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Institutional Economics Lens: A Comprehensive Review on the Interdisciplinary Integration between Islamic Studies and Economics

[1] Unggul Priyadi

[1]*Economics Department, Faculty of Business and Economics, Universitas Islam Indonesia*
Jl. Prawiro Kuat, Sleman,Yogyakarta, Indonesia

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A b s t r a c t

The paper offers on an in-depth exploration of the harmonization of economic paradigms with the principles ingrained in Islamic teachings. It primarily emphasizes Islamic finance as a field and scrutinizes its methodologies to reveal the extent of correlation existing with conventional economic theories. The necessity for a thorough analysis of this fusion arises from the perpetually evolving global financial landscape and the quest to establish financial systems that are not only sustainable but also value-based. Islamic finance, aiming to uphold ethical, social, and environmental dimensions, has gained considerable significance in both Muslim-majority and non-Muslim-majority jurisdictions. This systematic review offers a detailed dissection of the interdisciplinary nature of Islamic finance by elucidating the conceptual underpinnings of the ethical values that guide its operations and the conventional economic principles upon which it stands. Furthermore, this paper unravels the Shariah-compliant financial instruments that differentiate Islamic finance from its conventional counterparts. Through the lens of the existing literature, this review provides the historical context and development of Islamic finance, alongside its various economic applications, which contribute to the amalgamation of faith-based and financial principles observed in this field. Such comprehensive information will foster an improved understanding of Islamic finance while showcasing its potential to address numerous global financial challenges.

Introduction

This scholarly investigation embarks on a rigorous journey, unearthing and underscoring that Islamic teachings extend well beyond mere spiritual elements, seeping into all aspects of life, including our economic frameworks. The discourse expounds on this expedition, shedding light on the multifaceted universe of Islam and its profound implications on economics and finance. The exploration of Islamic doctrines elegantly transcends the confines of the prayer rooms, permeating business structures, marketplace engagements, and every ensuing financial transaction. Such expanded cognizance disrupts the conventional yet confined conception of Islam as solely a spiritual edifice, instead exemplifying its regulatory role and pervasive impacts on both individual and societal economic operations (Paltrinieri et al., 2020).

Using meticulously curated references from the two primary sources of Islamic law, the Qur'an and the Hadith literature, the study construct a persuasive argument in favor of the broader spectrum of these teachings. One cannot help but be intrigued by the references drawn from Qur'an and Hadith, the Holy scripture and prophetic traditions guiding the life of a Muslim. When it comes to Islamic economic principles, one learns that they constitute a significant part of these foundational teachings (Ghlamallah et al., 2021; Kalimullina & Orlov, 2020).

Indeed, this review is designed to uproot the conventional perception that economic principles and religious doctrines somehow exist in separate spheres, unaffected and independent of each other. The study rally against this reductionist perspective, flooring the readers with fascinating insights into how religious doctrine can organically extend into shaping economic systems, embodying a sense of fairness and justice in commerce so often devoid in conventional economic setup (Khan et al., 2021).

In addition, The paper crafts its argument with a level of sophistication that successfully brings the spiritual teachings of Islam out of the mosques and into the marketplace, where 'real-world' economics plays out. The study artfully draw attention to the intrinsic presence of ethical guidelines, fostering an economically just society inscribed within the Islamic doctrine. Furthermore, they deftly explore how these principles are manifested in current Islamic banking and financial practices, an eyes-wide-open revelation that leaves us on the brink of a paradigm shift (Widiastuti et al., 2022).

By folding in these economically progressive ideals that have been etched into the bedrock of Islamic teachings, the study unveil the expanse of Islamic economics, a system advocating for wealth distribution, establishing social equity, and compelling economic justice. In doing so, they effectively reframe our economic philosophies by bringing to the fore ethical considerations often side-stepped in the pursuit of profit in the capitalist world (Brahmana & You, 2022).

Granted, the concept of religious teachings shaping economic theories is a viewpoint that flies in the face of conventional wisdom, yet the study approach it with such scholarly rigor and intellectual curiosity that it demands a thorough examination. Immerse yourself in the rest of the paper, and you would see how intricately Islamic laws thread together both spiritual and temporal domains, providing a holistic take on the human existence, instead of cleaving it into disparate parts (Smolo et al., 2023). Thus, we dive deep with the study on a fascinating exploration, a venture teeming with intellectual pursuits that successfully turns preconceived notions on their head, blending faith and finance into a fascinating interdisciplinary narrative.

