

ISTANBUL SABAHATTIN ZAIM UNIVERSITY
GRADUATE EDUCATION INSTITUTE
ISLAMIC ECONOMICS AND FINANCE DEPARTMENT

**MARKET DYNAMICS IN ISLAMIC ECONOMICS AND
THEIR EFFECTS ON SOCIAL WELFARE**

Ph.D. DISSERTATION

Nuri AKSOY

Istanbul
June-2024

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Supervisor
Prof. Dr. Yusuf DİNÇ

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This study has been approved in partial fulfillment of the requirements for a Ph.D. Degree in
Islamic Economics and Finance

Chairperson of jury Prof. Dr. Yusuf DİNÇ

Member of jury Prof. Dr. Turan EROL

Member of jury Prof. Dr. Saim KAYADİBİ

Member of jury Assoc. Prof. Dr. Burhan ULUYOL

Member of jury Asst. Prof. Dr. Ozan MARAŞLI

Approval by

Prof. Dr. Erhan İÇENER

Director, Graduate Education Institute

DECLARATION OF SCIENTIFIC ETHICS AND ORIGINALITY

This is to certify that this Ph.D. dissertation titled “Market Dynamics in Islamic Economics and Their Effects on Social Welfare” is my own work, and I have acted according to scientific ethics and academic rules while producing it. I have collected and used all information and data according to scientific ethics and guidelines on thesis writing at Sabahattin Zaim University. I have fully referenced, in both the text and bibliography, all direct and indirect quotations and all sources I have used in this work.

Nuri Aksoy

June, 2024



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Nuri AKSOY

ABSTRACT

MARKET DYNAMICS IN ISLAMIC ECONOMICS AND THEIR EFFECTS ON SOCIAL WELFARE

Nuri AKSOY

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Microeconomic principles form the foundation of macroeconomic analysis. It is difficult to conduct healthy macro analysis without understanding the micro-foundations. The thesis was prepared inspired by Yalçıntaş's view on microeconomics. According to Yalçıntaş, "*construction of microeconomic theory under the Islamic constraints might be the most challenging task for Islamic economics*" (Yalçıntaş, 1986). In line with this goal, this study addresses the efficiency and productivity of firms and competition issues of microeconomics in the context of Islamic economics principles and offers new suggestions and structures.

This study proposes a framework to increase social welfare and solve today's problems related to income distribution and resource allocation by utilizing the market principles of Islamic economics.

Key stakeholders involved in promoting social welfare include the state and various market organizations, including businesses, households, and non-governmental organizations (NGOs) that contribute to social well-being. NGOs that produce social goods and services in the context of Islamic economics mainly include institutions such as zakat, charities, and foundations (Awqaf).

The conceptual structure of the thesis was created within the scope of three basic analytical frameworks based on the market dynamics that contribute to social welfare. While the risk-sharing principle of the Islamic economy is discussed in the first analytical framework, the partnership-based financing structure is examined in the second analytical framework. The third analytical framework analyzed the cooperative market structure, which depends on moral values and market dynamics that provide

market efficiency. The interactive contributions of all these principles to social welfare have been examined.

The first analytical framework and market dynamic examine the impact of the risk-sharing principle on companies and markets, focusing mainly on the cost-effectiveness of these principles. Mathematical and hypothetical methods are used to analyze the effects of risk-sharing finance instruments on companies and markets and to reveal their contribution to social welfare. In addition, the analysis also highlights the efficient resource allocation provided by interest-free financial institutions compared to interest-bearing financial institutions.

Interest-free financing provides cost efficiency and eliminates the situation where investments are dependent on interest rates. In this way, even in inflationary periods, investments are made with risk-sharing/interest-free financing, and a positive contribution is made to the fight against inflation by increasing production. Otherwise, investments are not made in high-interest and inflationary environments because investments are dependent on interest rates, and investors who are accustomed to low interest prefer to avoid investing with their own capital.

In the second analytical framework and market dynamic, partnerships within the Islamic economy are investigated, and a method for financing companies through direct partnerships is proposed to contribute positively to income distribution. This model emphasizes spreading profits to a broader base, improving income distribution, and contributing to social welfare through risk-sharing and partnership financing. It is aimed to spread the company profits to a wide social base through partnerships with multi-partner companies. In other words, considering the well-managed companies that generate a lot of income today, it is argued that spreading the profits to a broad social base through multi-partner companies, instead of accumulating them in a specific segment, ensures fair income distribution through this partnership dynamic.

