Shariah-Based Banking (SBB)
For AIBB

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Module A:
Principles of Islamic Economics and Banking

Q-01. Define Islamic Economics. What are the sources of Islamic Economics/Shahriah? [BPE-97th, BPE-98th]

Or, Define Islamic Economic system. [BPE-96th]

Islamic Economics is a system of economics based on Islamic principles, primarily derived from the Quran and the Hadith (teachings and sayings of Prophet Muhammad (Sm)). It emphasizes ethical, fair, and just economic practices. Core concepts include:

1. **Prohibition of Interest (Riba)**: Charging or paying interest on loans is not allowed.
2. **Profit and Loss Sharing**: Economic transactions should promote equitable sharing of profits and losses.
3. **Zakat**: A form of wealth tax that ensures wealth distribution to support the needy.
4. **Halal and Haram**: Activities must comply with Islamic laws distinguishing permissible (halal) from forbidden (haram).

The **sources of Islamic Economics** include:

1. **The Quran**: The holy book of Islam provides foundational economic principles.
2. **The Hadith**: The sayings and practices of Prophet Muhammad (Sm) offer guidance on economic matters.
3. **Islamic Jurisprudence (Fiqh)**: Interpretations of Islamic scholars.

These sources shape an economic system focused on social justice, ethical practices, and community welfare.

Q-02. What are the objectives and scope of Islamic Economics?

Objectives of Islamic Economics:

1. **Equity and Justice:** Promote fairness in wealth distribution to reduce economic disparity.
2. **Ethical Principles:** Ensure all economic activities align with Islamic ethics, avoiding exploitation and fraud.
3. **Social Welfare:** Prioritize the welfare of society by encouraging zakat (charity) and mutual cooperation.
4. **Economic Stability:** Strive for a balanced economy that reduces volatility and ensures sustainable growth.
5. **Resource Utilization:** Advocate for the optimal use of resources, avoiding waste and promoting sustainability.

Scope of Islamic Economics:

1. **Banking:** Operates based on interest-free principles, using profit-sharing and risk-sharing models like Mudarabah and Musharakah.
2. **Finance:** Focuses on ethical investing, prohibiting investments in businesses involving alcohol, gambling, etc.
3. **Trade:** Encourages fair trade practices and honest business dealings.
4. **Social Welfare Programs:** Emphasizes social justice through zakat and waqf (endowments) to assist the needy and improve society.

Q-03. What are the basic principles of Islamic Economics?

Or, what are the basic Principles of Islamic Economic System? [BPE- 96th]

Or, Enumerate the main features of Islamic Economics.

Basic Principles of Islamic Economics:

1. **Prohibition of Riba (Interest):** Islamic economics prohibits interest-based transactions, instead promoting profit and loss sharing models like Mudarabah and Musharakah.

2. **Zakat and Charity:** Emphasizes the importance of zakat (mandatory charity) and voluntary giving to support the less fortunate, promoting social welfare and wealth distribution.
3. **Ethical Investments:** Investments should avoid industries deemed harmful in Islam, such as alcohol, gambling, and unethical businesses.
4. **Fair Trade and Honesty:** Promotes transparency, honesty, and fairness in all business transactions, ensuring trust and integrity in economic dealings.
5. **Risk Sharing:** Encourages shared responsibility and risk between parties in financial transactions to ensure equitable outcomes.
6. **Prohibition of Gharar (Uncertainty):** Discourages excessive uncertainty or speculation in contracts, ensuring clarity and fairness in agreements.

These principles aim to establish a just and ethical economic system that benefits all members of society.

Q-04. Compare between Islamic Economics and Capitalist Economics. Differentiate between Islamic Economic System and conventional Economic System. [BPE-97th. BPE-98th.]

Criteria	Islamic Economics	Capitalist Economics
1.Definition	Economic system based on Islamic law (Shariah), focusing on ethical, equitable practices	Economic system based on private ownership, market competition, and profit motives
2.Wealth Distribution	Emphasizes wealth redistribution through zakat and charity	Wealth distribution depends on market forces and individual effort
3.Interest (Riba)	Prohibits interest in financial transactions	Allows interest as a basis for loans and investments
4.Ownership	Recognizes private ownership but emphasizes social welfare	Strong emphasis on private ownership and property rights
5.Risk Sharing	Encourages shared risk between parties in financial transactions	Risk is generally borne by individuals or entities

Islamic Economic System Vs Conventional Economic System:

Criteria	Islamic Economic System	Conventional Economic System
1.Ethical Foundations	Based on Shariah, emphasizing ethical and equitable practices	Based on secular principles, focusing on efficiency and profit
2.Wealth Redistribution	Utilizes mechanisms like zakat and charity to ensure fair distribution	Relies on market forces and individual efforts for wealth distribution
3.Interest (Riba)	Prohibits the use of interest in financial transactions	Permits interest, which is fundamental to banking and investments
4.Ownership	Recognizes private ownership with a strong emphasis on social welfare	Emphasizes private ownership and property rights, with less focus on social welfare
5.Risk Sharing	Encourages shared risk in financial transactions	Typically places risk on individual entities or persons involved

Q-05. Describe the importance of Islamic Economics.

The importance of Islamic economics lies in its focus on ethical and equitable economic practices that align with Islamic principles. It emphasizes justice, transparency, and social welfare in economic activities, aiming to create a balanced society.

1. **Ethical Framework:** By prohibiting interest (riba) and speculative activities, it promotes ethical financial practices, reducing exploitation.

2. **Wealth Redistribution:** Encourages wealth distribution through zakat (mandatory charity) and voluntary giving to support the less fortunate, reducing economic disparities.
3. **Social Welfare:** Prioritizes social welfare, ensuring that economic growth benefits all segments of society and reduces poverty.
4. **Stability:** Focuses on shared risk and prohibits excessive speculation, fostering economic stability and preventing market bubbles.
5. **Sustainable Development:** Promotes the efficient use of resources, ensuring sustainability and preventing waste.

This approach aims to build a fair and inclusive economy that benefits everyone in society.

Q-06. What is production? Describe the factors of production from the viewpoint of Islamic Economics.

Production refers to the process of creating goods and services to satisfy human needs and wants. From an Islamic perspective, production involves using resources ethically, considering social welfare, and aligning with Islamic principles.

Factors of Production in Islamic Economics:

1. **Land (Natural Resources)**: Seen as a gift from Allah, land must be utilized efficiently and ethically, with a focus on sustainability and avoiding waste.
2. **Labor**: Emphasizes fair treatment of workers, just wages, and ethical labor practices. Labor is a vital contributor, deserving fair compensation.
3. **Capital**: Financial and physical assets should be used for productive activities. Islamic economics prohibits interest (riba), advocating for profit-sharing models like Mudarabah.
4. **Entrepreneurship**: Entrepreneurs drive innovation and economic development. Their activities should align with ethical guidelines, ensuring fairness and social responsibility.

These factors collectively contribute to an ethical and equitable economic system that prioritizes societal welfare.

Q-07. Describe the factors of production from the view point the Quran and the Hadith.

