

University of Management and Technology

Dr Hasan Murad School of Management (HSM)

ISLAMIC FINANCE FN710

Program	MS Finance
Credit Hours	3
Duration	15 weeks/30 sessions
Prerequisites	Basic Banking & Finance
Faculty	
Resource Person	
Counselling Timing & Contact	

Capsule Statement

This course will discuss Finance which is re-emerging field as a financial system based upon Islamic Ideology. Islamic financial theories are founded in avoidance of concentration of wealth, prohibition of Riba, elimination of income inequality and poverty reduction along with welfare (Falah) objectives i.e. social well being of the society at large. At a macro level, the Central Bank of a country has the overall responsibility to establish institutions and frame such policies which are in accordance with the principles laid down in Sharia, Quran and also in line with Sunnah and teachings of the Prophet (PBUH). The course includes the theories and policies of Islamic Finance including, Investments, Financing, Trade, Commerce and Banking in the Micro/Macro-Economic framework. At a basic level, it covers ethical dimension of Islamic finance; the financing mechanisms used in; and the supervision of Islamic institutions both by the central banks and by the Shari'ah supervisory boards. A number of case studies will be examined as well as key research studies relating to the most critical issues in Islamic finance. Students will be able to analyze the ethical foundations of Islamic finance and appreciate its place in the wider understanding of Islam and its adherents. The important objective is introducing this course is to familiarize students with the Islamic ideology regarding finance and to keep them aware of this re-emerging field.

Learning Objectives

This is a basic course to introduce the basic concepts of Islamic Finance, both at the theoretical as well as practical levels. The course aims at introducing the evolution of Islamic Economics & Finance and its differences with the western thinking. The course will enable the students analyze the issues both at the theoretical and policy sides of Islamic Money and Capital Finance and their appropriate solutions.

Learning Methodology

Class lectures, home assignments, quizzes and presentations by students, term paper

Assessments

All of the activities held during the session will be evaluated; the final grades for the course will be as follows:

Assignment	10%
Quizzes	10%
Presentation	10%
Term Paper	10%
Mid-Term	20%
Class Participation	05%
Final	35%
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Total	100%
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COURSE TEXT BOOK:

Iqbal, Zamir / Mirakhor, Abbas (2011) *An Introduction to Islamic Finance: Theory and Practice*, 2nd Edition, Wiley® Finance Publishing.

RECOMMENDED TEXT BOOKS

1. *Usmani, Muhammad Taqi. (1998) An introduction to Islamic finance*, published by Idaratul Ma'arif, Karachi, Pakistan
2. *Ayub, Muhammad, (2007) Understanding Islamic finance / Muhammad Ayub* John Wiley & Sons, Hoboken, N.J
3. *Kettel, l Brian B. (2011). An Introduction to Islamic Banking and Finance/ Brian B Kettell* Wiley Finance
4. *Tiby, Amr Mohamed El (2011). Islamic Banking: How to Manage Risk and Improve Profitability/, Amr Mohamed El Tiby* Wiley Finance
5. *Kettel, l Brian B. (2011). Case Studies in Islamic Banking and Finance/ Brian B Kettell* Wiley Finance

Course Outline

Session	Topic	Activities	Helping/Extra Material
1&2	Introduction	<ul style="list-style-type: none"> • Foundational Concepts • Islam's Concept of Justice • Shari'ah—the Law • Islamic Economic and Financial Systems • Modern History of Islamic Banking and Financial Services • Recent Trends in Islamic Financial Markets 	Handouts & Research Articles
3&4	The Economic System	<ul style="list-style-type: none"> • Institutional Perspective of Islamic Economics • Core Economic Institutions in Islam • Economic Justice in Islam • Significance of Barakah • The Model of Man • Society • The Polity 	Handouts & Research Articles
5&6	Riba vs. Rate of Return	<ul style="list-style-type: none"> • The Concept of Riba in Islam • Definition of Riba • Rationale for the Prohibition of RIBA • Promoting Profit and Risk Sharing • Lack of Theory of Interest • Appendix A: Usury, Riba and Interest: A Historical Perspective • Judaism and Interest • Christianity and Interest • Islam and Interest • Interest and Modern Economics 	Handouts & Research Articles
7&8	Financial Instruments	<ul style="list-style-type: none"> • Transactional Contracts • Financing Contracts • Intermediation Contracts • Appendix B: Islamic Instruments: Historical Background 	Handouts & Research Articles
9&10	The Islamic Financial System	<ul style="list-style-type: none"> • Financial Systems: A Functional View • Components of the Islamic Financial System • Effect on Savings and Intermediation 	Handouts & Research Articles