The third analytical framework and market dynamic criticize the concept of cut-throat competition inherent in capitalist markets, which often leads to market inefficiency and negatively affects social welfare. By benefiting from the moral principles of Islamic economics and the historical experiences of the Futuwwa and Akhism institutions, a market understanding based on brotherhood competition and cooperation that will increase market efficiency and effectiveness is advocated. In

other words, it is argued that the market operates more efficiently with an approach based on sibling rivalry, cooperation dynamics, and trust, rather than cut-throat competition.

In summary, this study advocates the market dynamics of Islamic economics that increase social welfare by ensuring effective resource allocation and fair income distribution.

Keywords: Islamic Economics, Market, Market Structures, Market Dynamics, Efficiency, Risk-Sharing, Partnerships, Competition, Cooperation, Social Welfare



ÖZET

İSLAM EKONOMİSİNDE PİYASA DİNAMİKLERİ VE TOPLUMSAL REFAH ÜZERİNDEKİ ETKİLERİ

Nuri AKSOY

Doktora Tezi, İslam Ekonomisi ve Finansı

Danışman: Prof. Dr. Yusuf DİNÇ

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Mikroekonomik prensipler makroekonomik analizin temelini oluşturur. Mikro temeller anlaşılmadan sağlıklı makro analizlerin yapılması zordur. Tez Yalçıntaş'ın mikroekonomi konusundaki görüşünden ilham alınarak hazırlanmıştır. Yalçıntaş'a göre *"İslami değerlerin sınırları içerisinde mikro ekonomik teorinin inşası, İslam ekonomi biliminin yerine getirmesi gereken en önemli görevdir"* (Yalçıntaş, 1986). Bu çalışma, bu hedef doğrultusunda mikroekonominin verimlilik, firma ve rekabet konularını İslam ekonomisi prensipleri bağlamında ele almakta ve yeni öneriler ve yapılar sunmaktadır.

Bu çalışma, İslam ekonomisinin piyasa ilkelerinden yararlanarak sosyal refahı artıracak ve gelir dağılımı ve kaynak tahsisi ile ilgili günümüz problemlerine çözüm olacak bir çerçeve önermektedir.

Sosyal refahın desteklenmesinde yer alan kilit paydaşlar, devlet ve sosyal refaha katkı sağlayan işletmeler, hane halkı ve sivil toplum kuruluşları (STK'lar) dahil olmak üzere çeşitli piyasa kuruluşlarından oluşur. İslam ekonomisi bağlamında sosyal mal ve hizmet üreten STK'lar ağırlıklı olarak zekât, hayır kurumları ve vakıflar gibi kurumları içermektedir.

Tezin kavramsal yapısı, toplumsal refaha katkı sağlayan piyasa dinamikleri temel alınarak üç temel analitik çerçeve kapsamında oluşturulmuştur. Birinci analitik çerçeve içinde İslam ekonomisinin faizsizlik prensibi ele alınırken, ikinci analitik çerçeve içinde ise ortaklığa dayalı finansman yapısı incelenmektedir. Üçüncü analitik çerçeve içinde ise ahlaki değerlere bağlı olarak iş birliğine dayalı piyasa yapısı analiz edilmiştir. Tezin bütünlüğü içinde bu prensiplerin etkileşimli olarak sosyal refaha katkıları incelenmektedir.

İlk analitik çerçeve ve piyasa dinamiği, faizsizlik ilkesinin şirketler ve piyasalar üzerindeki etkisini tahlil etmekte ve esas olarak bu ilkelerin maliyet etkinliğine odaklanmaktadır. Bu kısımda faizsiz finansman araçlarının şirketler ve piyasalar üzerindeki etkilerini analiz etmek ve toplumsal refaha katkısını ortaya koymak için matematiksel ve varsayımsal yöntemler kullanılmaktadır. Finans kurumları açısından yapılan analizde ise, faizli finans kurumlarıyla karşılaştırıldığında, faizsiz finans kuruluşlarının sağlamış olduğu etkili kaynak tahsisi vurgulanmaktadır.

Faizsiz finansman maliyet etkinliği sağlar ve yatırımların faiz oranlarına bağlı olması durumunu ortadan kaldırır. Bu sayede enflasyonist dönemlerde bile risk paylaşımı/faizsiz finansmanla yatırım yapılır ve üretimi artırılarak enflasyonla mücadeleye olumlu katkı sağlanır. Aksi takdirde yüksek faizli ve enflasyonist ortamlarda yatırım yapılmaz çünkü yatırımlar faiz oranlarına bağlıdır ve düşük faize alışkın yatırımcılar kendi sermayeleriyle yatırım yapmaktan kaçınmayı tercih ederler.

