

Chapter 9

Quantitative Modelling of Shariah Principles of Islamic Transactions: Empirical Validation in Islamic and Conventional Fundings

Mohamed Gassouma

 <https://orcid.org/0000-0002-0932-9326>

Department of Islamic Law, Economics, and Finance, Higher Institute of Theology of Tunis, Tunisia

ABSTRACT

This paper aims to assess the importance of adhering to Sharia principles in both conventional and Islamic fundings. We assumed that these principles apply equally to both Islamic and conventional fundings. We also assume that Sharia principles is not confined to a specific space or time but is universal to all financial establishment. Empirically, we attempted to model these principles using ratios, thresholds, and econometric models. The principles used in this study include: the value of labor, the principle of equality between goods and money “Ghonm to Ghorm”, the prohibition of fraud and manipulation, the prohibition of currency speculation “Riba”, and the prohibition of arbitrage. The results showed that the key principles leading to non-speculative profit such as the prohibition of currency speculation, equality between money and goods, and the importance of labor are better upheld in conventional financing than in Islamic financing. However, the Islamic financing system

DOI: 10.4018/979-8-3693-8079-6.ch009

demonstrated superiority in market-related factors, such as the prohibition of fraud and manipulation.

1. INTRODUCTION

The fundamental principle of Islamic financial Transactions is that banking and market financing must have tangible counterparts. By “tangible,” we refer to all goods and services that generate profit or loss. Profit and loss thus become essential components in determining the value of tangible assets. Consequently, financial value derives its legitimacy from the value of tangible assets, making money an equivalent to real assets. This principle aligns with the balance between the monetary and real economies, known in Islamic jurisprudence as the principle of “Al-Ghunm bil-Ghurm” (profit comes with liability). (Mashour, 1991).

Profit (through goods and services) and liability (through money) can only be realized if every cash flow has a corresponding tangible counterpart. Every increase in money must originate from profits on goods, ensuring that the value of goods rises in proportion to the increase in money. If this principle is not followed, an imbalance occurs: either an excess of goods without sufficient money to purchase them or an overabundance of money without available goods.

This financial surplus relative to goods leads to inflation and price increases, a phenomenon known in Islamic jurisprudence as “Al-Ghulla”, which results in social inequality and declining purchasing power. (Benhamed and Gassouma, 2023). This excess of money is considered “Riba-based money”, meaning wealth acquired outside of trade transactions. In other words, it is the money that increases without legitimate justification, either through fraudulent means or through loans not invested in tangible assets as investment and consumption but used to cover debts and to arbitrage operations.. All such funds fall under “virtual Riba-based money.”

This virtual money is generated through trade over time not backed by tangible goods but rather acquired through delayed debt repayments or speculative price increases. The value of goods should rise with the rising of money value corresponding to the labor creation. (Adesina, K.S, 2020).

10 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the publisher's webpage: www.igi-global.com/chapter/quantitative-modelling-of-shariah-principles-of-islamic-transactions/379855

Related Content

Social Media and Social Identity in the Millennial Generation

Guida Helaland Wilson Ozuem (2019). *Leveraging Computer-Mediated Marketing Environments* (pp. 43-82).

www.irma-international.org/chapter/social-media-and-social-identity-in-the-millennial-generation/221503

The Outcomes of ICT Diffusion and Human Development in Malawi

Frank Makozaand Wallace Chigona (2012). *International Journal of Information Communication Technologies and Human Development* (pp. 52-70).

www.irma-international.org/article/outcomes-ict-diffusion-human-development/74062

ICTs and Improvement of Agriculture in the North West Region of Cameroon

Wuchu Cornelius Cornelius Wutofeh (2019). *International Journal of Information Communication Technologies and Human Development* (pp. 1-19).

www.irma-international.org/article/icts-and-improvement-of-agriculture-in-the-north-west-region-of-cameroon/221308

Sociocultural Factors Influencing Online Instruction: A Latina Perspective

Christine M. Reyes, Cecilia Hernandezand H. Prentice Baptiste (2014). *International Journal of Information Communication Technologies and Human Development* (pp. 1-15).

www.irma-international.org/article/sociocultural-factors-influencing-online-instruction/116752

Enterprise Applications Led Resource Capabilities in Public Sector and Government in India: Key Insight into ICT for Development

Niraj Prakash, A. K. Sainiand Mahadeo Jaiswal (2014). *International Journal of Information Communication Technologies and Human Development* (pp. 1-17).

www.irma-international.org/article/enterprise-applications-led-resource-capabilities-in-public-sector-and-government-in-india/108505