



BRENTWOOD
OPEN LEARNING COLLEGE

Assignment Cover Sheet

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Course:	Diploma in Islamic Banking & Finance
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assessment n.5

Diploma in Islamic Banking & Finance

1. Short Questions

- *Define the term 'Islamic Economics'*

Islamic economics is 'the study of economics in the light of Islamic principles', or 'bringing economics in consonance with the Shari'ah'. But it's not so easy...

Defining Islamic economics would call for the accommodation of some prerequisites which are characteristic of the Islamic way of life. The first of such prerequisites is that in Islam economic activity ought not to be governed by human desire and experience alone, it should be governed by the fundamental injunctions of the Shari'ah. As a social science, Islamic economics is not independent of moral values. Its normative aspect is more pronounced than its positive aspect, in fact it is the normative aspect which is instrumental in analysing existing economic phenomena and in deciding proper courses of action in consonance with the Islamic objectives. The Shari'ah has specified those objectives which an individual as well as a society should endeavour to achieve. Thus, a definition of Islamic economics incorporating these characteristics may be proposed as follows: Islamic economics is the knowledge and application of injunctions and rules of the Shari'ah that prevent injustice in the acquisition and disposal of material resources to provide satisfaction to human beings and enable them to perform their obligations to Allah and the society.

ii. What is the overall objective of Shari'ah Law?

The main objective of Sharia is happiness and the well-being of human beings in the earthly and extra-earthly world.

To do this, the Shariah law protects basic human rights for all members of the community irrespective of race, religion and culture and aims to establish justice between Muslims and the rest of humanity.

iii. Outline some basic socio - economic rights of human beings, as identified from the study of the Qura'n and Sunnah.'

Rights to justice, equality, safety, security, and human dignity are among those rights deemed indispensable in Islam. These are supplemented by further rights such as social solidarity, the right to education and to own property, and freedom from slavery.

Islam teaches that human beings are a unique life form that was created by Allah in a special way, with unique gifts and abilities unlike any other: a soul and conscience, knowledge, and free will. The Qur'an describes how Allah created Adam: "We created man from sounding clay, from mud moulded into shape..." (15:26).

Human rights in Islam are firmly rooted in the belief that God, and God alone, is the Law Giver and the Source of all human rights. Due to their Divine origin, no ruler, government, assembly, or authority can curtail or violate in any way the human rights conferred by God, nor can they be surrendered.

While UDHR stresses the universality of human rights, Islam recognises two types of rights: rights that humans are obliged, by virtue of being the creations of God, to fulfil and obey; and rights that they are entitled to expect from their fellow human beings.

iv. What are the three main elements of the Islamic economic system?

According to Sadr, three basic principles of Islamic economy are

- multi-faceted ownership,
- economic freedom within a certain limit,
- and social justice (Es-Sadr, 1980: pp. 291-303).

These are the three basic components of Islamic economic doctrine, according to which its theoretical content is defined.

v. Define the ownership of resources and property rights, in regard to the Islamic economic system.

The Islamic socio-economic system, being an independent system with its own social vision, it strikes a balance between individual rights and the social right. It recognizes individual private ownership rights. It grants individuals a high degree of freedom in dealing with property and its use in a proper manner. It forbids *riba'* and other forms of monopolistic and exploitative nature to ensure a higher degree of socio-economic equity.

Property, in legal way, entitles the owner to exclusive association with that property hence, using or dealing in it if there is no legal impediment to such dealing. Furthermore, the exclusiveness of the ownership prevents others from using the property or dealing in it without a legal authorization such as guardianship, agency etcetera. However, it is important to bear in mind that, ownership is not confined to social and legal aspects, it also gains political significance as, it relates to several claims, liberties, powers, and immunities in relation to the things or property that a person owns.

Ownership right can be transferred only through legitimate methods. The right of ownership remains as the exclusive domain of owner as long as he uses it properly, using it in a manner that does not harm others. In case of not using his wealth or putting it into proper and productive utilization, he will be induced or even forced to give up the right of possession.

