# Table of Contents

Foreword iii  
Preface v  

## PART- I  BASIC CONCEPTS  

### Chapter-1 Foundations of Islamic Economics  
1.0 Introduction 3  
1.1 The Nature of Islamic Injunctions 4  
1.2 The Moral Foundations of Economic Behavior 5  
1.3 The Economic Philosophy of Islam 7  
1.4 The Paradox of Conventional Economics 9  
1.5 The Need for and Scope of Islamic Economics 11  

### Chapter-2 The Islamic Guidelines for Economic Behavior  
2.0 Introduction 15  
2.1 Some Basic Concepts  
  2.1.1 The Sovereignty of Allah 18  
  2.1.2 The Concepts of Trusteeship and Accountability 18  
  2.1.3 The Purpose of Life 19  
  2.1.4 The Concepts of Piety, Purification and Repentance 20  
  2.1.5 The Concepts of Straight Path leading to Success 21  
  2.2 Social Standards and Values 23  
  2.2.1 Social Equality 24  
  2.2.2 Social Responsibility 24  
  2.3 The Guideline Principles for Economic Behavior 26  
  2.3.1 The Principle of Moderation 26  
  2.3.2 Honesty in Dealings 27  
  2.3.3 Economic Coordination 28  
  2.3.4 Wider Circulation of Wealth 29  
  2.3.5 Social Security and Distributive Justice 29  

### Chapter-3 Methodology and Goals of Islamic Economics  
3.0 Introduction 33  
3.1 The Methodology of Positive Economics 34  
3.2 The Goals of Economics 36  
  3.2.1 The Concept of Human Welfare 36  
  3.2.2 Conflict in Theory and Practice-Conventional Economics 38  
  3.2.3 The Conformity of Theory and Policy in Islamic Economics 40  
  3.3 Theoretical Foundations of Islamic Economics 41

---

### Table of Contents ix
### Contents

#### Part-I

3.3.1 The Emergence of Islamic Economics 42  
3.3.2 The Methodology of Islamic Economics 43  
3.3.3 Definition and Development of Islamic Economics 45

### Part-II ISLAMIC ECONOMIC THEORY

#### Chapter-4 Theory of Consumption and Demand: An Islamic Perspective 51-79

4.0 Introduction 51  
4.1 Consumer Behavior – Some Basic Concepts 52  
4.1.1 Absolute versus Relative Scarcity 53  
4.1.2 Consumer Sovereignty and Limitations 54  
4.1.3 The Concept of Rationality 56  
4.1.4 Non-Satiation versus Austerity 58  
4.1.5 Selfish Attitude versus Altruism 60  
4.1.6 Utility Maximization versus Promoting Well-Being 62  
4.2 Modeling Consumer Behavior 64  
4.2.1 The Conventional Theory 64  
(a) Structural Models 65  
(b) Mathematical Models 67  
4.2.2 Models of Consumer Behavior with Islamic Norms 69  
(a) Structural Models 69  
(b) Mathematical Models 74  
4.3 Concluding Remarks 77

#### Chapter-5 Business Organization and Behavior of the Firm 81-113

5.0 Introduction 81  
5.1 Forms of Business Organizations 83  
(i) Proprietorship 83  
(ii) Partnership 83  
(iii) Joint Stock Company 85  
5.2 Production and Cost Relations 86  
5.2.1 Production Relations 86  
5.2.2 The Cost of Production 91  
5.2.3 Revenues of the Firm 92  
5.3 Behavior of the Firm 93  
5.3.1 Equilibrium of the Firm (the Marginalists’ Approach) 93  
5.3.2 Behavior of the Firm: Theory and Practice 98  
5.3.3 Managerial Theory of the Firm 99  
5.3.4 Behavior of an Islamic Firm 101  
(i) General Theoretical Approach 102  
(ii) Formal Modelling Attempts 103  
Appendix to Chapter-5 110
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.1.2</td>
<td>The Rationale for Prohibition</td>
<td>184</td>
</tr>
<tr>
<td>8.2</td>
<td>The Status of Interest in Conventional Theory</td>
<td>189</td>
</tr>
<tr>
<td>8.2.1</td>
<td>Theories of Interest</td>
<td>189</td>
</tr>
<tr>
<td>8.2.2</td>
<td>Determination of the Rate of Interest</td>
<td>191</td>
</tr>
<tr>
<td>(a)</td>
<td>The Classical Theory</td>
<td>192</td>
</tr>
<tr>
<td>(b)</td>
<td>The Keynesian Theory</td>
<td>193</td>
</tr>
<tr>
<td>(c)</td>
<td>The Monetarists Model</td>
<td>194</td>
</tr>
<tr>
<td>8.2.3</td>
<td>The Role of Banking System</td>
<td>195</td>
</tr>
<tr>
<td>8.3</td>
<td>Theoretical Debates on Elimination of Interest</td>
<td>197</td>
</tr>
<tr>
<td>8.3.1</td>
<td>Is Interest Inevitable?</td>
<td>197</td>
</tr>
<tr>
<td>8.3.2</td>
<td>Elimination of Interest: Problems and Hurdles</td>
<td>198</td>
</tr>
<tr>
<td>8.3.3</td>
<td>Risk Management</td>
<td>200</td>
</tr>
<tr>
<td>8.4</td>
<td>Banking without Interest</td>
<td>201</td>
</tr>
<tr>
<td>8.4.1</td>
<td>Theoretical Models</td>
<td>201</td>
</tr>
<tr>
<td>8.4.2</td>
<td>Economic Impacts of Interest-Free System</td>
<td>203</td>
</tr>
<tr>
<td>(i)</td>
<td>Efficiency</td>
<td>203</td>
</tr>
<tr>
<td>(ii)</td>
<td>Income Distribution</td>
<td>203</td>
</tr>
<tr>
<td>(iii)</td>
<td>Stability</td>
<td>204</td>
</tr>
<tr>
<td>(iv)</td>
<td>Development and Growth</td>
<td>204</td>
</tr>
<tr>
<td>Appendix to Chapter-8</td>
<td></td>
<td>206</td>
</tr>
</tbody>
</table>

