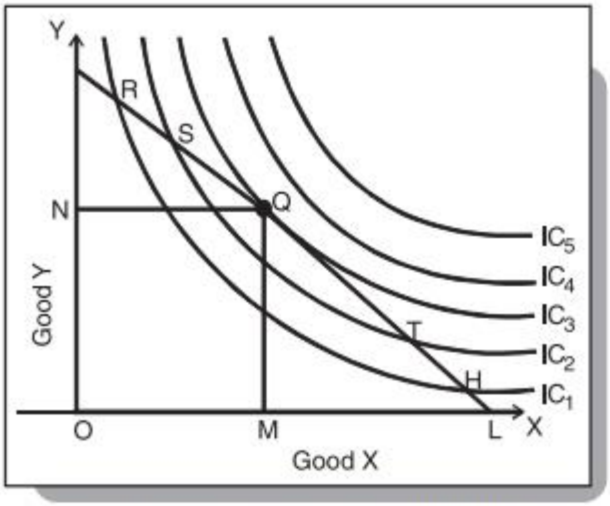


Fig. 1 : Consumer's Equilibrium

From the figure, we can see that the combinations R, S, Q, T, and H cost the same to the consumer. In order to maximize his level of satisfaction, the consumer will try to reach the highest indifference curve. Since we have assumed a budget constraint, he will be forced to remain on the budget line.

So, which combination will he choose?

Let's say that he chooses the combination R. From Fig. 1, we can see that R lies on a lower indifference curve – IC_1. He can easily afford the combinations S, Q, or T which lie on the higher ICs. Even if he chooses the combination H, the argument is similar since H lies on the curve IC_1 too.

Next, let's look at the combination S lying on the curve IC_2. Here again, he can reach a higher level of satisfaction within his budget by choosing the combination Q lying on IC_3 – higher indifference curve level. The argument is similar for the combination T since T lies on the curve IC_2 too. Therefore, we are left with the combination Q.

What happens if he chooses the combination Q?

This is the best choice since Q lies on his budget line and pts puts him on the highest possible indifference curve, IC_3. While there are higher curves, IC_4 and IC_5, they are beyond his budget. Therefore, he reaches the equilibrium at point Q on curve IC_3.

Notice that at this point, the budget line PL is tangential to the indifference curve IC_3. Also, in this position, the consumer buys OM quantity of X and ON quantity of Y.

Market Mechanism (Part Two)

What is Demand?

Demand is an economic principle referring to a consumer's desire to purchase goods and services and willingness to pay a price for a specific good or service.

What is Supply?

Supply is a fundamental economic concept that describes the total amount of a specific good or service that is available to consumers.

What is the Law of Supply and Demand?

The law of supply and demand is a theory that explains the interaction between the sellers of a resource and the buyers for that resource. The theory defines the relationship between the price of a given good or product and the willingness of people to either buy or sell it. Generally, as price increases, people are willing to supply more and demand less and vice versa when the price falls.

Demand Function (Mathematical Interpretation)

Definition Demand function shows the functional relationship between Quantity demanded for a commodity and its various Determinants.

$$\mathbf{D_x = a - bP_x}$$

Where a (intercept) and b (relationship between D_x and P_x) are constants.

In this equation, a denotes the total demand at zero price.

b = slope or the relationship between D_x and P_x

b can also be denoted by change in D_x for change in P_x

If the values of a and b are known, the demand for a commodity at any given price can be computed using the equation given above

For example, let us assume a = 50, b = 2.5, and P_x= 10:

Demand function is:

$D_x = 50 – 2.5 (P_x)$

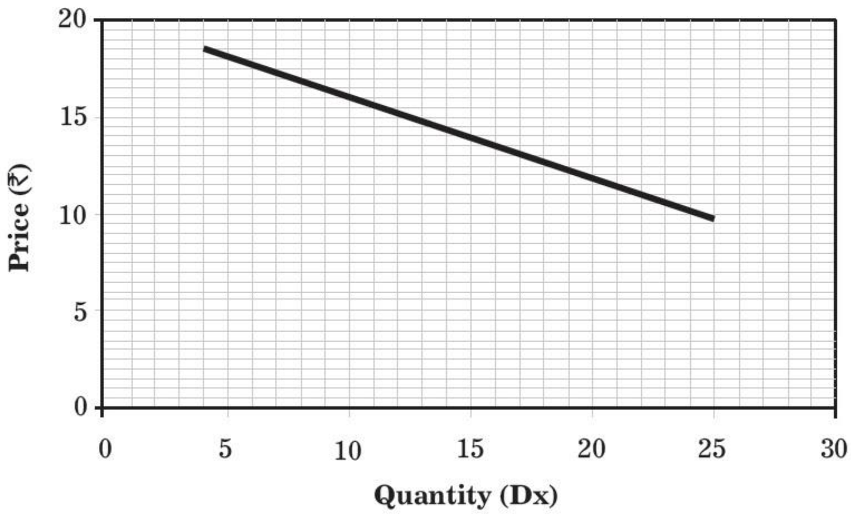
Therefore, $D_x = 50 – 2.5 (10)$

or, $D_x = 25$ units

The demand schedule for the above function is given in Table

Quantity Demanded of Commodity X	Price Levels of Commodity X
5	18
10	16
15	14
20	12