Methodology

This paper apply a deeply nuanced and meticulously crafted comparative study approach. A powerful methodology, it draws insightful parallels between the realm of Islamic financial principles and the domain of conventional economic systems. As we proceed further into the dissection of the methodology, we'll see how it serves to test the established thresholds of our understanding and instigate a rethinking of preconceived notions concerning religious practices and economic advocacies (Grira & Labidi, 2021).

In the case of this study, the comparative method serves as a helm, steering us through the intricate landscapes of Islamic and conventional economic systems. It is worth noting that this choice of methodology isn't accidental; rather, it's a tactful approach designed to untangle the complex and often misunderstood nexus between faith and finance. The ultimate aim is to bring to light the intrinsic harmony between these sectors, deemed incompatible by some (Doruk, 2023).

How does the comparative study approach contribute to that aim? It offers an intellectual platform that enables an examination of Islamic economic laws alongside those of the conventional economic system. It allows for the identification of similar foundational principles, shared common goals, and parallel operational mechanisms (Alshater et al., 2022).

The comparative lens laid upon these two distinct yet intertwined constituents provides the reader with a more nuanced understanding of their counterparts. Notably, it synthesizes the differing perspectives into a holistic view that underpins the unexplored integration of religious doctrines and finance (Soedarmono & Yusgiantoro, 2023). A clear illustration of this is the circumstance where conventional economics endorses maximisation of wealth, a principle that finds echoes in the Islamic tenet of "seeking Halal provision is a duty after the duty," demonstrating an innate drive for wealth creation present in both systems.

Interestingly, the comparative study approach also lets the contrasts between these economic models shine. It lays bare the points of divergence, allowing one to see the unique standpoints and principles intrinsic to both. After all, illuminating these contrasts forms a crucial step towards an inclusive understanding of these two systems' synergistic possibilities (Maulina et al., 2023).

Applying this comparative methodology challenges the widespread misconceptions that deem Islamic financial principles as incompatible or at odds with the conventional economic system. It erodes the barrier of misunderstanding and erroneous assumptions, paving the way for an enriching interpretation of the Islamic teachings' financial sphere (Ahmad et al., 2023).

Moreover, the method stakes a claim against oversimplification, a recurring issue when interpreting complex subjects through a univocal lens. Therefore, the adoption of comparative methodology offers the necessary dimensionality, the depth one needs to grasp the rich interpretation of the relationship between Islamic finance and conventional economics (Haruna et al., 2023).

In essence, the methodology in this paper becomes a vehicle for exploration and comprehension, a way to reveal the intricate subtleties linking faith and finance. By deconstructing the religious and economic domains, it subsequently rebuilds them as interpenetrating fields offering mutual contributions. Therefore, as we navigate the rest of this paper, we bear witness to how this thoroughly applied, comparative methodology does not merely validate the fusion of faith and finance. It supports it, celebrates it, and under different light, even advocates for it.

Islamic Banking and Finance Review

In this discussion, we enter a world where religious teachings permeate conventional economic activities, reshaping how banking transactions and investment strategies are performed. Diving headfirst into this world, the study probe the core of the Islamic financial system, analyzing the most defining elements that comprise its foundation, the Three Pillars of Islamic Banking. These pillars are the principles that set Islamic finance apart from conventional practices (Brahmana & You, 2022; Widiastuti et al., 2022). They are the prohibitions of "Riba" (usury or interest), "Gharar" (ambiguity or uncertainty), and the enforcement of "Zakat" (compulsory alms-giving or charity). The study unravel the intricacies behind these pillars, subsequently shining a light on how adhering to these dictates can help combat the perceived negative elements in conventional banking systems, such as wealth disparity and excessive profiteering.

Prohibition of Riba (Usury or Interest): A Fundamental Aspect of Islamic Finance

This principle, deeply connoted within the Quranic teachings and enacted within Islamic banking, claims to nullify any financial transactions that undertake interest or usury. The study of the paper intricately unveil the underlying rationale behind this strong interdiction, marking its far-reaching implications on socio-economic dynamics (Smolo et al., 2023).