**Chapter-9 Public Finance in Islamic Framework** 209-239

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.0</td>
<td>Introduction</td>
<td>209</td>
</tr>
<tr>
<td>9.1</td>
<td>Rudiments of Public Finance</td>
<td>210</td>
</tr>
<tr>
<td>9.1.1</td>
<td>Sources of Revenues</td>
<td>211</td>
</tr>
<tr>
<td>9.1.2</td>
<td>Welfare Cost of Taxation</td>
<td>213</td>
</tr>
<tr>
<td>9.1.3</td>
<td>Components of Public Expenditure</td>
<td>214</td>
</tr>
<tr>
<td>9.1.4</td>
<td>The Impacts of Changes in Public Expenditure</td>
<td>215</td>
</tr>
<tr>
<td>9.1.5</td>
<td>Financing the Budget Deficit</td>
<td>216</td>
</tr>
<tr>
<td>9.2</td>
<td>Public Finance in Islamic Perspective</td>
<td>219</td>
</tr>
<tr>
<td>9.2.1</td>
<td>Sources of Revenues -The Early Islamic State</td>
<td>220</td>
</tr>
<tr>
<td>9.2.2</td>
<td>The Principles of Taxation in Islam</td>
<td>223</td>
</tr>
<tr>
<td>9.2.3</td>
<td>Major Heads of Expenditure in an Islamic State</td>
<td>225</td>
</tr>
<tr>
<td>9.2.4</td>
<td>The Principles of Public Expenditure</td>
<td>226</td>
</tr>
<tr>
<td>9.2.5</td>
<td>The Treasury (Bait-ul-Mal)</td>
<td>227</td>
</tr>
<tr>
<td>9.3</td>
<td>The Institution of Zakah</td>
<td>229</td>
</tr>
<tr>
<td>9.3.1</td>
<td>The Liability of Zakah</td>
<td>230</td>
</tr>
<tr>
<td>9.3.2</td>
<td>The Eligibility for Zakah</td>
<td>232</td>
</tr>
<tr>
<td>9.3.3</td>
<td>The Economic Impacts of Zakah</td>
<td>234</td>
</tr>
<tr>
<td>(a)</td>
<td>Income Redistribution</td>
<td>235</td>
</tr>
<tr>
<td>(b)</td>
<td>Stabilization</td>
<td>235</td>
</tr>
<tr>
<td>(c)</td>
<td>Development and Growth</td>
<td>236</td>
</tr>
<tr>
<td>(d)</td>
<td>Welfare Effects and Economic Efficiency</td>
<td>237</td>
</tr>
<tr>
<td>Appendix to Chapter-9</td>
<td></td>
<td>239</td>
</tr>
</tbody>
</table>
### Chapter-10 Macroeconomic Modeling Attempts in Islamic Perspective 241-283

10.0 Introduction 241
10.1 The Consumption Function 242
10.1.1 The Conventional Theory 242
10.1.2 Consumption Function in Islamic Framework 247
10.2 The Investment Function 252
10.2.1 Investment Function in Islamic Framework 253
10.3 Macroeconomic Modeling 257
10.3.1 Income Determination – The Keynesian-Neoclassical Tradition 257
   (a) The IS-LM Framework 258
   (b) Models for Islamic Economies in ISLM Tradition 261
      (i) M. Fahim Khan (1984) 261
      (ii) Sayyid Tahir (1987) 262
      (iii) Muhammad Hussain (1994) 263
10.3.2 Income Determination – The Monetarists Tradition 266
   (a) Friedman’s Innovations 266
   (b) A Simple formulation of the Model 268
   (c) Models for Islamic Economies in Monetarist Tradition (Zaidi Sattar-1991) 272
10.3.3 Income Distribution – The Neo-Keynesian Framework 273
   (a) The Kaldor-Pasinetti Model 274
   (b) Models for Islamic Economies in the Neo-Keynesian Tradition 275
      (i) Ausaf Ahmed (1983) 276
      (ii) Mabid Ali Al-Jarhi (1983) 276