In Islamic economics, the factors of production, as derived from the Quran and Hadith, focus on ethical use, fairness, and social responsibility:

1. **Land (Natural Resources)**: The Quran emphasizes the importance of using natural resources wisely and responsibly (Surah Al-Baqarah 2:29). Natural resources are considered a trust from Allah, and humans should use them sustainably.
2. **Labor**: Both the Quran (Surah An-Nisa 4:32) and Hadith emphasize fair treatment and compensation for workers. Prophet Muhammad (Sm) (peace be upon him) highlighted the importance of promptly paying workers and treating them with respect.
3. **Capital**: Islamic teachings prohibit interest (riba) and promote ethical investment and trade (Surah Al-Baqarah 2:275). The Hadith also encourages profit-sharing models, emphasizing justice and fairness in transactions.
4. **Entrepreneurship**: Entrepreneurs are encouraged to pursue business ventures ethically, as indicated in the Hadith, where honesty and transparency in business dealings are highly valued.

These principles ensure that economic activities align with ethical values and benefit society.

Q-08. Discuss the principles of acquisition and distribution of wealth from the viewpoint of the Islamic Economics.

In Islamic economics, the principles of wealth acquisition and distribution focus on ethical practices and social justice:

1. **Acquisition of Wealth**:
   - **Ethical Means**: Wealth should be acquired through halal (permissible) means, avoiding prohibited activities like usury (riba), gambling, and fraudulent practices.

- **Honest Trade**: Business dealings should be transparent and honest, ensuring fair value exchange.
- **Productive Work**: Encourages engaging in lawful and productive labor that benefits society.

2. **Distribution of Wealth**:
   - **Zakat (Mandatory Charity)**: Wealth redistribution through zakat ensures that a portion of one's wealth supports the needy and reduces inequality.
   - **Sadaqah (Voluntary Charity)**: Encourages voluntary giving to further support social welfare.
   - **Inheritance**: Islamic inheritance laws ensure fair wealth distribution among heirs, maintaining justice in wealth transfer.

These principles aim to create a balanced economic system that prevents excessive wealth concentration and ensures societal well-being.

Q-09. Define wealth from the viewpoint of Islamic Economics.

In Islamic economics, wealth is viewed as a blessing from Allah, encompassing material resources, property, and financial assets. It is not solely a measure of financial wealth but includes anything that provides value and sustains life.

Key Aspects of Wealth in Islamic Economics:

1. **Ethical Acquisition**: Wealth should be acquired through lawful (halal) means, avoiding prohibited activities like usury (riba), fraud, or unethical business practices.
2. **Purposeful Use**: Wealth should be used responsibly to benefit oneself, family, and society, and should not lead to extravagance or waste.
3. **Social Responsibility**: Wealth must be shared to support the less fortunate through zakat (mandatory charity) and sadaqah (voluntary charity), emphasizing wealth redistribution and reducing inequality.

Wealth in Islam serves not only individual needs but also the broader goal of fostering social welfare and economic justice.

Q-10. What is distribution of wealth in Islamic Economics? Describe the role of Zakah and Sadakah in case of re-distribution of wealth. BPE-98th.

Or, Discuss the principles of wealth distribution in Islamic Economics.

The distribution of wealth in Islamic Economics is guided by Shariah principles, focusing on ethical and equitable practices. It involves mechanisms like zakat (mandatory almsgiving), sadaqah (voluntary charity), and inheritance laws to ensure fair distribution and reduce economic disparities, promoting social welfare and justice.

Zakah and Sadaqah play pivotal roles in this redistribution.

Zakah: A mandatory annual almsgiving of typically 2.5% of a Muslim's savings, directed towards the needy, poor, and other eligible categories. This ensures a minimum standard of living for all and reduces wealth disparity.

Sadaqah: Voluntary charity given beyond the obligatory zakah. It can be given at any time and in any amount, further supporting the less fortunate and promoting continuous wealth circulation within the community. These mechanisms help create a balanced and fair economic system.

Q-11. What are the objectives of wealth distribution in Islamic Economics?

In Islamic Economics, wealth distribution aims to promote fairness and reduce inequality. Key objectives include:

1. **Equity:** Ensuring a fair distribution of wealth among all members of society to avoid extreme disparities between rich and poor.

2. **Charity:** Encouraging the wealthy to support the needy through practices like Zakat (mandatory almsgiving) and Sadaqah (voluntary charity).
3. **Social Responsibility:** Emphasizing ethical behavior in business and finance to create a compassionate and inclusive economy.
4. **Sustainable Growth:** Encouraging productive investments that benefit society without exploiting others.

These objectives foster social cohesion, economic stability, and justice, aligning individual wealth pursuits with the collective well-being.

Q-12. Why does Islamic Economics forbid luxury?

Islamic Economics discourages excessive luxury to maintain a balanced and fair society. Here's why:

1. **Avoiding Waste:** Excessive luxury can lead to wastefulness, which Islam disapproves of, advocating for prudent and responsible use of resources.
2. **Promoting Equality:** It helps reduce social disparities by discouraging lavish spending that widens the gap between the rich and the poor.
3. **Fostering Humility:** Islam encourages modesty and humility, urging believers to avoid extravagance that promotes pride or arrogance.
4. **Focusing on Needs:** Prioritizing essential needs over extravagant desires ensures that wealth is used for the greater good, benefiting society.

These principles aim to create an ethical and equitable society where wealth is used responsibly and compassionately.

Q-13. What are Islamic Economic tools that are applied to maintain a balance distribution of wealth?

Islamic economics employs several tools to maintain balanced wealth distribution:

1. **Zakat:** A mandatory charitable tax, usually 2.5% of wealth, which is collected from the wealthy and distributed to those in need. This helps alleviate poverty and reduce inequality.
2. **Sadaqah:** Voluntary charity beyond Zakat, encouraging individuals to give more to the less fortunate and foster a spirit of generosity.
3. **Waqf:** Endowments where assets like land or buildings are donated for charitable purposes, such as funding schools or hospitals, which serve the public.
4. **Interest-Free Loans:** Providing loans without interest ensures that financial transactions benefit all parties fairly, preventing exploitation.
5. **Prohibition of Hoarding:** Islam discourages hoarding wealth, promoting the circulation of resources for broader economic activity and societal benefit.

These tools aim to foster fairness, compassion, and economic justice.

Q-14. How the distributions of wealth in Islamic Economic System influence the economy as a whole? [BPE-96th]

In Islamic economics, wealth distribution promotes a healthier economy through several ways:

1. **Reducing Poverty:** By redistributing wealth through Zakat and charity, it helps uplift the poor, leading to a reduction in poverty.
2. **Encouraging Economic Activity:** Wealth circulation is promoted by discouraging hoarding, which ensures money flows through the economy, spurring investment and growth.
3. **Social Cohesion:** Fair distribution of wealth reduces social inequalities, fostering harmony and reducing conflicts rooted in economic disparities.
4. **Sustainable Growth:** The prohibition of interest encourages ethical and interest-free financial transactions, focusing on real economic growth.
5. **Promoting Fairness:** Wealth distribution based on fairness and social responsibility ensures that resources are used in a way that benefits everyone.

Together, these practices create a more balanced, ethical, and sustainable economy.

Q-15. Discuss relation between needs, consumption and production from the viewpoint of Islamic Economics.

In Islamic economics, the relationship between needs, consumption, and production is driven by ethical and balanced principles:

1. **Needs:** Islam prioritizes fulfilling basic needs for all, like food, shelter, and clothing. Wealthier individuals are encouraged to help others meet these essentials through charity.
2. **Consumption:** It encourages moderation in consumption to avoid wastefulness and extravagance, ensuring resources are used wisely to meet societal needs without overindulgence.
3. **Production:** Emphasis is placed on ethical production that provides for community needs without exploiting labor or resources. Producers should prioritize goods that align with Islamic principles, like fair trade and environmentally friendly practices.