From Islamic point of view, the right of man over things is limited and qualified. This is due to the fact of everything being subservient to the Allah law and will, and the human being as the vicegerent of Allah. This requires him to deliver and fulfil his trust with utmost care and in a manner that is in accordance with the *shari'ah*. Ownership is an essential element of the fabric of the society, it can be considered as a social institution. Thus, the right of ownership comprises both benefits and burden, the former being represented by enjoyment of the

profits, freedom of user, the right to lay legal claims to his property, and the right not to be interfered with. However, the benefits derived from ownership are tied with duties, liabilities, and disabilities. Apart from its social function, ownership also contains claims, power and immunities that may be vested in several persons other than the owner. Assumption of the absolute rights cause harm to humanity as it leads to the arrogant behaviour and claim of absolute rights in discharging of property hence, forgetting and transgressing the limit set for by Allah. Moreover, to claim absolute authority and ownership as well as rights with one property is tantamount to claiming equal status with the Creator. This is something which is completely shunned in Islam. It is argued that since, all property belongs to Allah and all humankind are His slaves and even the life itself belongs to Allah, all property- even associated by name to one person, must in fact belong to all humanity and be available for their benefit. This implies that property as an institution has a social task hence, private ownership should be subordinated to the social objectives of property. In other words, Islam neither forbids private ownership, nor allows it to exist unconstrained. It is forbidden to infringe upon private property that is acquired through legal means. The transgressor of private property is warned of severe consequences. However, the state has the right to intervene, confiscate and return illegally acquired properties to their rightful owners regardless of whether they are mobile or immobile properties. The state can also limit or eliminate legally acquired private ownership rights of owner if equity and public interest dictate so. It also can confiscate legally acquired private property to meet social needs of the Muslim community with the stipulation of paying a fair compensation to the owner. It is forbidden to infringe upon private property that is acquired through legal means. The transgressor of private property is warned of severe consequences. However, the state has the right to intervene, confiscate and return illegally acquired properties to their rightful owners regardless of whether they are mobile or immobile properties. State can also limit or eliminate legally acquired private ownership rights of owner if equity and public interest dictate so. The state is allowed to impose certain limits on the rights of owners for example, those acquiring property through land reclamation, at the inception of ownership. It also can confiscate legally acquired private property to meet social needs of the Muslim community with the stipulation of paying a fair compensation to the owner.

vi. What are the primary and secondary objectives of Shari'ah Law?

Shari'ah aims at six primary objectives for people; that is to protect their religion, life, intellect, progeny, property, and honour.

1. Protection of Religion

On top of the necessities that Shari'ah came to preserve and protect is religion. Religion is what differentiates human being from the other creations of Allah ﷻ. It is part of the honour that Allah gives to humanity. Therefore, it must be protected. Shari'ah makes it forbidden to afflict people in their faith or to force them to embrace another religion even if this other religion is Islam. A general look at the rituals of Islam reveals that a major goal behind them is to strengthen people's faith and the relationship between people and their Creator.

2. Protection of Life

It should be well established that life is sacred because it is a gift that Allah ﷻ gives humans. One of the miracles of this universe is the creation of the human being, says Allah in one of many verses that describe the sacredness of life.

The Shari`ah makes the life of a single human being so valuable and Allah ﷻ in the Qur'an said that killing one person is equivalent to killing the whole of humanity and saving the life of one person is as if the life of all humanity is saved (Al-Ma'idah 5:32). Shari`ah forbids killing and dictates the most severe punishment for it in this life and in the hereafter.

3. Protection of Intellect

Intellect is also a gift. It is what differentiates humans from animals. Protecting the intellect from any disease is a genuine objective of Islamic Shari`ah. Shari`ah makes sure intellect is a source of benefit to the society. It promotes education for all and makes it a right for everyone. Shari`ah also states that if the intellect gets corrupted, it becomes harmful to the individual and to the society and Shari`ah fights strongly against such corruption. One of the main reasons behind the impermissibility of intoxicants is that they have a strong influence on corrupting the intellect.

4. Protection of Progeny

To maintain life and pass the torch to generations to come, Shari`ah aims to protect progeny. Every child has the right to grow amongst a family. This family is obligated to take care of the children and develop them. Marriage is very valuable in Islam, and it has a big share in Islamic Shari`ah teachings and rulings. Sexual relations other than in marriage are impermissible and same-sex marriage is strictly forbidden. Divorce, although allowed, is discouraged by demanding spouses to endure patience.

5. Protection of Wealth

People have the right to own and protect their property. Shari`ah aims to protect people's wealth and property. Theft is prohibited and punished by the law. Shari`ah also regulates transactions between people, and states clearly that it must be built on complete freedom and willingness. Shari`ah also encourages us to increase our wealth and it ensures that wealth does not reach the hands of those who waste it. The poor have rights in the wealth of the rich through charity. Usury is forbidden as it is a cause of wasting wealth and putting it in the hands of a few rich people.

Protection of honour

It prohibits injuring people, harming them physically or even symbolically. It allows and encourages people to live honourably, gives them the right to move, think, and speak freely and responsibly.