Appendix to Chapter-10 282

### PART- III ISLAMIC ECONOMIC SYSTEM 285

### Chapter-11 Salient Features of an Islamic Economy 287-311

11.0 Introduction 287
11.1 The Objectives of Shariah 289
11.1.1 The Traditional List 289
11.1.2 The Extended List 292
11.2 Characteristics of an Islamic Economy 295
11.2.1 Private Ownership and Property Rights 297
   (a) The Nature of Private Ownership 297
   (b) The Boundaries of Private Ownership 298
   (c) Ownership of Land 299
   (d) The Law of Inheritance 301
11.2.2 Ensuring Socio-Economic Justice (al-Adl) 302
11.2.3 Eradication of Oppression and Anarchy 304
11.2.4 Fulfillment of Basic Needs 307
11.2.5 The Role of the State 308
15.4.2 The Objectives and Principles of Development 435
15.4.3 The Islamic worldview of Development 439
15.4.4 Development Policy in Islamic Perspective 441
15.4.5 Role of the State in Development Process 443
Appendix to Chapter-15 446

Chapter-16 Comparative Economic Systems 449-471
16.0 Introduction 449
16.1 Capitalism 451
16.1.1 Private Enterprise and Efficiency 451
16.1.2 Capitalism and Religion 452
16.1.3 Basic Postulates of Capitalism 453
16.2 Socialism 454
16.2.1 Socialism and Economic Efficiency 455
16.2.2 Socialism and Religion 455
16.2.3 Basic Postulates of Socialism 456
16.3 The Mixed Economies 457
16.3.1 Important Features of Mixed Economies 458
16.3.2 An Appraisal of Mixed Economic System 459
16.4 The Islamic Economic System 460
16.4.1 Important Features of an Islamic Economy 461
16.4.2 Basic Postulates of an Islamic Economic System 463
16.5 Concluding Remarks 466
Appendix to Chapter-16 468

PART- IV ISLAMIC ECONOMICS: PAST AND PRESENT 473
Chapter-17 The Islamic Economic Heritage 475-511
17.0 Introduction 475
17.1 Economic Thought in the Qur’an and Sunnah 477
17.2 The Golden Period of the Pious Caliphate 479
17.2.1 Abu-Bakr al-Siddiq – the First Caliph 480
17.2.2 Umar al-Faruq – the Second Caliph 481
17.2.3 Uthman ibn Affan – the Third Caliph 484
17.2.4 Ali ibn Abu Talib – the Fourth Caliph 485
17.3 The Dynastic Caliphate of Umayyad 486
17.4 The Dynastic Caliphate of Abbasids 487
17.4.1 Development of Economic Thought during Abbasid Caliphate 489
(i) Imam Abu Yusuf 489
(ii) Muhammad ibn Hassan al-Shaibani 490
(iii) Abu Ubaid al-Qasim 491
17.5 The Period of Political Fragmentation 492
17.5.1 Islamic Economic Thought during Dynastic Sultanates 494
(i) Al-Mawardi 495
(ii) Raghib Asfahani 496
(iii) Imam al-Ghazali 497
(iv) Ja’afer al-Dimashqi 498
(v) Ibn al-Ukhuwwah 499
(vi) Imam Ibn Taymiyah 500
(vii) Ibn Khuldun 501
17.6 The Islamic Resurgence 503
17.6.1 The Ottoman Empire 503
17.6.2 The Safavids Empire 504
17.6.3 The Mughal Empire 505
17.6.4 Scholarly Works during Ottoman and Mughal Dynasties 506
(*) Shah Wali-Ullah of Delhi 507
17.7 The Revival Movements in the 19th and 20th Century 508

Chapter-18 Economic Profile of the Islamic World 513-541

18.0 Introduction 513
18.1 Socio-Economic Organizations 514
18.1.1 The Organization of Islamic Cooperation (OIC) 514
18.1.2 The Organization of Petroleum Exporting Countries (OPEC) 516
18.1.3 The Organization for Economic Cooperation (ECO) 516
18.1.4 The Cooperation Council for the Arab States of the Gulf (GCC) 517
18.1.5 D-8 Organization for Economic Cooperation 517
18.1.6 Other Regional Organizations 518
(i) Association of the South East Asian Nations (ASEAN) 518
(ii) The South Asian Association for Regional Cooperation (SAARC) 518
18.2 Economic Scenario of the Islamic World 518
18.2.1 The Overall and Per Capita GDP Growth 518
18.2.2 Composition of GDP and Aggregate Expenditure 520
18.2.3 Merchandize Trade of OIC Countries 522
18.2.4 External Debt Liabilities 526
18.2.5 Inflation 527
18.3 Concluding Remarks 528
Appendices to Chapter-18 531
18(1) Percent Population of Muslims (Country-Wise) 531
18(2) Trends in GDP per capita based on PPP 532
18(3) Top 10 OIC Countries by Technological Intensity of Exports 534
18(4) Economic Indicators of OIC Countries 535
18(5) General Information on OIC Member Countries 538

BIBLIOGRAPHY AND REFERENCES 542
SUBJECT INDEX 552