This harmonious relationship ensures that resources are allocated fairly and responsibly, benefiting individuals and society while adhering to Islamic values of fairness, generosity, and sustainability.

Q-16. What are the responsibilities of human with regard to the factors of production under Islamic Economics?

In Islamic economics, humans have specific responsibilities concerning the factors of production:

1. **Land:** As stewards of the Earth, humans must use natural resources responsibly, avoiding waste and ensuring sustainable practices that protect the environment.
2. **Labor:** Labor must be valued and treated with respect. Fair wages and good working conditions are essential, ensuring workers' dignity and rights are preserved.
3. **Capital:** Capital should be used ethically, without interest or exploitation, focusing on investments that benefit society and align with Islamic principles.
4. **Entrepreneurship:** Entrepreneurs have a responsibility to ensure their business practices promote justice, avoid fraud, and contribute positively to the community.

These responsibilities ensure that the factors of production are managed in a way that promotes fairness, sustainability, and ethical economic growth, adhering to Islamic principles.

Q-17. Discuss Zakat as the means of distribution of wealth.

Zakat, a mandatory act of giving in Islam, plays a crucial role in redistributing wealth to create economic balance:

1. **Compulsory Charity:** Muslims who meet certain wealth criteria must give 2.5% of their accumulated wealth annually to eligible recipients, ensuring that the affluent share their blessings.
2. **Reduces Inequality:** By directly transferring wealth from the rich to the less fortunate, Zakat helps reduce the gap between the wealthy and the poor, promoting social justice.
3. **Boosts Economic Activity:** The funds collected are used to support those in need, who then spend this money on essentials, stimulating economic growth.
4. **Spiritual Aspect:** Zakat purifies wealth by discouraging hoarding and encouraging generosity, fostering a sense of community and compassion.

In summary, Zakat is a vital instrument that promotes fair wealth distribution and uplifts society economically and spiritually.

Q-18. What is the Islamic approach to money?

In Islamic economics, the approach to money is guided by ethical principles that aim to ensure fairness and social justice:

1. **No Interest (Riba):** Islam prohibits interest because it leads to exploitation and inequality. Instead, it encourages profit-sharing and risk-sharing financial transactions.
2. **Real Value:** Money should represent real value, meaning it's tied to tangible assets, preventing speculation and inflation caused by unbacked currency.

3. **Charity:** Muslims are encouraged to use their wealth for good through mandatory (Zakat) and voluntary (Sadaqah) charity, which helps reduce poverty and uplift society.
4. **Honesty:** Transactions involving money must be transparent and honest, with clear contracts to prevent fraud and deceit.

Overall, the Islamic approach to money ensures ethical use and circulation of wealth, promoting economic justice and social welfare.

Q-19. How are trade and commerce viewed in Islamic Economics?

In Islamic economics, trade and commerce are highly valued activities, but they are governed by ethical guidelines:

1. **Honesty and Transparency:** Traders are required to be truthful in their dealings, ensuring that all transactions are transparent and fair.
2. **No Interest (Riba):** Trade should not involve interest, as it exploits people. Instead, profit-sharing and partnerships are encouraged.
3. **Fair Pricing:** Islam promotes fair pricing, where goods and services are sold at reasonable prices, avoiding exploitation.
4. **Ethical Conduct:** Merchants should avoid cheating, hoarding, and other unethical practices, maintaining integrity in business.
5. **Social Responsibility:** Profits should be used to benefit society, with a portion going to charity (Zakat).

Trade and commerce are thus seen as ways to earn lawful income while contributing to the welfare of society in an ethical and just manner.

Q-20. What are the special features of trade and commerce in Islamic Economic System? [BPE-96th]

Trade and commerce in the Islamic economic system have unique features that align with ethical and moral principles:

1. **No Interest (Riba):** Transactions avoid interest-based dealings, focusing on profit-sharing and fair partnerships.
2. **Honesty and Transparency:** Business transactions require clear agreements and truthful practices to prevent fraud.
3. **Risk Sharing:** Profits and losses are shared among partners, emphasizing a fair distribution of risks.
4. **Fair Pricing:** Products and services should have reasonable prices to avoid exploiting customers.
5. **Ethical Standards:** Islamic trade prohibits dealing in unethical products like alcohol or gambling, aligning business practices with moral values.
6. **Social Responsibility:** A portion of the earnings is expected to be given to charity, ensuring wealth circulates to benefit society.

These features ensure that trade and commerce operate fairly, ethically, and for the welfare of society.

Q-21. Define Riba. classify Riba with appropriate example. [BPE-96th, BPE-98th.]

Or, Discuss different types of Riba.

Riba refers to unjust or exploitative gain, typically understood as interest, which is strictly prohibited in Islamic finance. It involves charging extra for lending money or trading unequal values in transactions.

Types of Riba:

1. **Riba al-Nasi'ah:**
   - **Definition:** Interest charged on loans, where a lender receives more than the principal.
   - **Example:** A person lends $1,000 but expects $1,200 back due to interest charges.
2. **Riba al-Fadl:**

- **Definition:** An unequal exchange of similar items that are not traded at the same value.
- **Example:** Exchanging 1 kg of good-quality dates for 2 kg of lower-quality dates.

In both forms, Riba leads to unjust enrichment and exploitation, which Islam aims to prevent by promoting fairness and ethical economic practices.

Q -22. Explain how Riba is destructive for the borrower, society and economy? [BPE-96th]

Riba, or interest, can have negative impacts on borrowers, society, and the economy:

1. **For Borrowers:**
   - High-interest rates increase the debt burden, making it hard for individuals and businesses to repay loans, potentially leading to financial distress or bankruptcy.
2. **For Society:**
   - Riba widens the gap between the rich and the poor. Those who can lend money with interest grow wealthier, while borrowers often sink deeper into poverty due to compounding interest.
3. **For the Economy:**
   - It promotes speculation and unsustainable debt levels, which can lead to financial crises. Excessive interest obligations reduce consumer spending and business investments, slowing economic growth.

Islam prohibits Riba to encourage equitable and sustainable economic practices that protect the well-being of individuals and the broader society.

Q -23. Discuss with examples Riba al-Fadl.

Riba al-Fadl is a form of interest that arises from the unequal exchange of similar goods in different quantities or qualities. It aims to prevent unfair advantages in trade, ensuring transactions are fair.

Examples:

1. **Gold Exchange:**
   - If someone exchanges 10 grams of gold for 15 grams of gold of the same quality, it's considered Riba al-Fadl because the amounts are unequal. Both parties must exchange gold of equal weight to avoid riba.
2. **Wheat Exchange:**
   - If a person trades 1 kg of high-quality wheat for 2 kg of lower-quality wheat, the transaction involves Riba al-Fadl due to unequal quantities.

Islam prohibits Riba al-Fadl to maintain fairness in trade and prevent the exploitation of differences in value, quality, or quantity in similar goods.

Q-24. Discuss with examples Riba an-Nasia.

Riba an-Nasia is the interest or gain earned over time due to the delay of payment. This type of Riba involves lending money or goods and charging an excess as a fee for the time allowed for repayment. It is strictly forbidden in Islamic finance.

Examples:

1. **Money Lending:**
   - If a person loans $1,000 and demands $1,200 back after a year, the extra $200 is considered Riba an-Nasia as it is an interest charged for extending the loan period.
2. **Goods on Credit:**
   - Selling a car worth $10,000 for $12,000 on a deferred payment plan is also Riba an-Nasia because the additional $2,000 is a fee for the delay in payment.

