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Introduction to Microeconomics: An Islamic Perspective

(IIUM), Peason – Prentice Hall. Peason Malaysia Sdn. Bhd. 2006, PP. 375

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This book consists of six parts and 12 chapters. The table of contents follows the pattern of conventional economics textbooks. Part I starts by addressing classical question: What is economics? Followed by definition of subject matter, basic problems of economics and Economic System. Part II contains analytical tools of demand and supply, and elasticity. Part III discusses consumer and producer behavior; cost of production analysis in using short and long run cost curves. Part IV concentrates on pricing of the product based on market structures of perfect competition, monopoly, monopolistic competition and oligopoly. Part V explains pricing the factors of production or equitable income distribution. Finally, part VI deals with the challenge ahead, concerning market, environment, and sustainability of economic development.

The ways of explanation and approach are based on conventional theory with insertion of Islamic values based on choose and pick in some of the principles of microeconomic theory. For example, in chapter 1, the author explains that conventionally human wants are unlimited and resources are limited then *relatively* is an attribute of scarcity. However, in Islam Almighty Allah has stocked the resources in earth and heavens available in unlimited quantity. The limitation of resources in Islam is knowledge to explore the resources, method of obtaining them, and their uses including improper use of resources – extravagance and wastage. When the resources are scarce, the choice must be based on priority and obligatory good and services. The Islamic view point is to produce enough goods and services to meet the basic needs of people. The choice of the goods and services needs to include the value judgment considered as socially relevant, and what decision making process would determine them. Private ownership of property, freedom of enterprise, competition in markets, and distributive justice are some of the leading values underlying most economic systems that operate today in the world. Even spiritual considerations may be involved in economic decision making. However, in Islamic economics, faith provides the rules of the game in any decision making of economic activities. To illustrate the general problem of choice that arises due to scarcity of resources, the author purely used the instrument of conventional theory, *e.g.* production possibility curves, behavioral norm of Adam Smith, positive and normative approaches of economics. There are even methodological pitfalls. This book followed conventional approach rather than Islamic approach(1). However, in three economic systems of Capitalist, Socialist and Islamic system, based on this author, is part of this overall social framework and must integrate well in it. The basic differences in the three systems are broadly discussed under four different headings; ownership property rights, operational frame work, motivation scheme, and social priorities.

Chapter 2, discusses the demand and supply which are the basic tools for analyzing the market behavior of an economic agent. The assumptions and analytical approaches are purely based on conventional theory without liaison to Islamic perspective as mentioned in the title of the book. The last section of the chapter discussed the administered prices as the Islamic economist tend to subscribe to this view on the strength of a tradition where the Prophet Muhammad (PBH) refused to fix prices lower than the market price for food grains in Madinah when they tended to rise too high creating hardship for the common man. His decision is to be seen in the context of scarcity caused by market forces(2). Additionally, the Prophet Muhammad (PBH) appealed to merchants to keep prices as low as possible in social interest, and the appeal had moderating impact. The spirit of the tradition remains valid even today. The modern practice today, increasing price caused by people who are greedy and their motive of business is to maximize profit created market power and economic distortions. Therefore, government intervention in the economy is needed *e.g.* price ceilings and price floors policy was introduced in government policy.

(1) **Muhammad Anas Zarka** and **M.N. Siddiqi**, "Blue Print of an Islamic Textbooks in Islamic Perspective", *Paper presented at the workshop on Islamic Economics Textbooks, IRTI, IDB, Jeddah*, on 27th and 28th February, 2006.

(2) Ibn Taymiyah argues that the Prophet (PBH) refused to fix the price because it was not due to people's fault. The rise in price was because of market or economic factors *i.e.* less supply.