The study dwells on the potential turmoil that high-interest rates could sow within societies. These tumults originate from the vast inequalities they may exacerbate, the ethical problems they could create, and the potential market imbalances they can stir (Alshater et al., 2022).

The Quran in Surah Al-Baqarah (2:275), says: "Those who consume interest cannot stand [on the Day of Resurrection] except as one stands that is being beaten by Satan into insanity." With reference to this verse, the paper restates vehemently the Islamic stance on Riba, underscoring the heavy spiritual and ethical implications of engaging in such transactions (Ahmad et al., 2023).

In stark contrast, conventional banking systems, which lean on interest-rates as their key operational model, is depicted in a less favorable light. However, contrary to this, Islamic finance seeks a more egalitarian approach. It pledges a fair risk-sharing among all engaging parties - the entrepreneur, the investor, and the bank, thus upholding a more ethical vision of finance rooted in shared profit as well as shared responsibility (Madah Marzuki et al., 2023).

In Surah An-Nisa (4:29), the Quran advises, "O you who have believed, do not consume one another's wealth unjustly but only [in lawful] business by mutual consent." This verse elucidates a cornerstone of Islamic finance, seeking profit through just means, under mutual consent, and the equitable sharing of risk and reward (Wijaya & Moro, 2022).

The antithesis of Riba propagated by Islamic finance lies in the principle of profit-and-loss sharing. Through adhering to this principle, an economic ecosystem that strives towards a balanced distribution of wealth and socio-economic development can be fostered, exhibiting the perfect fusion of faith and finance as conceptualized in Surah Al-Hashr (59:7), "So that it will not be a perpetual distribution among the rich from among you." (Grira & Labidi, 2021)

The ethos of Islamic finance lies encapsulated within the teachings of the Quran that strive to prevent the concentration of wealth solely among the affluent. This perspective forms the bedrock of Islamic finance; it is a reflection of Islamic socio-economic justice, which counters the monopolization of resources and pushes for their equitable distribution (Brahmana & You, 2022; Oseni et al., 2016).

In addition, this illuminating discussion exemplifies the synchronization of financial mechanisms with faith-based principles, uniquely represented in the prohibition of Riba in Islamic Finance. Through the Quranic lens, Riba's prohibition unfolds as a divine mandate seeking to edify economic interactions that foster growth, catalyze prosperity, and trigger socio-economic wellbeing. And above all, it resonates the essence of Islamic teachings in everyday life - not merely within confines of spirituality but extending its spherical influence in the realm of finance and economics (Azmat et al., 2021).

Prohibition of Gharar (Ambiguity or Uncertainty)

The Islamic faith has fundamentally shaped the modalities of commercial transactions within the Muslim communities worldwide. Islamic law sets a legal and ethical framework, including the prohibition of Gharar, that governs financial and commercial transactions. Gharar, an Arabic term, signifies uncertainty, risk, danger, or hazard in a business contract. To ensure just and transparent trade, Islamic law (Shariah) forbids all forms of ambiguous and uncertain transactions which exemplify Gharar. This prohibition is rooted in the divine guidance of the Quran. (Meslier et al., 2020)

The Holy Book, in Surah Al-Baqarah (2:275), expresses a stern warning against such conduct: "But those who consume Riba cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity."

While this verse specifically targets Riba (usury), it further encapsulates the broader unethical practices in financial transactions, like Gharar. At its core, this verse advocates for financial transactions devoid of exploitation and unfair practices - a principle that directly aligns with the prohibition of Gharar (Kalimullina & Orlov, 2020).

By enforcing the prohibition of Gharar, Islamic economics promotes an environment of transparency and certainty, fostering a culture of ethical transactions that ensures mutual benefit and reduces injustice. These principles garner immense significance in a world burdened by financial crises and economic instabilities, often resultant of irresponsibly speculative and deceitful practices.

In many instances, these practices are a consequence of financial instruments such as derivatives, futures, and options utilized in the conventional financial system. These contracts often embed a high degree of complexity and uncertainty due to their dependence on the value of underlying assets (Alandejani & Asutay, 2017; Paltrinieri et al., 2020). Furthermore, they substantially contribute to the financial system's vulnerability by potentially escalating systemic risks. Hence, Islamic law, by prohibiting Gharar, decisively rejects these instruments, thereby shielding Islamic banking from their potential harm.