11&12	The Stability of Islamic Financial System	<ul style="list-style-type: none"> • What is Financial Stability? • Financial Stability of Islamic Finance • Conclusion 	Handouts & Research Articles
13&14	Islamic Financial Intermediation and banking	<ul style="list-style-type: none"> • Financial Intermediation by Islamic Banks • Sources and Uses of Funds • Distinctive Features of the Islamic Mode of Intermediation and Banking • Islamic Banking: Theory vs. Practice • Critical Issues with Current Practice 	Handouts & Research Articles
15&16	Mid-Term		
17&18	Capital Markets	<ul style="list-style-type: none"> • Stock Markets and Islamic Funds • Development of Equity Markets • Securitized Market: Sukuk • Non Bank Financial intermediation 	Handouts & Research Articles
19&20	Performance of Islamic Financial Services	<ul style="list-style-type: none"> • The Efficiency of Islamic Banks • Performance of Islamic Capital Markets • Corporate Social Responsibility • Performance in Crisis Period • Bank Failures 	Handouts & Research Articles
21&22	Financial Engineering	<ul style="list-style-type: none"> • Financial Engineering in the Islamic Financial System • Lessons from the Financial Crisis • Challenges for Financial Engineering in Islamic Finance • Conclusion • Appendix C Potential Applications of Financial Engineering • Synthetic Currency Forward Contract • Currency SWAP • Rate-of-Return Swap • Development of an Islamic Benchmark 	Handouts & Research Articles
23&24	Regulation of Islamic Financial Institutions	<ul style="list-style-type: none"> • Introduction • Distinctive Features of Regulating IFIs • IFIs as Universal Banks • Capital Adequacy Requirement for IFIs • Bank Supervision and Market Discipline • Regulation of IFIs: Looking Forward • Post-Crisis Regulatory Environment and Impact on IFIs 	Handouts & Research Articles

25&26	Corporate Governance	<ul style="list-style-type: none"> • An Islamic Perspective: Stakeholder-Oriented Governance • The Significance of Trust • Corporate-Governance Issues of IFIs • Lessons from the Current Financial Crisis 	Handouts & Research Articles
29&30	Globalization and its Challenges/Issues and Challenges	<ul style="list-style-type: none"> • Development of Theoretical Foundation • Development of Economic Institutions • Reluctance to Promote Risk Sharing • Financial System, Architecture and Infrastructure • Limited Market-Based Financial Intermediation • Expanding Scope of Financial Intermediation • Wealth Management • Risk Management Framework • Regulatory and Governance Issues 	Handouts & Research Articles

Articles to be discussed

Islamic Economic system

L. Raimi, H.I. Mobolaji, (2008), "Imperative of economic integration among Muslim countries: Lessons from European globalisation", *Humanomics*, Vol. 24 Iss: 2 pp. 130 - 144

Timur Kuran (1986) "The Economic System in Contemporary Islamic Thought: Interpretation and Assessment" *International Journal of Middle East Studies*, Vol. 18, No. pp. 135-164

Khadidja khaldi, Amina Hamdouni(2011) "Islamic Financial Intermediation: Equity, Efficiency and Risk" *International Research Journal of Finance and Economics*, Issue 65

Riba

Ashfaq Ahmad^{1*}, Kashif-ur-Rehman² and Asad Afzal Humayoun (2011)" Islamic banking and prohibition of Riba/interest" *African Journal of Business Management* Vol. 5(5), pp. 1763-1767,

Mohammad Zakir Hossain, (2009), "Why is interest prohibited in Islam? A statistical justification", *Humanomics*, Vol. 25 Iss: 4 pp. 241 - 253

Jasim Al-Ajmi, Hameeda Abo Hussain, Nadhem Al-Saleh, (2009)," Decisions on capital structure in a Zakat environment with prohibition of Riba The case of Saudi Arabia ", *The Journal of Risk Finance*, Vol. 10 Issue: 5 pp. 460 - 476

M. Mansoor Khan, (2008), "Main features of the interest-free banking movement in Pakistan (1980-2006)", *Managerial Finance*, Vol. 34 Iss: 9 pp. 660 - 674

Murabaha

Khalil Mohammed Khalil, Zurina Shafii 2012) ""Commodity Murabaha: The Theory-Practice Gap" *Journal of Advanced Social Research* Vol.2 No.3, pp 126-138

Gholamreza Zandi¹, Noraini Mohd. Ariffin (2011) "Some Issues on Murabahah Practices in Iran and Malaysian Islamic Banks " irep.iium.edu.my

Yousif Ashour (20XX) " The Importance of Murabaha in Long Term Finance Programs in Islamic Banking Industry" *The American Journal of Islamic Social Sciences*

Mudaraba

Masudul Alam Choudhury (2001) "Islamic venture capital :A critical examination" *Journal of Economic Studies*, Vol. 28 No. 1, 2001, pp. 14-33.