İkinci analitik çerçeve ve piyasa dinamiği içinde ise, İslam ekonomisi bağlamında ortaklıklar araştırılmakta ve gelir dağılımına olumlu yönde katkı sağlamak için şirketlerin doğrudan ortaklıklar yoluyla finanse edilmesine yönelik bir model önerilmektedir. Bu modelde, faizsiz bir şekilde ortaklıkların finansmanının, kârın daha geniş tabana yayılmasına, gelir dağılımının iyileştirilmesine ve toplumsal refaha katkı sağlamasına vurgu yapılmaktadır. Çok ortaklı şirketler ile ortaklık yoluyla şirket karlarının geniş bir toplum tabanına yayılması amaçlanmaktadır. Diğer bir ifade ile bu dinamik ile günümüzde iyi yönetilen çok gelir elde edilen şirketler düşünüldüğünde, karın belli bir kesimde toplanması yerine, çok ortaklı şirketler aracılığıyla geniş bir toplumsal tabana yayılmasının adil gelir dağılımını sağladığı savunulmaktadır.

Üçüncü analitik çerçeve ve piyasa dinamiği, kapitalist piyasaların doğasında bulunan ve çoğu zaman piyasa verimsizliğine yol açan ve sosyal refahı olumsuz yönde etkileyen kıyasıya rekabet kavramını eleştirmektedir. İslam ekonomisinin ahlaki ilkelerinden ve Fütüvvet ve Ahilik kurumlarının tarihsel deneyimlerinden yararlanılarak, piyasa verimliliğini ve etkinliğini artıracak kardeş rekabeti ve iş birliğine dayalı bir piyasa anlayışı savunulmaktadır. Başka bir deyişle, boğaz boğaza rekabet yerine kardeş rekabeti, iş birliği dinamiği ve güvene dayalı yaklaşım ile piyasanın daha verimli işlediği savunulmaktadır.

Özetle bu çalışmada, kaynakların etkin tahsisini ve adil gelir dağılımını sağlayarak toplumsal refahı artıran, İslam ekonomisinin piyasa dinamikleri savunulmaktadır.

Anahtar kelimeler: İslam Ekonomisi, Piyasa, Piyasa Yapıları, Piyasa Dinamikleri, Verimlilik, Risk Paylaşımı, Ortaklıklar, Rekabet, İş birliği, Sosyal Refah



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ABBREVIATIONS

| | |
|---------|---|
| AAOIFI: | Accounting and Auditing Organization for Islamic Financial Institutions |
| MPC: | Multi-Partner Companies |
| PBUH: | Peace Be Upon Him |



GLOSSARY OF TERMS

- Awqaf (sing. waqf): Endowments
- Fiqh: Corpus of Islamic jurisprudence. In contrast to conventional law, fiqh covers all aspects of life — religious, political, social, commercial, and economic. Fiqh is based primarily on interpretations of the Qur'an and the sunnah and secondarily on ijma' and ijtihad by the fuqaha'. While the Qur'an and the sunnah are immutable, fiqhi verdicts may change in line with changing circumstances
- Fuqaha': Jurists who give rulings on various issues in the light of the Qur'an and the Sunnah
- Shari'ah: The corpus of Islamic law based on Divine guidance, as given by the Qur'an and the Sunnah, and embodies all aspects of the Islamic faith, including beliefs and practices
- Maqasid al-Shari'ah: Basic objectives of the Shari'ah: the protection of faith, life, progeny, property, and reason
- Maslahah: Literally, "benefit." Technically, it refers to any action taken to protect any one of the five basic objectives of the Shari'ah
- Mudarabah: Contract between two parties - a capital owner or financier (rabb al-mal) and an investment manager (mudarib). Profit is distributed between the two parties in accordance with the ratio upon which they agree at the time of the contract. Financial loss is borne only by the financier. The investment manager's loss lies in not getting any reward for his labor services
- Muhtasib: A market supervisor
- Murabahah: Sale at a specified profit margin. This term, however, is now used to refer to a sale agreement whereby the seller purchases the goods desired by the buyer and sells them at an agreed marked-up price, the payment being settled within an agreed time frame, either in installments or as a lump sum. The seller

bears the risk for the goods until they have been delivered to the buyer

- Musharakah:** Partnership. Similar to a mudarabah contract, the difference being that here both partners participate in the management and the provision of capital and share in the profit and loss. Profits are distributed between the partners in accordance with the ratios initially set, whereas loss is distributed in proportion to each one's share in the capital. Also, this contract is more suitable for longer-term partnership contracts and long gestating projects
- Narh:** Official price-fixing
- Riba:** Literally, "increase," "addition" or "growth." Technically, it refers to the "premium" that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or an extension in its maturity. Interest, as commonly understood today, is regarded by a predominant majority of fuqaha to be equivalent to riba
- Sadaqah:** Payments to redeem others' rights (also translated as "charity")
- Wakalah:** Contract of agency in which one person appoints someone else to perform a certain task on his behalf, usually for a fixed fee
- Zakah:** Amount payable by a Muslim on his net worth as a part of his religious obligations to redeem the rights of others