The secondary objectives are strictly connected with the primary ones, and they are:

1. The establishment of justice and equity in society.
2. The promotion of social security, mutual help, and solidarity, particularly to help the poor and the needy in meeting their basic needs.
3. The maintenance of peace and security.
4. The promotion of cooperation in matters of goodness and prohibition of evil deeds and actions.
5. The promotion of supreme universal moral values and all actions necessary for the preservation and authority of nature.

vii. How is the Islamic economic system different from conventional economic systems?

The comparison between Sharia economy and Conventional economy shows that:

- A. In conventional economics, individual actions are considered rational if it is focus on self-interest which becomes the sole purpose of all activities. Conventional economics ignores morals and ethics and is limited to the world alone without taking into question the hereafter.

Whereas, in the Islamic economy, Islamic man is considered rational behaviour if it is consistent with Islamic principles aimed at creating a balanced society. Tawhid encourages to be sure; it is God who has the right to make rules to usher in life's success.

- B. The main purpose of Islamic economics is to achieve Falah in the world and the hereafter, while the conventional economy is solely worldly prosperity.

- C. The orientation of the balance of consumers and producers in the conventional economy is to solely prioritize the level of profit. All its economic actions are directed to maximum profit. Otherwise, it is considered irrational.

Another thing with Islamic economy that not only wants to achieve economic benefits but also expect spiritual and al-Falah benefits. Balance between consumers and producers can be measured through assumptions in a way. Indeed, to measure the reward and sin of a servant of God, cannot be measured by money, but only a measure in its own unit budget.

viii. *How would you differentiate between 'positive economic' and 'normative economic'?*

- I. Positive economics describes and explains various economic phenomena or the "what is" scenario. Normative economics focuses on the value of economic fairness, or what the economy "should be" or "ought to be."
- II. While positive economics is based on fact and cannot be approved or disapproved, normative economics is based on value judgments. Most public policy is based on a combination of both positive and normative economics.

6. *Discuss the role of government in Islamic Economics.*

In principle, Islam is for the free market so the government should simply check whether the principles of the Shari'ah are observed in letter and spirit.

However, if we look closely at the Islamic system, we will see a government that coexists in the market with the private sector, permanently and stable base. He can be seen as a planner, supervisor, producer, and consumer (Kahf, 1992, 150-152).

While it is true that the pursuit of self-interest can lead to undesirable consequences that may require preventive measures or corrective action, it is also true that the rejection of self-interest as a regulatory tool will only lead us to rely on central planning with a role. minimum for private property and freedom of enterprise, so dear to Islam.

In an Islamic system, one can look at the role of the government with reference to the trend of the markets, the supply of public goods and the care of the environment.

In Islam, market freedom is desirable but not inviolable. The government can take action to modify or supplement market results. The market distributes goods based on the size of individuals' income. Because the distribution of income is very skewed in favor of the rich, the basic needs of the poor remain unmet. Public policy can help divert resources towards the

production of such goods, particularly the provision of food, clothing, and shelter, through appropriate policies.

Banks can be directed to allocate part of the credit to flow into priority uses. Setting minimum wages and promoting profit-sharing schemes can improve the condition of workers. Government intervention in resource allocation and enforcement of standards can help reduce pollution.

Planning can divert funds to develop areas that private enterprise can leave unattended. The public sector can provide commodities such as education and health care for the masses as well as services such as water, electricity, transportation, and communications.

7. What is the concept of social welfare in Islam?

Social welfare must be understood in its general and comprehensive meaning that includes all aspects of human life; the economic aspect is but one of them.

The objectives of Shari'ah, as we said, are: The protection of religion, life, mind, offspring, property, and honor. Thus, everything that implies promoting these things is Maslahah (interest) and everything that implies harming them is Mafsadah (harm). The economic implication of this comprehensive welfare concept is that the Islamic state is responsible for the following:

To eradicate poverty and to create conditions for full employment and a high rate of growth,

To promote stability in the real value of money,

To maintain law and order,

To ensure social and economic justice,

To arrange social security and foster equitable distribution of income and wealth,

To harmonize international relations and ensure national defense.

During the fulfilment of these responsibilities, the Islamic state resorts to tools like planning, undertaking social and physical infrastructure, providing measure for ensuring just wage rates and just prices, economic assistance to the elderly, the disabled, and the handy- caped.

Student Statement:

By submitting this assignment, I confirm that this is my own work.

Student Signature	PATRIZIA PUZZOVIO	Date	21/12/2021
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Total Marks	
Marks Obtained	
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