

In the Name of Allah the Compassionate the Merciful

INCEIF

The Global University in Islamic Finance

Islamic Banking

Prof. Dr. Iraj Toutounchian

Islamic Economics (Banking)

- Is there such a thing as Islamic Economics?
- We happen to have more than sufficient rules, regulations and guidelines.

Note: To better understand Islamic Economics requires full command over capitalistic system.

- one of the most important features of Islamic Economics is abolition of riba.

Note: 1- To understand riba we need to know money.

2- Riba is not restricted to money.

- There are four fundamental inter-related economic concepts; they are: Money, Riba (interest), Capital, and Profit.

Quantity theory of money

- A glance over money in macro framework:

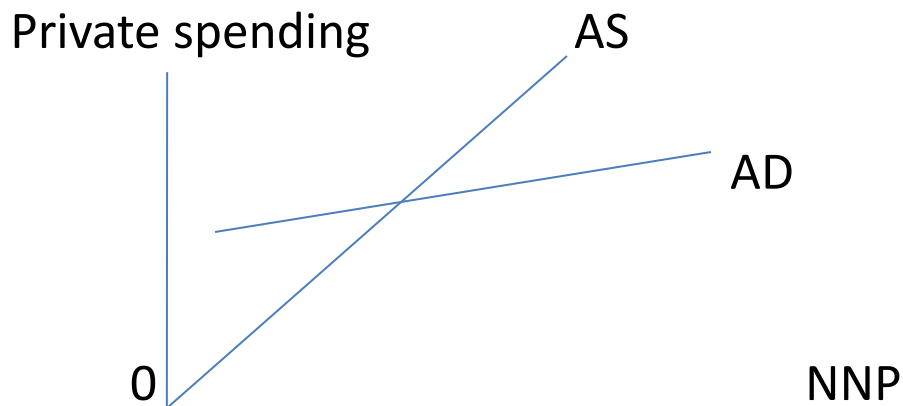
Central Bank's Balance Sheet

Assets	Liabilities
Gold & Foreign Exchange (G)	Bank Reserves (R)
Government & Banks' debts (S)	Currency held by public (M)
A	A

Quantity theory of money (cont)

A country's hypothetical Balance Sheet

Assets		Liabilities
Value of shoes	P_1Q_1	M (from Central Bank BS)
Value of TV	P_2Q_2	
Value of furniture	P_3Q_3	
.		
.		
	$\sum P_iQ_i$	M (Equation of exchange /Quantity theory of money)



Nature of money

- Is money (M) a private good?

Adam Smith: Money is not wealth.

- Does money (M) have intrinsic value?

Money owes its value to commodities.

$$V_m = \frac{1}{CPI} \Rightarrow \text{money is opposite to commodity}$$

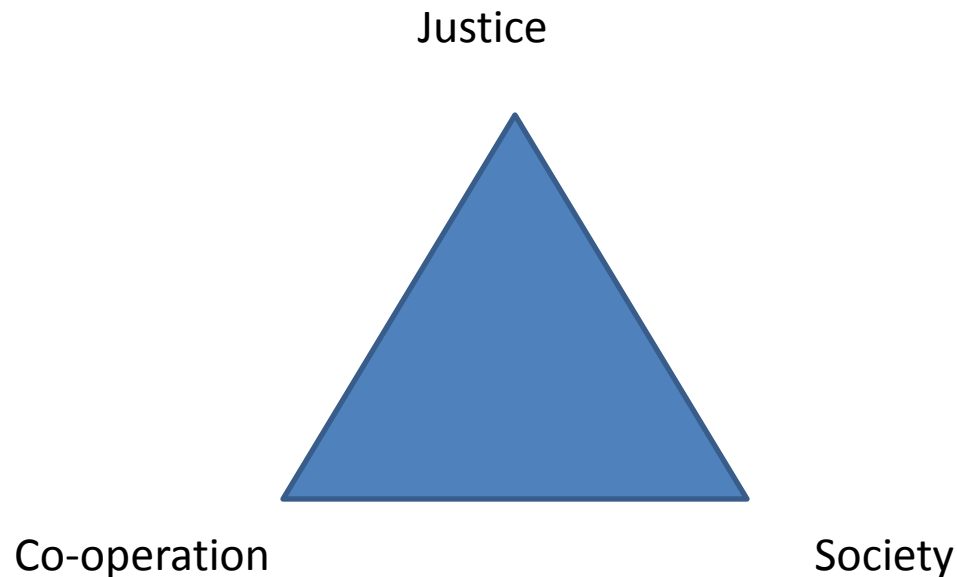
- The place of interest [®] or riba in capitalistic system.

Factors' payment in capitalism

Factor of production	Reward
1- Labor (L)	Wage (W)
2- Land (N)	Rent (R)
3- Capital (C)	Interest (I)
4- Entrepreneur (E)	Profit (Π)

Pillars of Islamic Economics

- Pillars of Islamic Economic system:



- The nature of loan is individualism
- Communal production, individual consumption.