Riba an-Nasia is discouraged as it can lead to unfair economic practices, putting excessive financial pressure on borrowers.

Q -25. How is profit of trade different from Riba of loan?
Or, Give and comparison between Profit and Riba

Aspect	Profit of Trade	Riba of Loan
1.Definition	Gain from buying and selling goods or services at a higher price than the cost.	Interest or additional fee charged for lending money or goods.
2.Nature	Based on risk-sharing, and mutual consent	Fixed return regardless of business outcome
3.Ethics	Encourages fair trade and economic growth	Considered exploitative and unjust in Islam
4.Risk	Risk is shared between buyer and seller	Risk is borne by the borrower only
5.Example	Buying a product for $50 and selling it for $60	Lending $1,000 and demanding $1,100 in return

Q -26. Give a comparison between Riba and Interest. BPE-98th.

Aspect	Riba	Interest
1.Definition	Any predetermined excess amount charged over a loan	A fee charged by lenders on borrowed money
2.Legal Status	Prohibited under Islamic law due to unfair practices	Accepted in conventional finance
3.Ethical View	Considered exploitative and unjust	Seen as a legitimate cost of borrowing
4.Impact	Causes unfair wealth distribution and inequality	Used for wealth generation in traditional economies
5.Example	Lending $1,000 and demanding $1,200 in return	Charging a 5% interest rate on a loan

Q -27. What are the key features of Riba?
The key features of Riba, which is strictly forbidden in Islam, include:

1. **Excessive Gain:** Riba involves charging extra on the principal amount of a loan or transaction, leading to unjust gain.
2. **Interest-Based:** It primarily refers to interest charged on loans, where lenders earn a fixed return regardless of the borrower's situation.
3. **Exploitative:** Riba often exploits the financial vulnerabilities of borrowers, leading to wealth inequality.
4. **Unproductive Income:** It generates income without contributing to productive economic activities, unlike profits earned through business.
5. **Prohibited:** Riba is banned in Islamic finance due to its unethical nature, as it creates unfair advantage and financial burden.

These features highlight why Riba is considered unjust and contrary to Islamic economic principles that promote fairness and equity.

Q -28. What are the salient features of Interest?
The key features of interest in conventional finance include:

1. **Fixed Percentage:** Interest is charged as a fixed percentage of the principal amount borrowed, creating predictable income for the lender.
2. **Time-Based:** The amount of interest charged depends on the duration of the loan, with longer loan periods usually incurring more interest.
3. **Income for Lender:** It serves as a primary source of income for lenders, such as banks, generating revenue through lending activities.

4. **Borrower Obligation:** Borrowers are obligated to pay interest, adding a cost to their loan beyond the principal amount.
5. **Widely Accepted:** Interest is a standard practice in conventional finance, viewed as a legitimate compensation for the lender's risk and capital use.

Interest is a core element of traditional financial systems, though it is viewed as unethical in Islamic finance.

Q-29. Give a comparison between Classical and Keynesian views of Interest.

Aspect	Classical View	Keynesian View
1. Definition	Interest is the reward for saving and abstaining from consumption.	Interest is determined by the liquidity preference of money holders.
2.Interest Rate Level	Determined by the supply and demand for loanable funds.	Determined by the demand for money and the supply by the central bank.
3.Economic Focus	Emphasizes the role of savings in investment.	Emphasizes the role of aggregate demand and spending.
4.Policy Approach	Minimal government intervention in the economy.	Advocates active government intervention to manage demand.
5.Economic Stability	Believes interest rate adjustments naturally balance the economy.	Believes interest rate adjustments must be combined with fiscal policies.

Q-30. What are the objectives of Islamic Banking?
Or, Describe the objectives of Islamic banking. [BPE-96th

Islamic banking aims to promote ethical and socially responsible financial activities based on Islamic principles. Here are its main objectives:

1. **Interest-Free Banking:** Islamic banks avoid interest (riba) and instead focus on profit-sharing and fee-based models.
2. **Ethical Investment:** Investments are directed toward socially responsible and Shariah-compliant projects that benefit society.
3. **Risk Sharing:** Financial transactions are structured to share risks fairly between parties, promoting equity and partnership.
4. **Wealth Distribution:** Islamic banking encourages wealth redistribution through Zakat and charity, aiming to reduce economic inequality.
5. **Transparency and Justice:** Transactions emphasize clear, honest practices to ensure fairness for all parties involved.

These objectives ensure that Islamic banking promotes a just and inclusive financial system that aligns with Islamic values.

Q-31. Discuss the role of Islamic banking in achieving the objectives of Islamic Economics.

Islamic banking plays a key role in achieving the objectives of Islamic economics through its distinctive approach:

1. **Ethical Finance:** By avoiding interest (riba), Islamic banks focus on profit-sharing, ensuring that financial transactions align with Islamic principles.
2. **Risk Sharing:** Islamic banking promotes equity by sharing risks between parties, fostering economic stability and fairness.
3. **Social Justice:** Encouraging wealth redistribution through Zakat and charity helps reduce poverty and inequality, a key goal of Islamic economics.
4. **Ethical Investment:** Islamic banks invest in socially responsible projects that benefit the community, reflecting the principle of doing no harm.
5. **Transparency:** Clear and honest banking practices ensure transactions are fair, promoting trust and justice in the financial system.

In these ways, Islamic banking contributes significantly to a balanced and ethical economy.

Q-32. Give a brief outline of Islamic Banking operation.

Islamic banking operates under Islamic law (Shariah) principles, differing significantly from conventional banking in several key aspects:

1. **No Interest (Riba):** Islamic banks do not engage in interest-based transactions. Instead, they earn profit through trade-based activities and partnerships.
2. **Profit and Loss Sharing:** Products like Mudarabah (profit-sharing) and Musharakah (joint venture) involve the bank and its customers sharing the profits and risks of business ventures.
3. **Asset-Backed Financing:** Transactions must be backed by tangible assets or services to avoid speculation. This includes products like Murabaha (cost-plus finance) and Ijara (leasing).
4. **Ethical Restrictions:** Investments are screened to ensure they do not involve prohibited activities (like alcohol, gambling, and pork-related products).
5. **Zakat:** Islamic banks also play a role in the collection and distribution of Zakat to support charitable causes and community development.

These features ensure that operations in Islamic banking align with ethical and economic justice principles.

Q-33. 'The core function of banking is to ensure fund flow from the surplus unit to the deficit unit'—discuss how Islamic Bank ensures it.

Islamic banking ensures the flow of funds from surplus units (those with excess funds) to deficit units (those needing funds) in a way that aligns with Islamic principles:

1. **Profit-Sharing Contracts:** Using contracts like Mudarabah (profit-sharing), Islamic banks enable investors to provide funds to businesses or projects, sharing the profits and losses.
2. **Joint Ventures:** Musharakah (joint venture) contracts involve both the bank and the client investing in a business, sharing both profits and risks.
3. **Asset-Based Financing:** Murabaha (cost-plus financing) allows banks to buy assets and sell them to clients at a markup, spreading the cost over time.
4. **Leasing (Ijara):** Islamic banks lease assets to clients, providing equipment or property financing without ownership transfer until fully paid.

By utilizing these ethical financing methods, Islamic banks promote responsible and fair fund flow, ensuring investments benefit all parties involved.