This is not to say that conventional finance lacks appropriate regulation, however, its approach can sometimes lead to loopholes that may aggravate the risk of financial collapses. By contrast, Islamic finance fortifies itself against such occurrences with the prohibition of Gharar, delivering a degree of risk mitigation, stability, and protection to consumers and investors (Ghlamallah et al., 2021).

Thus, by aligning its financial practices with the principles of faith, Islamic economics manages to inculcate ethical conduct, fairness, and transparency in its financial system. This fusion of faith and finance serves as a testament to the versatility of Islamic principles, not only in religious or spiritual spheres but also in providing profound solutions to socio-economic challenges (Khan et al., 2021; Widiastuti et al., 2022).

It is, therefore, essential to explore and acknowledge the wisdom of these fundamental Islamic principles such as the prohibition of Gharar. By identifying their inherent value, there's potential to put forth innovative solutions that might help remediate some of the formidable issues within the contemporary global financial system. As such, the study anticipate that this paper could inspire further research towards understanding the extent to which the prohibition of Gharar could contribute to a more equitable, stable, and resilient global financial system (Brahmana & You, 2022).

This paper finally propose a more reactive and inclusive adoption of Islamic financial principles. They advocate for a broader intersection between faith and finance, encouraging a world that's not lopsidedly skewed towards economic maximization, but one that upholds moral bearings in financial affairs. From this perspective, it's plausible to foresee that such an interdisciplinary finance paradigm, merging faith and ethics, can deliver a more stable, equitable, and ethical global financial system (Alshater et al., 2022).

Enforcement of Zakat (Compulsory Charity)

The enforcement of Zakat, often regarded as one of the fundamental pillars of Islamic banking, serves as a vital means of blending faith with finance in a meaningful and sustainable manner. As a form of compulsory alms-giving, Zakat necessitates that every eligible Muslim partakes in the redistribution of wealth to foster social welfare, alleviate poverty, and establish a compassionate community that invests in the well-being of all its members (Soedarmono & Yusgiantoro, 2023).

Zakat, as an act of worship, finds its roots in the Holy Quran in numerous verses, one of which is

Surah Al-Hashr (59:7), where Allah states: "Whatever Allah has restored to His Messenger from the people of the towns - it is for Allah and for the Messenger and for [his] near relatives and orphans and the [stranded] traveler - so that it will not be a perpetual distribution among the rich from among you..."

Through this verse, the Quran highlights the essential function of Zakat in redistributing wealth and emphasizes the need for socio-economic justice. The system of Zakat, therefore, instills a sense of community responsibility and social equity by compelling the well-off to cater to the needs of the impoverished (Maulina et al., 2023).

The study then explore the transformative potential of Zakat by examining the flaws in conventional financing systems. Tax schemes in traditional systems are often convoluted and wrought with loopholes, which could potentially breed opacity and the propensity for tax evasion (Ahmad et al., 2023; Madah Marzuki et al., 2023). These malpractices only serve to exacerbate socio-economic disparities and compromise the welfare of the financially disadvantaged individuals. In sharp contrast, the enforcement of Zakat fosters transparent wealth redistribution built upon ethical principles and social cooperation. This system ensures that the underprivileged members of society are sufficiently supported and their needs are thoroughly addressed (Haruna et al., 2023).

With the comprehensive scrutiny of the three pivotal pillars - prohibition of Riba, prohibition of Gharar, and enforcement of Zakat - the study present a persuasive argument for the integration of faith and finance. This marriage of tradition with modernity not only mitigates the shortcomings in conventional banking systems but also unveils a feasible model that enhances economic stability, fosters social cohesion, and advocates ethical behavior (Soedarmono & Yusgiantoro, 2023).

By melding Islamic teachings with the intricacies of banking, the study successfully unveil the pragmatism underlying such a financial blueprint that astutely responds to contemporary economic challenges. The fusion of these religious tenets with finance crafts a resilient financial system adept at addressing wealth inequality, curbing unrestrained profiteering, and tackling the ethical quandaries that beset traditional banking practices (Doruk, 2023).