Wasim ul Rehman, Prof. Dr. Chaudhary Abdul Rehman , Prof. Dr Hafeez ur Rehman, Ayesha Zahid (2011) "Intellectual Capital Performance and its impact on Corporate Performance: an empirical evidence from Mudaraba Sector of Pakistan." *Australian Journal of Business and Management Research* Vol.1 No.5 [08-16] |

Hasan, Zubair(2002) "Mudaraba as a mode of finance in Islamic banking: theory, practice and problems" MPRA Paper No. 2951, <http://mpa.ub.uni-muenchen.de/2951/>

Musharaka

Gaffar Abdalla Ahmed, (2008), "The implication of using profit and loss sharing modes of finance in the banking system, with a particular reference to equity participation (partnership) method in Sudan", *Humanomics*, Vol. 24 Iss: 3 pp. 182 - 206

Masudul Alam Choudhury (2001) "Islamic venture capital :A critical examination" *Journal of Economic Studies*, Vol. 28 No. 1, 2001, pp. 14-33.

Anjum Siddiqui, (2008), "Financial contracts, risk and performance of Islamic banking", *Managerial Finance*, Vol. 34 Iss: 10 pp. 680 - 694

Diminishing Musharaka

Rosylin Mohd Yusof, Salina H. Kassim, M. Shabri A. Majid, Zarinah Hamid, (2011), "Determining the viability of rental price to benchmark Islamic home financing products: Evidence from Malaysia", *Benchmarking: An International Journal*, Vol. 18 Iss: 1 pp. 69 - 85

Dzuljastri Abdul Razak, Fauziah Md Taib, (2011) "Consumers' perception on Islamic home financing: Empirical evidences on Bai Bithaman Ajil (BBA) and diminishing partnership (DP) modes of financing in Malaysia", *Journal of Islamic Marketing*, Vol. 2 Iss: 2, pp.165 – 176

IJARA

Fahad Zafar, (2012), "Ijarah Contract: A Practical Dilemma", *Journal of Islamic Accounting and Business Research*, Vol. 3, Iss: 1 pp. 67 - 69

Rusni Hassan* and Aishath Muneeza**Adnan Yusoff (2011) "*Legal stains in the Malaysian Islamic banking practices of al Ijarah Thumma Al Bai' (AITAB)*" <http://www.wbiconpro.com/606-Aishath.pdf>

Ros Aniza Mohd. Shariff and Abdul (2003) "An Exploratory Study Of Ijarah Accounting Practices In Malaysian Financial Institution"s. American Journal of Islamic Social Sciences Vol. 5 No. 3

ISTISNA

M. Mansoor Khan, M. Ishaq Bhatti, (2008), "Development in Islamic banking: a financial risk-allocation approach", *The Journal of Risk Finance*, Vol. 9 Iss: 1 pp. 40 - 51

Muhammad Anas Zarqa (1997) "Istisna' financing of infrastructure projects" *Islamic Economic Studies* vol. 4, no. 2, May 1997

Islamic financial system

Alsadek Gait, Andrew Worthington, (2008), "An empirical survey of individual consumer, business firm and financial institution attitudes towards Islamic methods of finance", *International Journal of Social Economics*, Vol. 35 Iss: 11, pp. 783 - 808

Abdul Ghafar b. Ismail, Ismail b. Ahmad "Does the Islamic financial system design matter?" *Humanomics*, Vol. 22 No. 1, 2006 pp. 5-16

Ismail Wisham, Aishath Muneeza, Rusni Hassan, (2011), "Special legal features of the Islamic <IT>wa'd</IT> or pledge: Comparison with the conventional law on promise within the sphere of Islamic finance", *International Journal of Law and Management*, Vol. 53 Iss: 3 pp. 221 - 234

Sherin Galal Abdullah Mouawad, (2009), "The development of Islamic finance: Egypt as a case study", *Journal of Money Laundering Control*, Vol. 12 Iss: 1 pp. 74 - 87

Stability /Risk Management of Islamic Finance

Martin Čihák and Heiko Hesse (2008) "Islamic Banks and Financial Stability: An Empirical Analysis" © 2008 International Monetary Fund WP/08/16

