



اَوْنُوْرَسِيْتِيْ تِيْكُوْلُوْكِ مَارَا
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STUDENT DECLARATION

بسم الله الرحمن الرحيم

We hereby acknowledge that in fact all of the work in the preparation of this academic work is the result of our own efforts and works except as expressly stated.

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1.0 INTRODUCTION

Riba known as interest or usury is fundamentally prohibited both by the Qur'an and the Sunnah. On the concept of interest, there is no doubt or dispute among Muslims that it is absolutely prohibited. In a modern economy in which interest is a fundamental part, this can lead to a necessary change of objectives and perspectives when working within the framework of Islamic economics.

One of the main issues of prohibiting interest is that interest rates are used to regulate demand in modern finance. A particular interest rate is equivalent to a price for a particular investment. With no interest, credit becomes impossible to handle under traditional capitalist models. Islamic economists propose replacing interest rates with profit sharing, selling goods for their cost, or even leasing. All of these alternatives would necessarily make certain speculative practices and artificial interest rate manipulation practices obsolete. However, Islamic economists agree that this would actually be a good thing. One possible alternative consists in the creditor acting as a partner in a contract between an investor and an entrepreneur. Basically, in Islamic economics banks must be able to generate returns through investments in productive projects rather than relying solely on interest rates.

International economics also rely heavily on interest rates. One of the main problems that plague economies, especially those of third-world countries, is the presence of a crippling foreign debt. Corrupt leaders, or incompetent managers can often borrow money without restrictions, and international financial institutions lend it without reservations because interest guarantees a return on capital. In these cases, Muslims find it objectionable that the lenders take absolutely no responsibility in making sure that the projects in which the money will be used are viable and competently managed. This results in a debt that is exploitative and oppressive, and it does not benefit society in any tangible way. It also results in a stunted growth and development due to having to service the crippling debt incurred. Interest-free debt