Q-34 Discuss guarantee in Islamic banking. BPE-98th.

In Islamic banking, guarantees (known as "Kafalah") ensure the security of transactions while adhering to Islamic principles. Here's how they work:

1. **Purpose:** Guarantees provide assurance that one party will fulfill its financial obligations, offering security for the counterparty in the transaction.
2. **Application:** Commonly used in trade finance, guarantees ensure payment in contracts like Murabaha (cost-plus finance) and Musharakah (joint ventures).
3. **No Riba (Interest):** Guarantees are provided without charging interest, maintaining compliance with Shariah law.
4. **Fee-Based:** Islamic banks may charge a fee for providing a guarantee, covering administrative costs while ensuring fairness.
5. **Risk Management:** They protect parties from potential default, ensuring that both sides are safeguarded without violating Islamic ethical standards.

This allows Islamic banks to maintain trust in transactions while upholding their ethical obligations.

Q-35. Discuss the non-banking services of Islamic banks.

Islamic banks offer several non-banking services that align with Shariah principles:

1. **Takaful (Islamic Insurance):** Provides mutual insurance without the involvement of interest or gambling, ensuring ethical risk-sharing for customers.

2. **Zakat Collection and Distribution:** Islamic banks help collect and distribute Zakat (charity) from clients to support community development and aid the needy.
3. **Shariah Advisory:** Islamic banks offer guidance on financial matters, ensuring that clients' activities comply with Islamic principles.
4. **Wealth Management:** Services include financial planning and estate management, helping clients manage their assets ethically and efficiently.
5. **Islamic Microfinance:** Offers small loans to individuals or small businesses without interest, promoting entrepreneurship and financial inclusion.

These services help individuals and businesses align their financial practices with their ethical and religious beliefs.

Q-36. What are the functions of the Central Bank?

The central bank, as the main monetary authority in a country, performs several key functions:

1. **Monetary Policy:** Manages inflation, interest rates, and money supply to stabilize the economy.
2. **Bank Regulation:** Oversees and regulates commercial banks to ensure a stable financial system.
3. **Currency Issuance:** Responsible for printing and distributing the national currency, ensuring sufficient cash flow in the economy.
4. **Foreign Exchange:** Manages the country's foreign exchange reserves and stabilizes the national currency's exchange rate.
5. **Government Bank:** Acts as a banker to the government, managing its accounts and debt issuance.
6. **Lender of Last Resort:** Provides emergency funding to banks during financial crises to maintain stability in the banking system.

These functions help maintain a stable and healthy economy.

Q-37. Describe the major prohibitions in Shariah Based Banking. [BPE-96th]

Shariah-based banking follows specific prohibitions to align with Islamic principles:

1. **Riba (Interest):** Charging or paying interest is strictly forbidden. Instead, profit-sharing and fee-based structures are used for financial transactions.
2. **Gharar (Uncertainty):** Excessive uncertainty or ambiguity in contracts is prohibited. All terms and conditions must be clear to both parties.
3. **Maysir (Gambling):** Speculative transactions resembling gambling, where outcomes depend on chance, are not allowed.
4. **Unethical Investments:** Investing in industries like alcohol, gambling, and pork, which are against Islamic values, is not permitted.
5. **Hoarding:** Excessive accumulation of wealth without using it productively is discouraged, as it hinders wealth circulation in the economy.

These prohibitions ensure ethical, transparent, and fair financial transactions, promoting justice and welfare in the economy.

Q-38. Discuss central banking under Islamic banking framework.

Central banking in an Islamic banking framework operates within Shariah principles to promote a fair and ethical financial system:

1. **Interest-Free Operations:** The central bank avoids traditional interest-based monetary policies. Instead, it may use profit-sharing mechanisms and Shariah-compliant financial instruments.
2. **Islamic Monetary Policy:** It uses tools like direct lending, reserve ratios, and open market operations based on profit-sharing rather than interest.
3. **Shariah Supervision:** A Shariah board oversees central bank activities to ensure compliance with Islamic principles.

4. **Liquidity Management:** Offers interest-free liquidity support to Islamic banks, ensuring stability in the financial system.
5. **Regulation and Oversight:** Develops regulations to promote ethical and risk-sharing principles in the banking sector.

The central bank plays a key role in ensuring stability and fostering an Islamic financial environment aligned with religious values.

Q-39. Give a comparison between Islamic Banking and Conventional Banking. BPE-98th.

Aspect	Islamic Banking	Conventional Banking
1.Definition	A banking system based on Islamic principles, avoiding interest and promoting ethical finance.	Traditional banking that involves interest-based transactions.
2.Interest (Riba)	Prohibits interest; uses profit-sharing mechanisms	Interest-based loans and deposits are common
3.Risk Sharing	Risk is shared between the bank and customers	Risk is primarily borne by the borrower
4.Investments	Restricted to Shariah-compliant activities	Allows investments across all legal sectors
5.Example	Uses profit-sharing contracts for loans and investments	Offers fixed-interest loans and savings accounts

Q-40. What is monetary policy? Discuss the instruments of monetary policy.

Monetary policy refers to the actions and strategies implemented by a central bank to control the money supply and interest rates in an economy. Its main objectives are to stabilize prices (control inflation), maintain full employment, and promote economic growth.

Instruments of Monetary Policy:

1. **Interest Rates:**
    - The central bank sets the benchmark interest rate, influencing the rates that commercial banks offer.
    - Lowering interest rates encourages borrowing and spending, stimulating economic growth.
    - Raising interest rates does the opposite, slowing economic activity to curb inflation.
2. **Open Market Operations (OMOs):**
    - Involves buying or selling government securities to adjust the amount of money in circulation.
    - Buying securities injects cash into the economy, increasing the money supply.
    - Selling securities removes cash from the economy, reducing the money supply.
3. **Reserve Requirements:**
    - Regulations on the minimum amount of reserves banks must hold against their deposits.
    - Lowering reserve requirements allows banks to lend more, increasing the money supply.
    - Increasing reserve requirements reduces the amount banks can lend, tightening the money supply.
4. **Discount Rate:**
    - The interest rate the central bank charges commercial banks for short-term loans.
    - Lowering the discount rate makes borrowing cheaper, encouraging banks to lend more.
    - Raising the rate makes borrowing more expensive, reducing lending.

These instruments collectively help guide economic activity, balancing inflation, employment, and overall economic stability.

Q-41. Discuss the definitions of Terms used in Islamic Banking Operations.

Islamic banking operates using terms that are distinct from conventional banking due to adherence to Shariah principles. Here are key terms:

1. **Riba:** Any predetermined interest on loans, which is strictly prohibited in Islamic finance.
2. **Mudarabah:** A profit-sharing agreement where one party provides capital (Rab-ul-Mal) and the other manages the investment (Mudarib). Profits are shared based on a pre-agreed ratio.
3. **Musharakah:** A joint venture where all partners contribute capital and share profits and losses according to their investment proportions.
4. **Murabaha:** A sale agreement where the bank buys an asset and sells it to the customer at a marked-up price, with the customer paying in installments.
5. **Ijara:** A leasing contract where the bank buys an asset and leases it to the client. The client can eventually purchase the asset at the end of the lease term.
6. **Takaful:** Islamic insurance based on mutual assistance, where participants contribute to a fund to support each other in times of need.
7. **Sukuk:** Islamic bonds that represent ownership in tangible assets or a pool of assets, providing returns without involving interest.