Abdul Rahman Zaki, Abdul Sattar, Muhammad Manzoor (2011) "Risk Mitigation in Islamic Finance through Policies and Regulatory Model- A Way to Long-Term Stability" *International Research Journal of Finance and Economics*

Islamic Financial Intermediation

Badrul Hisham Kamaruddin, a Mohammad Samaun Safab and Rohani Mohdc, (2008) "Assessing Production Efficiency of Islamic Banks and Conventional Bank Islamic Windows in Malaysia" *International Journal of Business and Management Science*, 1(1): 31-48,

M. Shahid Ebrahim Tan Kai Joo (2001) "Islamic banking in Brunei Darussalam " *International Journal of Social Economics*, Vol. 28 No. 4, ,pp. 314-337

Khadidja khaldi, Amina Hamdouni (2011) "Islamic Financial Intermediation: Equity, Efficiency and Risk" *International Research Journal of Finance and Economics*, Issue 65

Islamic Capital Market

Tarek H. Selim, (2008), "An Islamic capital asset pricing model", *Humanomics*, Vol. 24 Iss: 2 pp. 122 – 129

Rodney Wilson, (2008), "Innovation in the structuring of Islamic <IT>sukuk</IT> securities", *Humanomics*,

M. Shabri Abd. Majid, Rosylin Mohd. Yusof, (2009), "Long-run relationship between Islamic stock returns and macroeconomic variables: An application of the autoregressive distributed lag model", *Humanomics*, Vol. 25 Iss: 2 pp. 127 - 141

Performance of Islamic Financial services

Anjum Siddiqui, (2008), "Financial contracts, risk and performance of Islamic banking", *Managerial Finance*, Vol. 34 Iss: 10 pp. 680 - 694

Rehana Kouser, Irum Saba (2012) "Gauging the Financial Performance of Banking Sector using CAMEL Model: Comparison of Conventional, Mixed and Pure Islamic Banks in Pakistan" *International Research Journal of Finance and Economics* Issue 82

Kablan, Sandrine and Yous_, Ouidad (2011) "Performance of Islamic Banks across the world: an empirical analysis over the period 2001-2008 MPRA Paper No. 28695

Islamic Financial Engineering

Alsayed, N. (2009). Islamic Financial Engineering and Methodology In Achieving Therapeutic Process of Global Financial System: Shari'Ah Objectives vs. Industry Practitioners. Retrieved from http://mpr.ub.uni-muenchen.de/20081/1/ISLAMIC_financial_engineering_and_Economics.pdf

M. Shahid Ebrahim Tan Kai Joo (2001) "Islamic banking in Brunei Darussalam " International Journal of Social Economics, Vol. 28 No. 4, ,pp. 314-337.

Mohammed Obaidullah (1998) " Financial Engineering with Islamic Options" Islamic Economic Studies Vol. 6, No. 1

IFIs Regulations

Emily Sarah Hersh (2011)" Islamic Finance and International Financial Regulation" Journal of International Service

Dahlia El – Hawary, Wafik Grais,Zamir Iqbal (2004) "Regulating Islamic Financial Institutions: The Nature of the Regulated" World Bank Policy Research Working Paper 3227, March 2004

Islamic Corporate Governance

Masudul Alam Choudhury, Mohammad Ziaul Hoque, (2006) "Corporate governance in Islamic perspective", Corporate Governance, Vol. 6 Iss: 2, pp.116 – 128

Racha Ghayad, (2008) "Corporate governance and the global performance of Islamic banks", Humanomics, Vol. 24 Iss: 3, pp.207 – 216

Samy Nathan, Vincent Ribière, (2007) "From knowledge to wisdom: the case of corporate governance in Islamic banking", VINE, Vol. 37 Iss: 4, pp.471 – 483

Globalization and Challenges.

M. Mansoor Khan ,M. Ishaq Bhatti "Islamic banking and finance: on its way to globalization"Managerial Finance Vol. 34 No. 10, 2008 pp. 708-725

Anjum Siddiqui, (2008) "*Financial contracts, risk and performance of Islamic banking*", Managerial Finance, Vol. 34 Iss: 10, pp.680 – 694

Salam

Ahmad Kaleem, Rana Abdul Wajid, (2009),"Application of Islamic banking instrument (Bai Salam) for agriculture financing in Pakistan", British Food Journal, Vol. 111 Iss: 3 pp. 275 - 292

Aishath Muneeza, Nik Nurul Atiqah Nik Yusuf, Rusni Hassan, (2011),"The possibility of application of salam in Malaysian Islamic banking system", Humanomics, Vol. 27 Iss: 2 pp. 138 - 147