When the demand schedule is plotted on a graph, it produces a linear demand curve, which is shown in Figure below**. (Geometrical Interpretation)**



Demand Curve in Linear Demand Function

What is Demand Curve?

In economics, **Demand curve** is a graphical presentation of the demand schedule. It is obtained by plotting a demand schedule.

The demand schedule can be converted into a demand curve by graphically plotting the different combinations of price and quantity demanded of a product.

Individual demand curve

Individual demand curve**:** It is the curve that shows different quantities of a commodity which an individual is willing to purchase at all possible prices in a given time period with an assumption that other factors are constant..

Market demand curve

Market demand curve**:** This curve is the graphical representation of the market **demand schedule**. A market demand curve shows different quantities of a commodity which all consumers in a market are willing to purchase at different price levels at a given time period, while other factors remaining constant.

Why the demand curve slopes downward?

Generally, the **demand curves slope downwards**. It signifies that consumers buy more at lower prices. We shall now try to understand why the demand curve slopes downward?

Different explanations have been given different economists for the operation of the **law of demand**. These are explained below:

Factors that cause a demand curve shifts **are:**

1. Income effect
2. Substitution effect
3. Change in the number of consumers
4. Multiple uses of a commodity

Why the demand curve slopes downward

Concept of Supply

What is Supply **Concept?** In economics, supply refers to the quantity of a product available in the market for sale at a specified price and time.

In other words, supply can be defined as the willingness of a seller to sell the specified quantity of a product within a particular price and time period. Here, it should be noted that demand is the willingness of a buyer, while supply is the willingness of a supplier.

Also Read: **For example**, a seller offers a commodity at 100 per piece in the market. In this case, only commodity and price are specified; thus, it cannot be considered as supply.

However, there is another seller who offers the same commodity at 110 per piece in the market for the next six months from now on. In this case, commodity, price, and time are specified, thus it is supply.

Also

Classification of supply

1. **Individual supply** is the quantity of goods a single producer is willing to supply at a particular price and time in the market. In economics, a single producer is known as a **firm**.

2. **Market supply** is the quantity of goods supplied by all firms in the market during a specific time period and at a particular price. Market supply is also known as **industry supply** as firms collectively constitute an industry.

Determinants of Supply

1. Price of a product
2. Cost of production
3. Natural conditions
4. Transportation conditions
5. Taxation policies
6. Production techniques
7. Factor prices and their availability
8. Price of related goods
9. Industry structure

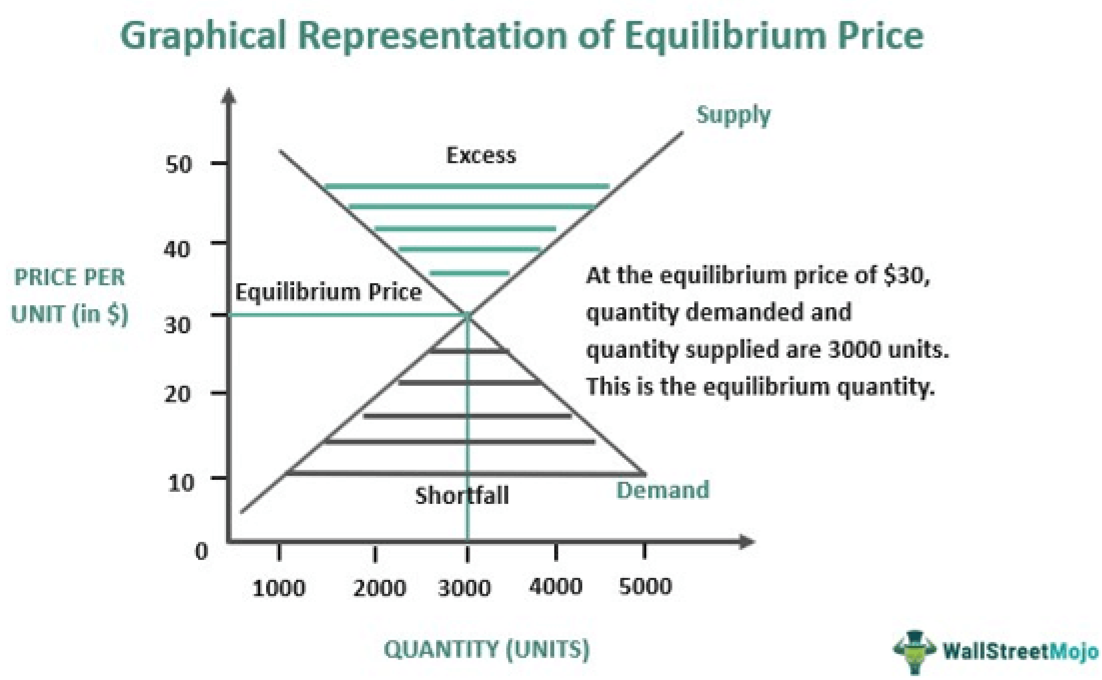
What is market equilibrium?