In chapter 3, Elasticity of Demand and Supply is discussed based on market economic approach. In this chapter, the book was supposed to highlight what is the significance of measuring need-based-demand and capacity-based-supply elasticity in Islamic economics. In fact, Islamic economics reluctance to accept a market price as a true guide to social and community welfare makes the functions of price elasticity of demand and supply limited in scope. Similarly, the conventional hypothesis that demands for luxurious goods are highly elastic and demand for necessity goods for basic lives are inelastic do not also contribute much towards understanding of Islamic economics. Even in a market economy, this hypothesis does not describe the world of reality, (Mannan, 1983). Similarly, we have to ask: what determines the supply elasticity in Islamic economics? It is price elasticity or elasticity of access or ownership to the means of production or wealth. The reaction of producers to produce to changes in the pattern and organization of the distribution of all credit, investment resources and public and private services is far more important than price elasticity of supply in Islamic economy. It is therefore, extremely important to examine how the cost of production behaves as the credit policy or equity line is varied to different producers. It is also important to know how cost behaves when access to investment resources as well as to physical and social capital changes. Even in market-based economy, changes in cost usually dominate decisions on prices. It can be calculated and higher costs usually seem to be a valid justification for higher prices. It is therefore, far more important to measure credit elasticity of supply, equity elasticity of supply, supply elasticity of social and physical infrastructure than conventional price elasticities, in an Islamic economy.

Chapter 4, Consumers and Utility Maximization, this chapter conventionally discussed consumption or consumer behavior as the beginning and the end of all economic activity. Consumers make the most important of choices in a market economy. To differentiate the law of demand in conventional economics and Islamic perspective in more detail, the author is supposed to give more explanations on Islamic injunction on consumption which is guided by five principles of righteousness, cleanliness, moderation, beneficence and morality; rather than explanation purely based on conventional approaches by using utility functions, indifferent curves, consumer's equilibrium and water-gold paradox. Additionally, the explanation will end with price, income and inferior good effects. The consumer's wants, present and anticipated, are the chief incentive for his own economic activities. Without detail explanations of Islamic principles of consumption, the Islamic significance of the chapter will be valueless because the difference between conventional and Islamic economics in respect of consumption lies in the approach towards satisfaction of one's wants.

Similarly in chapter 5, the author did not highlight the detail analysis of Islamic producers' behavior but he directly jumped to the conventional nature and types of costs in the economics in the short and long-run costs of production. However, to be consistent with the title of the book, the author is supposed to discuss, at least, the fundamental principle of production in Islam. The uniqueness of the Islamic economic welfare lies in the fact that it cannot ignore the broader considerations of general welfare which are involved in the questions of morality, education, religion and many other factors. The Islamic concept of economic welfare consists in the increasing of income resulting from the increase of production of only beneficial goods through the maximum utilization of resources – both human and capital/material – as well as through the participation of the maximum number of people in the productive process.

Chapter 6, perfect competitions highlighted - Firstly, its characteristics of large numbers of firms, homogeneous product, free entry and exit, price taker, perfect mobility of production factors, and perfect knowledge of market. Secondly, profit maximization in the short-run – using total and marginal approaches. Thirdly, profit maximization in the long-run or normal profit using long-run firm equilibrium. Fourthly, producers surplus; and finally, the book explained the effect of a per unit tax on output. The detail explanation in this chapter could not find any input concerning Islamic perspective. Therefore, I would suggest the author to include some of Islamic inputs in this chapter to compare or to see the differences between conventional economics and Islamic economics. Otherwise I might rather suggest that the author ought to change the title of the book itself, in order to solve not only the problem of confusion of the reader but more importantly to maintain the word "Islamic Perspective" in proper context.

Chapter 7, deals with monopoly and pricing power. In this chapter, the author managed to include some portions of Islamic inputs through markup pricing, concepts of *Ehtikar* and Merger; and finally he discussed price regulation in terms of comparison between monopoly and perfect competition in order to see the social welfare gain and the total dead weight loss in the monopoly power.

