World Academy of Science, Engineering and Technology
International Journal of Economics and Management Engineering
Vol:17, No:05, 2023

Finding the Theory of Riba Avoidance: A Scoping Review to Set the Research Agenda

Authors : Randa Ismail Sharafeddine

Abstract : The Islamic economic system is distinctive in that it implicitly recognizes money as a separate, independent component of production capable of assuming risk and so entitled to the same reward as other Entrepreneurial Factors of Production (EFP). Conventional theory does not identify money capital explicitly as a component of production; rather, interest is recognized as a reward for capital, the interest rate is the cost of money capital, and it is also seen as a cost of physical capital. The conventional theory of production examines how diverse non-entrepreneurial resources (Land, Labor, and Capital) are selected; however, the economic theory community is largely unaware of the reasons why these resources choose to remain as non-entrepreneurial resources as opposed to becoming entrepreneurial resources. Should land, labor, and financial asset owners choose to work for others in return for rent, income, or interest, or should they engage in entrepreneurial risk-taking in order to profit. This is a decision made often in the actual world, but it has never been effectively treated in economic theory. This article will conduct a critical analysis of the conventional classification of factors of production and propose a classification for resource allocation and income distribution (Rent, Wages, Interest, and Profits) that is more rational, even within the conventional theoretical framework for evaluating and developing production and distribution theories. Money is an essential component of production in an Islamic economy, and it must be used to sustain economic activity.

Keywords : financial capital, production theory, distribution theory, economic activity, riba avoidance, institution of participation
Conference Title : ICMD 2023 : International Conference on Microeconomics of Development
Conference Location : Sydney, Australia
Conference Dates : May 11-12, 2023