Market equilibrium is defined as the price and quantity point at which market supply and market demand for an item are equal.

A market is in equilibrium if at the market price the quantity demanded is equal to the quantity supplied. The price at which the quantity demanded is equal to the quantity supplied is called the equilibrium price or market clearing price, and the corresponding quantity is the equilibrium quantity.

How to Find Market Equilibrium

A market is in equilibrium when supply or demand is stable. When there is more supply than what is needed and the price is above equilibrium, a surplus occurs. When there is more demand than supply and the price is below equilibrium, there is a shortage.



Calculating the Equilibrium Price:

The case scenario below will provide you with the ability to practice calculating the equilibrium price of a given market.

You are a student of QSIS/DIS. You have been assigned the task to study the relationship between the supply and demand of the Pahartoli market in Chattagram. Although very little research has been done to date on the market, your colleagues have performed extensive interviews with various market participants and have determined the following equations for supply and demand.

Equations:

Qs = 128 + 8P

Qd = 478 - 6P

Variables:

- Qs stands for quantity supplied
- Qd stands for quantity demanded
- P stands for price.

Required:

- Calculate the equilibrium price for the pork belly market in Kazakhstan by using the supply and demand equations above. Show all necessary steps to solve for P.
- Do a quality check and put your answer back into the supply and demand equations to see that it is correct.

Solution:

We need to make the quantity supplied equal to the quantity demanded in order to determine the equilibrium price.

Qs = Qd

128 + 8P= 478 - 6P

128 + 8P +6P= 478

8P +6P= 478 -128

14P = 478 -128

14P = 478 -128

14P=350

P = 350/14

P=$25

At the price of $25, the supply and demand curves will intersect. Therefore the equilibrium price is $25.

Quality check:

128 + 8 (25) = 478 - 6 (25)

328 = 328 so the answer checks out.

Problem no 2

Your research team has developed the following Supply and Demand Equations:

Let P be the price per container of . Each container has hundreds of peaches.

Supply Q = 300 + 3P

Demand Q = 1,800 - 2P

Required:

1. Solve for the current market equilibrium price.
2. If new research shows that the antioxidants in Peaches are effective in fighting various viruses, in what direction will the equilibrium price move?

Solution:

Required #1:

We need to make these equations equal each other.

300 + 3P = 1,800 - 2P

300 + 3P + 2P = 1,800

300 + 5P = 1,800

5P = 1,800 - 300

5P = 1,500

P = $300

Now let's plug this into the Supply equation.

Supply Q = 300 + 3P

Supply Q = 300 + 3*300

Q=1,200

The equilibrium point is thus 1,200 containers at $300 each.

The source of end-state is of course rooted in the Islamic concept of social justice and equity, which demands that if a service is needed, in the sense defined here, it becomes the responsibility of the society or state to meet that need irrespective of the cost involved.

For simplicity, we would prefer to use the term **'Islamic Demand'** rather than 'effective need'. By Islamic Demand (ID) we mean two types of demands namely, normal demand which is determined by market price and 'potential demand' which is determined by forces outside the market. That is:

ID = ND + PD

Where,

ND = normal demand, as determined by the forces of demand and supply, and

PD = potential demand of people who have the need but do not have the necessary purchasing power.

In Figure 2, the quantity determined by the forces of demand and supply is shown to be OL, which represents Normal Demand, and the extra demand beyond this represents Potential Demand.

where,

DD_1 = market demand curve

SS_1 = market supply curve

OP = equilibrium price (= CL) obtained at the intersection of the DD_1-SS_1 curves

OL = equilibrium quantity at which demand equals supply.

Similarly, the term 'supply' is replaced by **'Islamic supply',** which includes the supply of Normal Producers as well as the supply of the under-privileged producers.[2] This may be shown as:

IS = NS + PS

Where,

IS = Islamic supply

NS = normal supply as determined by the intersection of the demand and supply, and

[2] Mannan has used the terminology 'potential-capacity-based-supply' for