These terms reflect the ethical and fair principles underpinning Islamic finance, focusing on risk-sharing, tangible assets, and fairness in transactions.

Q-42. Write the criteria for setting up full-fledged Islamic Bank.

Setting up a full-fledged Islamic bank in Bangladesh requires meeting specific criteria to ensure compliance with Islamic principles and local regulations. Here are the key criteria:

1. **Regulatory Approval:** Obtain approval from the Bangladesh Bank, the central bank, which governs banking activities and ensures adherence to Islamic banking guidelines.
2. **Shariah Compliance:** Establish a Shariah board comprising Islamic scholars to oversee and ensure all banking activities comply with Shariah principles.
3. **Capital Requirements:** Meet the minimum capital requirements set by Bangladesh Bank to ensure financial stability and safeguard customer deposits.
4. **Operational Infrastructure:** Develop systems and processes tailored to Islamic banking operations, including risk-sharing contracts, interest-free loans, and profit-sharing mechanisms.
5. **Human Resources:** Employ staff knowledgeable in Islamic finance to manage operations according to Shariah principles.
6. **Product Offering:** Offer Shariah-compliant banking products like Mudarabah, Musharakah, Murabaha, and Ijara.
7. **Corporate Governance:** Implement transparent and ethical governance structures aligned with Islamic values.
8. **Market Research:** Conduct market research to understand the demand for Islamic banking products and identify target customers.

Meeting these criteria ensures that the bank adheres to Islamic principles while aligning with the regulatory framework of Bangladesh.

Q-43. Discuss the terms & conditions for the conventional Banks to obtain License for opening Islamic Banking Branch(es).

Conventional banks wishing to open Islamic banking branches need to follow specific terms and conditions to obtain a license:

1. **Regulatory Approval:** Banks must apply to the Bangladesh Bank and obtain its approval to open Islamic banking branches.
2. **Shariah Compliance:** A Shariah board must be established to ensure that all operations and products comply with Islamic principles.

3. **Separate Operations:** Islamic banking branches must operate separately from the conventional operations, maintaining distinct financial records.
4. **Capital Requirements:** The bank must meet the capital adequacy requirements set by the central bank.
5. **Product Offering:** The bank must offer Shariah-compliant financial products, avoiding interest-based transactions.
6. **Training and Knowledge:** Staff in the Islamic banking branches must be trained and knowledgeable about Islamic finance principles.

These conditions ensure that the branches align with both Islamic principles and the central bank's regulatory framework.

Q-44. Discuss the necessary measures for conversion of a Conventional Bank to an Islamic Bank.
Or, Discuss the major effects of conversion of a Conventional Bank to an Islamic Bank.
Or, Write down the conversion mechanism from conventional Bank to Islamic Bank according to Bangladesh Bank guidelines for Islamic Banks, 2009. BPE-98th.

Converting a conventional bank to an Islamic bank in Bangladesh involves specific steps:

1. **Regulatory Approval**: Obtain approval from the Bangladesh Bank and regulatory authorities.
2. **Shariah Compliance Board**: Establish a Shariah board to ensure adherence to Islamic principles.
3. **Product Adaptation**: Modify existing products to be Shariah-compliant, like replacing interest-based loans with profit-sharing agreements.
4. **Training**: Train staff on Islamic banking principles and practices.
5. **Marketing**: Develop marketing strategies to attract customers interested in Islamic banking services.
6. **Technology Upgrade**: Upgrade banking systems to support Shariah-compliant transactions.
7. **Legal Documentation**: Update legal documents and contracts to comply with Islamic finance principles.
8. **Customer Education**: Educate customers about Islamic banking services and benefits in simple terms.

Q-45. What are the functions of the Islamic bank?
Or, what are the major functions of Islamic banks? [BPE-96th, BPE-97th].

Islamic banks serve several functions:

1. **Acceptance of Deposits**: Islamic banks accept various types of deposits, including current, savings, and investment accounts, where depositors share in profits and losses.
2. **Financing**: They provide financing through Shariah-compliant modes such as Mudarabah (profit-sharing) and Musharakah (joint venture), avoiding interest-based transactions.
3. **Investment**: Islamic banks invest in Shariah-compliant ventures, supporting ethical and socially responsible projects while adhering to Islamic principles.
4. **Wealth Management**: They offer wealth management services, helping clients grow their assets through Islamic investment instruments like Sukuk (Islamic bonds).
5. **Risk Management**: Islamic banks employ risk management techniques that comply with Shariah principles, ensuring fair and transparent transactions while minimizing risks.
6. **Community Development**: They contribute to community development by financing projects that benefit society and comply with Islamic values, fostering economic growth and social welfare.

Q-46. Discuss the problems of Islamic banking in dual banking system.
Or, What are the challenges faced by the Islamic banks in Bangladesh? Give your opinion. BPE-97th.

Islamic banking faces challenges within a dual banking system:

1. **Regulatory Hurdles**: Regulatory frameworks often favor conventional banking, making it difficult for Islamic banks to operate on equal footing.
2. **Lack of Awareness**: Many people aren't familiar with Islamic banking principles, leading to misconceptions and reluctance to engage with Islamic financial products.
3. **Limited Product Range**: Islamic banks may have fewer product options compared to conventional banks due to Shariah compliance requirements, limiting their competitiveness.
4. **Human Capital**: Islamic banking requires specialized knowledge of Shariah principles, but there's a shortage of trained professionals in this field.
5. **Risk Management**: Developing effective risk management tools consistent with Shariah principles can be challenging, impacting the ability to manage risks effectively.
6. **Market Segmentation**: The dual banking system may lead to segmentation in the market, with Islamic banks primarily serving Muslim customers, limiting their market reach.

Example: Islamic banks in a dual banking system face regulatory hurdles, lack of awareness, and challenges in product range and risk management.

Q-47. What are the prospects of Islamic banking in Bangladesh?
Or, What are the reasons for rapid growth of Islamic Banking in Bangladesh? BPE-98th.

Islamic banking in Bangladesh has promising prospects due to several factors:

1. **Growing Muslim Population**: With a predominantly Muslim population, there's a significant demand for Shariah-compliant financial services.
2. **Government Support**: The Bangladesh government supports Islamic banking initiatives, creating a conducive regulatory environment for growth.
3. **Increasing Awareness**: More people are becoming aware of Islamic banking principles and seeking ethical financial alternatives, driving demand.
4. **Economic Stability**: Bangladesh's stable economy provides a favorable environment for Islamic banking institutions to thrive and expand.
5. **Infrastructure Development**: Ongoing infrastructure development projects require substantial financing, presenting opportunities for Islamic banks to participate in Shariah-compliant financing.
6. **Innovation**: Continued innovation in Islamic banking products and services can attract more customers and enhance the sector's growth.

Example: With government support, a growing Muslim population, and increasing awareness, Islamic banking in Bangladesh has bright prospects for growth and expansion.

Q-48. Do you think Islamic banks are playing vital role in the growth of the assets of banking sector in Bangladesh? Justify your opinion. [BPE-96th, BPE-98th]

Yes, Islamic banks are playing a vital role in the growth of the banking sector's assets in Bangladesh. They contribute to this growth in several ways:

1. **Diversification**: Islamic banks offer Shariah-compliant financial products, diversifying the market and attracting customers who prefer ethical banking solutions.
2. **Increased Competition**: Competition from Islamic banks motivates conventional banks to innovate and offer competitive products, driving overall sector growth.
3. **Market Expansion**: Islamic banks tap into previously underserved segments of the population, expanding the overall market for banking services.