Chapter 8, monopolistic competition and oligopoly, the topic began with:

A) The distinctive characteristics of monopolistic competition *i.e.* total number of sellers is big but less than perfect competition, product of this industry is heterogeneous product (same but not identical) in order to compete with any rival firms, this industry involves with the bulk of the expenditure on advertising. This industry has free entry-exit condition and it is also a price maker (pricing power). Next explanation is on price and output determination in the short and long-run equilibrium. It follows with minimum loss and maximum profit in the short-run and normal profit in the long-run. In this respect the author tried to highlight - first, the legitimacy of Islamic efficiency in economic terms requires three-way equality *i.e.* P = MC = Minimum ATC. Second, the positive aspect of advertising brings new goods and prices to the knowledge of the people; it performs a welcome social function. It is in line with Islamic norms if information provided is complete, transparent, and free of rhetoric.

B) Main Features of oligopoly industry are as follows: A few firms, product type either are a homogeneous or heterogeneous, price war or price collusion, entry restrictions and mergers. The explanation of the topic followed by firms' behavior in oligopoly, oligopoly models, kinked demand curve. Finally the urges for collusion and price-output policies under duopoly, obstacles to collusion and price leadership have been highlighted.

Chapter 9, is on pricing of factors and equity. Before explaining income distribution theory based on Islamic approach, the author introduced marginal productivity theory in the long-run equilibrium of the firm in a competitive labor market, followed by evaluation of the theory and factor returns in monopolistic markets. Then, the author discussed details about Islam and income distribution theory in a puritan framework. It seeks to show that the guiding principles, the institutional arrangement, distributive justice in Islam are explained in this topic. Additionally, "*amanah* or trustees", attitude towards wealth, factor returns based on justice and fair play are also included. At the same time the topic had also discussed the measures of *infaq, zakat, awqaf*, system of inheritance, role of the state; and growth versus equity.

Chapter 10, deals with Wage of Labor. It started with labor and labor market, demand and supply of labor and its determinants, and labor market equilibrium. It followed with monopsony and related issues of labor market including the issue of Islam and slavery, minimum wage law that creates unemployment, collective bargaining of labor union and its objectives. In this regard, the topic stressed on wage differences in Islamic perspective based on the following reasons: natural talent or human capital, education and training, compensating differences, market imperfections; and performance linkage including price rates and bonuses – stock options and efficiency payments. Finally, the discussion includes profit-sharing for promoting growth, equity, and stability in an economy. This is the content and spirit of the *Shari'ah* norms of unity, harmony, trust, and fair play.

Chapter 11, discusses Rent, Interest, and Profit. Since the three income shares are quite distinct in nature, source and role, the author deals with them in separate sections: A) Rent, B) Interest, and C) Profit.

A) Rent. He discussed rent based on concept and theory of rent including gross rent and economic rent; and Ricardo on rent. Next, he discussed rent in Islamic economics. It discusses the issue as it was talked over time and space in Muslim history. It is agreed that the best course for a person owning land in excess of what he uses is to give it to his landless brother free of charge. Alternatively, if rent were to be taken, there is no consensus regarding its form. Some permit only cash rent, some only crop-sharing *i.e. muzara'ah* and there are still others who allow both. However, according to the author, crop-sharing or *muzara'ah* is considered the best solution to the problem.

B) Interest. This subtopic has been discussed in detail based on: I) Conventional approaches including why interest is paid in the economic system, determination of interest rate, evaluation of the theory, liquidity preference theory, and Keynesian analysis of liquidity trap. II) Islam prohibits interest. Islam prohibits giving and taking of interest, no matter if the loan is in the form of money or commodities; it is taken for meeting consumption needs or for production; whether the loan comes from a person or an institution like the modern bank, and whether the interest is charged at a simple rate or on a compounding principle. The detail explanation *also goes* to *riba-al-fadl* and *riba-al-nasiah;* and justification for the prohibition of *riba* along with positive and negative reasons. Finally the author provided the Islamic alternative on the positive side that is to remove all instruments (including rate of interest) of injustice and exploitation from the economic scene. Islam seeks to treat all capital in trade, industry, and commerce on an equal footing, the outcome of the business being uncertain. In addition to financing based on profit and loss sharing - internal or external, the Islamic scheme admits a time value of money in deferred payment contracts, where markup or cost plus profit pricing of products is allowed.

