

UNIVERSITI TEKNOLOGI MARA

**THE EFFECTIVENESS OF THE
IMPLEMENTATION OF DINAR AND
DIRHAM IN THE ISLAMIC
ECONOMIC SYSTEM:
A CASE STUDY IN KELANTAN
GOLD TRADE (KGT)**

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ABSTRACT

The dinar and dirham can last decades to become a formidable medium of exchange, as gold and silver have the highest suitability as money rather than commodities. However, some people believe there are alternative currencies besides gold and silver. Starting to implement and use the dinar and dirham currencies is part of muamalah activities. The wheel of Islamic economics is driven by the dinar and dirham cycle, where a currency is used as a medium of exchange, storage, or fair value of wealth. so that the period of socialization and education for the community must be in collaboration with the other factors in various elements of society, the world of education, and most importantly the policies made by the government are in line with the principles of Islamic economics in multiple aspects of life. Therefore, this study aims to determine The Effectiveness of implementing dinar and dirham in the Kelantan Gold Trade Sdn Bhd. To complete this study, the researcher has carried out an intensive step by using the qualitative research method. The researcher used semi-structured interviews to obtain information from only one respondent from the manager of Kelantan Gold Trade Sdn Bhd. Based on the results obtained, the study found that the implementation of dinars and dirhams in Kelantan has not yet reached such an effective level and must be improved its effectiveness. This is due to the lack of awareness and knowledge from the community, especially in Kelantan, regarding the storage of dinars and dirhams as savings. The researcher recommended that the Kelantan Gold Trade devise additional strategies to leverage dinar and dirham savings within the community.

Keywords: Dinar and dirham, Effectiveness, Medium of exchange, Currency, Awareness, Kelantan Gold Trade (KGT)

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CHAPTER ONE

INTRODUCTION

1.1 Research Background

Monetary instability and financial crisis can have serious consequences for both individual lives and the global economy. Since the collapse of the fixed exchange rate regime, financial crises have reoccurred involving the so-called 'economic bubbles' that caused market crashes. For insight into such a predicament, we must look at the history of the monetary system, notably the Bretton Woods System. The dinar and dirham are the most well-known currencies used today. The gold dinar and silver dirhams were designed to serve a specific purpose. They were the currencies of the Prophet's time (PBUH), but they were not Islamic. The Prophet continued to sanction the issuance of such coins, emphasizing the Maslahah represented by the dinar and dirham. However, the war's failure and the political circumstances created a shift in the dinar, and dirham money was abolished as the Ottoman Empire disintegrated. (Perdaryenko, 2019)

According to Abdullah (2020), the dinar and dirham were two distinct currencies that would be evaluated based on their metal composition and purity, the supply and demand for gold and silver currency, and whether a coin could be used to pay Islamic taxes and fees. In a bimetallic commodities standard, when a coin with a low intrinsic value circulates alongside one with the same extrinsic value but a higher intrinsic worth, the poor currency drives out the good money. Gold dinars and silver dirhams are not commonly used as a means of exchange in Muslim countries. Gold dinars exhibit all the characteristics of good money: they are durable, divisible, mobile, homogeneous, stable, valuable, and cannot be destroyed. As consequently, the silver dirham can attract deposits while simultaneously preventing its holders against depreciation. As a result, owning a silver dirham will no longer be confined to a commodity, but will also involve ownership of a monetary asset. The silver dirham has a real worth within its nominal value and is a good savings tool for the poor, shattering the global banking system's