4. **Financial Inclusion**: Islamic banks provide banking services to individuals who may have been excluded from the conventional banking system, thereby increasing the overall asset base of the sector.
5. **Investment in Infrastructure**: Islamic banks participate in financing infrastructure projects, contributing to economic growth and increasing the sector's assets.

Example: Through diversification, increased competition, market expansion, financial inclusion, and investment in infrastructure, Islamic banks are indeed vital in the growth of banking sector assets in Bangladesh.

Q-49. Enumerate some key non-banking services that a typical Islamic bank does.
Or, Mention the non-banking services provided by the Islamic banks in Bangladesh. BPE-97th.

Islamic banks offer several key non-banking services:

1. **Islamic Insurance (Takaful)**: Providing Shariah-compliant insurance products for individuals and businesses to mitigate risks.
2. **Islamic Investment Funds**: Offering investment opportunities in Shariah-compliant funds, allowing clients to invest in ethical ventures.
3. **Islamic Capital Market Services**: Facilitating trading of Shariah-compliant securities such as Sukuk (Islamic bonds) and equities.
4. **Islamic Estate Planning**: Assisting clients in structuring their estates according to Islamic inheritance laws and principles.
5. **Islamic Financial Advisory**: Providing guidance on financial matters in line with Islamic principles, including wealth management and retirement planning.
6. **Islamic Microfinance**: Offering microfinance services to entrepreneurs and small businesses, following Shariah guidelines.

Example: In addition to banking services, Islamic banks provide non-banking services like Takaful, investment funds, capital market services, estate planning, financial advisory, and microfinance.

Q-50. What are the basic characteristics of Money in Islamic Economic System? BPE-98th.

The basic characteristics of money in the Islamic Economic System include:

1. **Intrinsic Value**: Money should have intrinsic value, often represented by commodities like gold and silver.
2. **Medium of Exchange**: It facilitates trade and transactions within the economy.
3. **Store of Value**: Maintains value over time, enabling savings and future use.
4. **Measure of Value**: Provides a standard for pricing goods and services.
5. **Prohibition of Riba**: Money should not generate interest (riba) on its own.
6. **Avoidance of Speculation**: Money should not be used for speculative purposes, promoting stability in the economy.

Q-51. In Islamic finance interest is prohibited but trading is permitted explain. BPE-98th.

In Islamic finance, interest (riba) is strictly prohibited, but trading is permitted as per Shariah law. The core principle is that money should not generate more money through lending at interest. Instead, profit should come from legitimate trade and investment. The Quran explicitly forbids riba but encourages trade, indicating a preference for business activities where risks and rewards are shared.

In trading, profit is earned by selling goods or services at a higher price than the purchase cost. This involves real economic activity and value creation. Conversely, interest involves earning money from money itself, without any underlying productive activity. Islamic banks, therefore, engage in trade and business investments rather than interest-based lending. They buy and sell goods, provide financing through profit-sharing models like Mudarabah and Musharakah, and lease assets under Ijarah, ensuring compliance with Islamic principles.

Q-52. List the Shariah non-compliant products and services. BPE-97th.

Shariah non-compliant products and services are those that violate Islamic principles. Here are some key examples:

1. **Interest-Based Loans**: Any financial transaction involving interest (riba) is prohibited.
2. **Conventional Insurance**: Traditional insurance involves elements of uncertainty (gharar) and gambling (maysir), making it non-compliant.
3. **Alcohol and Tobacco**: Financing or investing in businesses that produce or sell alcohol and tobacco is forbidden.
4. **Gambling**: All forms of gambling or betting are strictly prohibited.
5. **Pork Products**: Investments in businesses dealing with pork or pork products are not allowed.
6. **Speculative Transactions**: High-risk speculative trading, such as derivatives and futures, is not permissible.

These products and services are avoided by Islamic financial institutions to ensure compliance with Shariah law.

Q-53. "Interest is Prohibited in Islam."-Describe the significance of this rule in Islamic Banking System. BPE-97th.

"Interest is Prohibited in Islam." This rule is fundamental to the Islamic Banking System. Here's its significance:

1. **Ethical Transactions**: Prohibiting interest ensures that all financial transactions are fair and just, avoiding exploitation.
2. **Risk Sharing**: Instead of earning fixed returns through interest, Islamic banking promotes profit and loss sharing, ensuring that both parties share risks and rewards.
3. **Economic Justice**: It prevents wealth concentration by avoiding interest-based lending, promoting equitable wealth distribution.
4. **Real Economy Focus**: Islamic banks invest in tangible assets and real economic activities, supporting sustainable growth.
5. **Social Welfare**: Funds are directed towards productive ventures that benefit society, such as trade, industry, and agriculture.

This rule aligns the banking system with Islamic principles, ensuring ethical, fair, and socially responsible financial practices.

Short Notes—

Q - 01. Riba. BPE-97th.

Riba, in Islamic finance, refers to the prohibition of usury or interest. It's considered exploitative because it involves gaining profit from money itself rather than from productive economic activities. This concept is deeply rooted in Islamic principles of fairness and justice in financial transactions. The Quran strictly forbids Riba in multiple verses, emphasizing the importance of economic equity and ethical conduct. In simple terms, Riba means earning or paying interest on loans. Islamic finance aims to promote profit through ethical investment and risk-sharing instead of charging interest. By prohibiting Riba, Islamic finance seeks to create a financial system that fosters economic growth while ensuring social justice and fairness for all participants.

Q - 02. Riba al-Fadl

Riba al-Fadl is a specific type of Riba that refers to the prohibition of unequal exchange of goods of the same kind. In Islamic finance, it occurs in spot transactions where identical commodities are exchanged, but one party receives an excess amount. This excess is considered unfair and exploitative, leading to unequal trade practices. Islamic principles advocate for equitable trade where goods are exchanged at equal value to ensure fairness and justice. Riba al-Fadl ensures that transactions are conducted ethically and transparently, promoting economic equity and social welfare within Islamic financial systems. By prohibiting Riba al-Fadl, Islamic finance aims to uphold the principles of fairness and integrity in all commercial dealings.

Q - 03. Riba an-Nasia

Riba an-Nasia, another form of Riba, refers to the prohibition of excess or increase in loan transactions. It occurs when a lender demands additional compensation from the borrower for extending the repayment period of a loan. This additional compensation is considered unjust and exploitative, as it exploits the financial vulnerability of the borrower. In Islamic finance, Riba an-Nasia is strictly prohibited to ensure fairness and equity in lending practices. Islam promotes the concept of helping those in need without exploiting them for financial gain. By prohibiting Riba an-Nasia, Islamic finance seeks to create a financial system based on ethical principles that promote economic stability and social welfare for all members of society.

Q - 04. Command Economic System

A command economic system, also known as a centrally planned economy, is a type of economic system where the government or a central authority makes all economic decisions. This includes decisions regarding production, distribution, and resource allocation. In a command economy, the government controls the means of production and determines what goods and services will be produced, how much will be produced, and at what price they will be sold. Prices, wages, and other economic variables are often set by the government rather than determined by market forces. Command economies were more prevalent in the past, particularly during the 20th century in countries following socialist or communist ideologies. Examples include the former Soviet Union and Maoist China. While command economies can provide stability and direction, they often lack the efficiency and innovation associated with market economies. In recent decades, many countries have moved away from strict command economies toward more mixed economic systems that incorporate elements of both central planning and market mechanisms.