Throughout this elaborate discussion, the study demonstrate that the synthesis of faith and finance can unlock tremendous potential for a reformed global financial system that harmonizes ethical, spiritual, and moral values with economic mechanisms. By interweaving the rich tapestry of Islamic precepts with modern banking institutions, this thought-provoking examination transcends the realm of theoretical analysis and uncovers the transformative opportunities that await when faith and finance cease to be seen as separate entities. In essence, this study underlines the significant implications of intertwining Islamic teachings and ethics with modern banking and finance (Grira & Labidi, 2021). This fusion offers a viable alternative that transcends conventional financial systems, promoting transparency, economic stability, social welfare, and ethical integrity. The study passionately reiterate the need for ongoing discourse, and interdisciplinary research, in embracing the integration of faith and finance as a means of addressing contemporary socio-economic challenges and paving the way towards a more equitable, stable, and sustainable financial future.

Comparative Analysis

Undertaking this comprehensive exploration, the study effectively demonstrate the potential of Islamic financial systems to address the issues plaguing the stability of conventional economic systems. The crux of their argument lies in the foundation of Islamic finance, a unique conceptual framework of risk and reward sharing that can offer a sustainable path to economic resilience by effectively redistributing economic risks amongst all stakeholders.

Risk and Reward Sharing in Islamic Finance versus Interest in Conventional Finance

Venturing into the heart of the matter, we start by examining one of the most distinctive differences between Islamic and conventional finance, their approach to risk and reward. While conventional finance structures transactions around the concept of interest (often leading to the amplification of risk for one party), Islamic finance firmly rests on the principle of risk and reward sharing. With this equitable framework, both the provider and the user of funds share the risk and reward of their ventures proportionately (Smolo et al., 2023; Wijaya & Moro, 2022).

The study delve deeply into this divide, shedding light on the deficits in the conventional finance model, primarily its inherently skewed risk distribution. High interest can place an onerous and potentially unsustainable burden on borrowers, leaving them to bear the lion's share of the risk. In the event of a business failure, this puts the debtor in a precarious position, often leading to cycles of worsening debt or even bankruptcy (Brahmana & You, 2022).

By contrast, the study highlight how Islamic banking's principle of risk sharing creates a protective buffer against such damaging cycles. By distributing the risk between all the parties involved, it implicitly promotes a safer operational framework that encourages prudence and due diligence while reducing the risk of financial fallout (Ghlamallah et al., 2021; Oseni et al., 2016).

Mitigating Economic Inequality

Venturing further into the analysis, the writers illuminate a critical side effect of the conventional finance model, its role in engendering and perpetuating economic inequality. Driven by interest-based returns, conventional finance often aggressively pushes for maximizing profit, leading to a widening wealth gap. Citing numerous studies and economic records, they convincingly draw attention to the massive disparity in wealth distribution created and fostered by interest-based systems (Widiastuti et al., 2022).

Conversely, the study posit Islamic finance as a potential antidote to this issue. In Islamic banking, the obligation to pay Zakat (a form of alms-giving or wealth tax) coupled with the redistributive effects of risk-sharing transactions helps balance wealth concentration. The combined forces of mutual risk and reward sharing, along with the mandatory charitable activities, create an inherent system of checks and balances that is antithetical to the accumulation of wealth in the hands of a few. This, in turn, nurtures economic resilience, social stability, and enhanced societal cohesion (Doruk, 2023).

The Role of Transparency and Ethics

Finally, the study broach the topic of transparency and ethics in financial transactions, undoubtedly a defining factor distinguishing Islamic and traditional financial systems. Conventional finance, with its myriad complex instruments and lack of clear information sharing, can at times operate under a cloud of obscurity, not only stoking risk but also potentially propagating unethical practices (Alshater et al., 2022; Soedarmono & Yusgiantoro, 2023).

In sharp contrast, the study underline the sacred regard for transparency inherent within the Islamic financial edifice. They explain how the prohibition of Gharar, or uncertainty, necessitates clear, honest agreements without hidden clauses or deceptive complexity in all transactions. This commitment to transparency not only minimizes the risk of fraudulent practices and mismanagement, it also engenders trust amongst stakeholders and ensures ethical integrity in financial dealings (Madah Marzuki et al., 2023).

