ASSESSMENT # 1

Total Marks: 30

1. Multiple Choice Questions: (3)

i. In Arabic, a game of chance is known as:
   a. Inan
   b. Maysir
   c. Haram
   d. Batil

ii. 'Gharar' refers to contracts where:
   a. Full contract implications are not known to the parties.
   b. When gambling or game of chance is involved.
   c. The contracts are based on false statements.

iii. A Mudaraba Contract is settled between an Islamic bank and a client as follows:
   a. The bank agrees to buy an asset or goods from a third party, and then, resells the goods to its client with a mark-up
   b. The bank buys and leases out an asset or equipment required by its client for a rental fee.
   c. The bank provides capital and the client provides her efforts

2. Which of the following are Islamic investment vehicles? And which of these are conventional investment vehicles. Make two separate columns for the two types of investment vehicles. (3)

Investment Vehicles of conventional and Islamic banks
a. Saving account- income derived from undetermined profit. b. Bonds – income derived from interest. c. Saving account- income derived from fixed interest d. Stocks- income derived from dividends and capital gains e. Bonds – income derived from buying & selling. f. Stocks- income derived from dividends and capital but with the exception that the company must be sharia' compliance.

3. Short Questions: (14)

i. What is the difference between ' Mudharaba' and ' Murabaha' investment contracts?
ii. Define Takaful.
iii. Outline the principles of Islamic Finance.
iv. What replaces interest rate mechanism in an Islamic framework?
v. Write short notes on the following:
   a. Ijara
   b. Istisnaa
   c. Riba
   d. Bai bi-thamin ajil

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Case Study

Mr. Muhammad Adel is working full - time as a teacher and is based in the UK. He intends to buy a house but is interested in obtaining an Islamic Mortgage. The bank offers two types of Islamic mortgages - 'Ijara' and 'Murabaha'. After getting information about both, he decides on the latter and wants to pay back in instalments. He has been successful in getting the house financed. (10)

Regarding the case above, answer the following questions:

a. What is the difference between an 'Ijara' mortgage and ' Murabaha' mortgage?
b. What is the difference between conventional house finance and 'Murabaha' house finance?
c. On this mortgage, if he misses out some payments how will the bank react?