Q - 05. Zakat

Zakat is an obligatory almsgiving and one of the Five Pillars of Islam. It's a form of wealth tax that Muslims are required to pay to help those in need and support the welfare of the community. Zakat is typically calculated as a percentage of a Muslim's wealth and income, with specific criteria for eligibility and distribution outlined in Islamic law. It is intended to redistribute wealth and ensure economic justice within society. Zakat funds are used for various purposes, including providing assistance to the poor and needy, supporting educational initiatives, and facilitating community development projects. Paying Zakat is considered a religious duty and a means of purifying one's wealth. By fulfilling this obligation, Muslims contribute to the welfare and well-being of society as a whole.

Q - 06. Fitra

Fitra is a charitable donation given by Muslims during the Islamic holy month of Ramadan. It is obligatory for Muslims who can afford it and is intended to purify one's fast and provide assistance to the poor and needy. Fitra is typically given before the Eid al-Fitr prayer, which marks the end of Ramadan. The amount of Fitra is determined based on the value of staple food items in the local community and is intended to ensure that everyone can partake in the festivities of Eid. The distribution of Fitra is typically handled by mosques or charitable organizations, which use the funds to provide food, clothing, and other necessities to those in need. Giving Fitra is considered a virtuous act and a means of seeking forgiveness and blessings during Ramadan.

Q - 07. Nisab

Nisab is the minimum threshold of wealth or assets that a Muslim must possess before being obligated to pay Zakat. It serves as a criterion for determining Zakat eligibility and is calculated based on the value of certain assets, such as gold, silver, and agricultural produce. The Nisab threshold ensures that Zakat is only obligatory for those who possess a certain level of wealth, while exempting those who are in genuine need or who possess only minimal assets. The specific value of Nisab may vary depending on factors such as location and economic conditions. Muslims are required to pay Zakat if their wealth exceeds the Nisab threshold and they have possessed it for a full lunar year. Nisab is an important concept in Islamic finance and plays a central role in determining Zakat obligations for individuals and families.

Q - 08. Hiba

Hiba, in Islamic law, refers to the act of giving a gift or donation without expecting anything in return. It is a voluntary transfer of property or wealth from one person to another out of kindness, generosity, or affection. Hiba can take various forms, including cash, assets, or goods, and can be given for any lawful purpose. Unlike transactions involving buying or selling, Hiba does not require mutual consent or consideration from the recipient. It is considered a virtuous act in Islam and is encouraged as a means of fostering goodwill and strengthening social bonds. However, Hiba must be given willingly and without coercion, and the giver should have the legal capacity to make the gift. Hiba plays a significant role in Islamic finance and charitable giving, providing a means for individuals to support others and contribute to the welfare of society.

Q - 09. Profit

Profit, in economic terms, refers to the financial gain earned by a business or individual after deducting expenses from revenue. It is a key indicator of success and viability in business operations and is essential for economic growth and development. Profit allows businesses to reinvest in their operations, expand their activities, and reward stakeholders, including investors, employees, and shareholders. In Islamic finance, profit is generated through ethical investment and productive economic activities that comply with Shariah principles. Islam encourages entrepreneurship and wealth creation through lawful means while emphasizing the importance of fairness, transparency, and social responsibility in business practices. Profit is seen as a legitimate and desirable outcome of economic activities, provided it is earned through halal (permissible) means and is used to benefit society as a whole.

Q - 10. Interest

Interest, in finance, refers to the fee charged by a lender to a borrower for the use of borrowed money, typically expressed as a percentage of the principal amount. It is a common component of lending and borrowing transactions in conventional financial systems, where lenders earn income from the interest charged on loans. However, interest is prohibited in Islamic finance due to its association with Riba (usury), which is considered unethical and exploitative in Islamic law. Instead of charging interest on loans, Islamic finance relies on profit-sharing arrangements, risk-sharing partnerships, and asset-backed financing to generate returns for investors and lenders. By prohibiting interest, Islamic finance aims to promote fairness, equity, and social justice in financial transactions, while encouraging ethical investment and wealth creation through lawful means.

Q - 11. Kafalah

Kafalah is a concept in Islamic law that refers to the guarantee or surety provided by one party (the kafil) for the obligations or liabilities of another party (the mukallaf). It is often used in financial transactions, contracts, and legal agreements to ensure the fulfillment of obligations and the protection of rights. Kafalah is based on the principle of mutual assistance and solidarity within the Islamic community, where individuals take responsibility for each other's welfare and well-being. The kafil assumes the obligation to fulfill the contractual or financial commitments of the mukallaf in the event of default or non-performance. Kafalah is considered a virtuous act in Islam and is encouraged as a means of supporting fellow members of the community and promoting economic cooperation and stability. It is governed by specific rules and conditions outlined in Islamic jurisprudence to ensure fairness and equity for all parties involved.

Q - 12. Kaafil

Kaafil is the term used to refer to the guarantor or surety who provides the kafalah (guarantee) for the obligations or liabilities of another party in Islamic law. The kaafil assumes the responsibility to fulfill the contractual or financial commitments of the mukallaf (the party being guaranteed) in the event of default or non-performance. The role of the kaafil is crucial in ensuring the fulfillment of obligations and the protection of rights in various financial transactions, contracts, and legal agreements. The kaafil is typically someone who is financially stable and trustworthy, capable of fulfilling the obligations they undertake as a guarantor. Islam encourages individuals to act as kaafils as a means of supporting fellow members of the community and promoting economic cooperation and solidarity. The kaafil plays an important role in fostering mutual assistance and responsibility within the Islamic community, contributing to the overall welfare and well-being of society.

Q - 13. Guarantee

A guarantee is a contractual arrangement in which one party (the guarantor) agrees to assume responsibility for the obligations or liabilities of another party (the debtor) in the event of default or non-performance. Guarantees are commonly used in various financial transactions, contracts, and legal agreements to provide assurance and security to creditors and counterparties. The guarantor may be required to fulfill the obligations of the debtor, such as repaying a loan, completing a project, or meeting contractual commitments, if the debtor fails to do so. Guarantees can take different forms, including personal guarantees, corporate guarantees, and bank guarantees, depending on the nature of the transaction and the parties involved. In Islamic finance, guarantees are governed by specific rules and principles outlined in Islamic jurisprudence to ensure fairness and equity for all parties. Islam encourages individuals to fulfill their contractual obligations and to honor their commitments, whether as guarantors or debtors, as a means of promoting trust, integrity, and economic stability within society.

Q - 14. Cash Waqf

Cash Waqf is a form of charitable endowment in Islamic finance where individuals or institutions donate cash or liquid assets to support charitable causes and social welfare projects. Unlike traditional Waqf, which typically involves donating real estate or property, Cash Waqf allows donors to contribute money or financial assets that are then invested or used to generate income for charitable purposes. The income generated from Cash Waqf investments is typically used to fund educational initiatives, healthcare services, poverty alleviation programs, and other community development projects. Cash Waqf provides individuals with a flexible and accessible means of contributing to charitable causes, allowing them to support initiatives that align with their values and priorities. It is governed by specific rules and guidelines outlined in Islamic law to ensure transparency, accountability, and compliance with Shariah principles. Cash Waqf plays a significant role in promoting social welfare, economic development, and philanthropy within Islamic communities, contributing to the overall well-being and prosperity of society.

Chapter End