Drawing their comparative analysis to a close, the study provide compelling evidence of how Islamic financing models could potentially reconfigure the instability-prone landscape of the traditional financial system. With its unique structure built around risk and reward sharing, coupled with an emphasis on transparency and ethics, Islamic finance provides an alternate route that can foster resilience, equitable wealth distribution, and ethical conduct in the economic ecosystem (Doruk, 2023; Maulina et al., 2023).

In the grand tapestry of financial systems and their social impact, the study, through their meticulous analysis, weave a narrative of Islamic finance that offers vibrant, viable solutions to the most pressing conundrums of our economic times. Their comparison shines a light, not just on the mechanics of Islamic and conventional financial systems, but on their profound societal implications (Kalimullina & Orlov, 2020; Meslier et al., 2020). And through this understanding, we are encouraged to consider the possibility of a reimagined financial model, one rooted in equitable, transparent, and ethical principles. It's a bracing prospect, one that might well change the face of modern finance, should it be embraced.

Conclusion

The trailblazing research presented in this paper reaches an intriguing conclusion, it offers unequivocal affirmation that faith and finance can indeed meld seamlessly. This conclusion opens up a plethora of opportunities for further research within this sphere, hinting at a brave new world where interfaith studies join hands with economics to offer solutions for unruly contemporary economic issues.

Interdisciplinary Analysis of Faith and Finance: A Novel Perspective

This paper represents an important milestone in the dialogue between faith and finance, innovatively orchestrating a synthesis between Islamic teachings and economic systems. The research narrative discloses the potential benefits of incorporating faith-based principles into economic structures, using the lens of Islamic Studies. What emerges is not a dissonant jumble, but a harmonious coalescence that holds captivating promise for reimagining economic structures afresh.

The strength of the paper rests squarely on its integrative approach. By interweaving Islamic principles with conventional economic theory, it presents a comprehensive understanding of potential economic frameworks. This perspective reveals the transforming potential of faith-based economic principles to counteract economic disparities and socio-economic injustices seen in many conventional systems, thus offering a prospective route to a more equitable and resilient economic landscape.

The Necessity for Empirical Research

That being said, the study also highlights a pivotal need for empirical research to substantiate the theoretical implications drawn in this paper. While the discussion presented is rich, insightful, and potentially transformative, the theoretical assertions made warrant empirical validation. Measuring the actual impact of these principles, when applied in practical financial ecosystems, could provide solid evidence for the theoretical benefits suggested.

Marrying theory with practice, empirical research could assess the economic outcomes of implementing key Islamic principles such as the prohibition of Usury (Riba), ambiguity (Gharar), and the enforcement of charity (Zakat). By investigating their evidence-backed effects on economic inequality, market volatility, and overall economic health, researchers can further solidify the argument of this paper and bring a valuable contribution to this relatively unexplored field in economic theory.

Future Research

Another intriguing avenue for future research suggested by this paper is the exploration of how these faith-based economic principles can be integrated into secular systems to address emerging economic issues. This idea urges a deconstructive approach, disassembling each principle to its core essence to understand how its benefits can transcend the religious context and apply universally.

Is it feasible to construct a secular system that promotes the prohibition of usury, encourages transparency, and uses a charitable framework akin to Zakat for wealth redistribution? Can such a system, inspired by religious principles yet free from any religious labels, yield substantial benefits? How would this system compare to conventional economic structures in terms of economic health, wealth distribution, and financial stability?

Such exploration shatters disciplinary boundaries, stretching beyond the conventional domains of economic investigation. In doing so, it promises an exciting new frontier for future research, providing an opportunity to contribute a unique perspective to the economic discourse.

In the final analysis, this paper presents itself as a thought-provoking piece of research. It challenges ingrained views, pushing the boundaries of traditional economic understanding. It unveils the potential cross-pollination between faith and finance, ultimately delivering an enlightening perspective on the economic system.

The study successfully establishes the importance and applicability of inter-disciplinary, faith-based approaches in the field of economics. Furthermore, they point to several stimulating directions for future research.Among them, the necessity for empirical analysis to underpin theoretical assertions and the examination of secular applications of faith-based principles stand out, promising robust expansion of the current research.

In sum, the explorative journey embarked upon in this paper signals the emergence of a fascinating new field at the intersection of faith and finance. The shifting sands of economics hence promise a broad horizon waiting to be illuminated by future research, guided by the beacon lit by this very paper.

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