

**PSCI 1500:  
Introduction to Economics**

**Market Structure from Islamic  
Perspective**

# MARKET STRUCTURES : ISLAMIC VIEW

- 'Price-taking' (competitiveness) is desirable
- Prophet PBUH refused to determine prices when price aroused in Madinah, emphasizing that there are forces created by Allah SWT which determine prices in the market
- Prophet PBUH indicate that pricing may entail injustice inflicted on someone, one way or another; free and thus, fair play of market forces under normal, practical and realistic degree of free competition is desirable.

# MARKET STRUCTURES : ISLAMIC VIEW

- However, supervision is necessary through institution of *Al-hisbah* - supervise the activities and transactions that take place in the market.
- 3 approaches on the function of *Al-Hisbah*
  - i. Within the *Shari'ah* boundaries
  - ii. Values and ethical principles of Islam
  - iii. Establish what is good and forbid what is wrong

# MARKET STRUCTURES : ISLAMIC VIEW

- Price fixing by government is generally unlawful, allowed only in exceptional circumstances when public interest is at stake.
- Exchange in Islam is considered to be a voluntary contract in which two parties agree to buy and sell. Pricing by government ruling violates the voluntary aspect of the exchange contract
- Therefore, the general rule of prohibiting government pricing can be safely interpreted as a rule to protect competition in the market. This is a policy tools for the government to institute competitive markets in an Islamic economic system.

# MARKET STRUCTURES : ISLAMIC VIEW

- Monopoly creates different jurist views in the major schools
- *Ihtikar* or hoarding is an important element of monopoly mainly discussed
- Jurist ruling should be regarded as a policy matter (comparable to anti-trust law), rather than as an analysis of markets.
- In Fiqh methodology, when statements both general and specific are found in relation to a particular question, the general statements would take precedence to the specific.

# MARKET STRUCTURES : ISLAMIC VIEW

- *Malikis* and *Abu Yusuf* from the *Hanafi* School extend the scope of prohibition of *ihhtikar* to all goods.
- The *Hanafis*, *Hanbalis* and *Shafi's* limit the scope to food stuff. In addition, *Muhammad Ibn Al-Hassan* includes both food stuff and cloths.
- The opinion that extends the scope of prohibition to all goods, whose withholding would be harmful to the public, seems to be more credible.

# MARKET STRUCTURES : ISLAMIC VIEW

- *Fiqh* scholars prohibits the act to purchase good and withholding it for a period of time only to raise the price in the same market later (*ihhtikar*).
- Here, the prohibition of *ihhtikar* is not limited to food stuff only, parallel to the consensus of economists that monopoly is harmful regardless of the market.
- The important aspect of the prohibition of *ihhtikar* in Islam is that some would become exclusive producers or holders (sellers) of certain goods that would deprive the market from competitive fair play.
- *Fiqh* scholars also prohibit the collusion among the suppliers of services

# MARKET STRUCTURES : ISLAMIC VIEW

There are two criteria offered by Fiqh scholars regarding the prohibition of *Ihtikar*:

- i. There is a demand for the good withheld
- ii. The lack of substitutes for it

Both criteria are equivalent to the existence of an inelastic demand curve for the goods withheld.

Ironically, this is the case where monopoly in the economic sense is most likely to be found.

# TEST YOUR UNDERSTANDING

What is the Islamic view on pricing?

- **Price taking is desirable** since exchange in Islam is considered to be a voluntary contract in which two parties agree to buy and sell, promotes competition
- **Price fixing by government is generally unlawful**, but allowed only in exceptional circumstances when public interest is at stake, pricing by government ruling violates the voluntary aspect of the exchange contract