C) Profit, rate of profit in free enterprise economics including Islamic perspective plays a central role and stands as the most significant factor for incentives in price theory, the core of economic science and basic assumption in the growth models. However, the book has not given detail explanation to the questions such as what profit is? What causes or determines it? And to whom does it belong? Moreover, the author admits that the theory of profit does not have a single unified approach. There are varieties of them, each providing at best some partial truth about the source of profit. Nevertheless, economists have invariably regarded profit as a functional return or the reward for entrepreneurial services. More interesting portion explained in this book about profit – possibly, being an economic historian, Schumpeter took a cue from the popularity of *mudarabah*, the dominant business model in the flourishing Muslim lands until the close of the fourteenth century. In *mudarabah*, both sharing profit has agreed on ratio and the loss being borne by the financier alone. From an Islamic viewpoint profit sharing schemes in big business may presumably be the solution to the economic issues.

Chapter 12, is devoted to Market, Environment, and Sustainability. Here the book explained that the performance of markets needs a fresh look. Especially because freedom of markets is assuming compulsive overtones under the rising wave of globalization crossing national borders unrestricted. There are detailed discussions on fundamental welfare theorem through production possibilities curve from a static point to a process of dynamic change in all tastes, technologies, resource availability, income distribution and assortment of goods in modern economies. The discussion is also involved with a broader context of scarcity, positive and negative externalities and efficiency norms involving marginal product of labor and capital as a criterion used. In this chapter the author has discussed several conventional analytical tools of environmental economics under perfect competition where price equals marginal cost (P = MC), under Pareto optimality including pollution and absorption, pollution based on demand and supply framework. Additionally, remedial measures assess its marginal benefits and costs based on Coase theorem (property rights creation) including criticism of the Coasian theorem *e.g.* narrow outlook, insufficient information, transaction costs, free riding, identification problem, market imperfections, *etc*.

The final part discussed the sustainability referred to maintaining the long run rate of economic growth, achieving intergenerational equity in the use of natural resources, and restricting as much as feasible the increase in population emissions from the process of production and consumption, and roll them back if possible. At the same time, the author managed to give some inputs of sustainability from an Islamic angle – a healthy, balanced economy, performance efficiency, a fair distribution of goods and services; and an effective economic organization are significant factors to keep the social solidarity and cohesion in Muslim *Ummah*. Islam explicitly relates sustainable development to three domains: economy, society and environment.

Going through the book page by page, one observes that the book would certainly serve better if:

1) The author provides meaning of commonly used conventional inputs as balance as Islamic inputs in each chapter
2) The author needs to add more Islamic inputs in every chapter, if the word "Islamic perspective" is to be maintained as a title of the book
3) Some chapters need rearrangement in order to suit with the title of the book as an "introduction to Microeconomics", because (based on my view) certain chapters e.g. chapter 12, goes beyond the scope
4) It would have been better if examples used in the text are more recent and international exemplary rather than surrounded within Indo-Pak Continent.
5) In spite of very careful proof reading still some typing errors are there. For example on page 374, reference no. 24 has been written as 20050 instead of 2005
6) Islamic bibliographies are poorly selected, mostly authors Hasan, Zubair, Sayyid Tahir and a few others have been repeated.

The approach of this book is more on conventional pattern and adds a little substance to "Islamization process of Knowledge". Therefore, On the whole, the book still cannot be an asset in the area of "Islamic Economics" unless the author adds sufficient Islamic inputs in the text as much as conventional inputs are provided. However I do pray that may Almighty Allah (SWT) bless the author with best and reward him for the work done.