CHAPTER I

INTRODUCTION

In this chapter, the framework of the thesis has been described. It describes how the thesis delves into the background and core economic issues of the present day. It examines the market, various financing methods employed, market participants, their interrelations, and their impacts on societal well-being as the foundational framework for the thesis discussion. The analysis considers the inefficiencies stemming from interest-based financing, the production costs borne by companies, and their repercussions on the market. Additionally, it underscores the injustice in income distribution, a fundamental issue arising from the capitalist market.

Moreover, this chapter highlights the phenomenon of competition, emphasizing that the price mechanism serves as the cornerstone of a capitalist market. While competition is essential for the proper functioning of the price mechanism, intense rivalry often leads to numerous challenges. Within today's capitalist market system, cut-throat competition tends to suppress competition itself, ultimately giving rise to oligopoly and monopoly market structures, thereby adversely affecting societal welfare.

In essence, this chapter adopts the market model proposed by the prevailing neoclassical economic paradigm and describes the associated problems as the fundamental framework of the thesis.

Microeconomics examines individual economic entities, including households, firms, and markets. It investigates how these entities make decisions regarding resource allocation, production, and consumption, and how they interact within markets. Macrostructures rely on microstructures. Microeconomic principles form the foundation of macroeconomic analysis. The foundation of this thesis is influenced by Yalçıntaş's perspective on microeconomics, who postulated that developing microeconomic theory within Islamic constraints poses a significant challenge (Yalçıntaş, 1986). With this objective in mind, the study explores efficiency and productivity, firm dynamics, competition, and cooperation within microeconomics, considering principles of Islamic economics, and suggests novel approaches and frameworks.

This hypothesis introduces a framework aimed at enhancing societal welfare and addressing contemporary challenges concerning income distribution and resource allocation, by means of market principles embedded in Islamic economics.

In this introductory chapter, the objective of the thesis and the structure and framework necessary to achieve this objective have been described in a general manner. Within this context, it discusses the problem statement, research questions, importance and limitations of the study and describes the related studies in the literature.

Throughout the thesis, risk-sharing, interest-free, and equity financing terms have been used interchangeably according to the context.

1.1. Background of the Study

The thesis is about the microeconomics branch of economics, precisely the nature of the market and its impact on social welfare. Based on this general description of the thesis objective, as a descriptive approach, giving some definition of economics will be a good starting point. As a social science, economics examines human behavior in the context of economic activities and their subsequent implications. In a broader context, economics constitutes a fundamental discipline within the domain of social sciences.

When examining the evolution of Western-based economic definitions across time, one can observe a progression from Adam Smith's initial formulation of political economy to the varied interpretations offered by subsequent economists such as Marshall, Keynes, and Robbins. Samuelson, in particular, portrayed economics as a discipline concerned with the systematic analysis of choices regarding the allocation and utilization of resources.

In the latter part of the 19th century, the term "economics" came into use with Marshall's efforts by using mathematics as a tool for economic analysis. Adam Smith was commonly acknowledged as the founder of economics as a science, and his successors employed the term "political economy" to include matters concerning the creation and trade of goods and services. Smith (2010: 275) described economics from the perspective of political economy in the following manner:

Political economy, considered as a branch of the science of a statesman or legislator, proposes two distinct objects: first, to provide a plentiful revenue or subsistence for the people, or more properly, to enable them to provide

such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign.

The designation of political economy as simply "economics" began with Alfred Marshall. Before Marshall, all economics books were referred to as political economy. Marshall pioneered incorporating mathematical analysis and psychology into economics as analytical tools. According to him, political economy, or economics, goes into the intricacies of human behavior in everyday life, mainly focusing on actions related to acquiring and utilizing material necessities for a good standard of living. It encompasses the examination of individual and social behaviors intricately linked to the pursuit and management of wealth. Therefore, it serves as a dual study: on the one hand, it analyzes the dynamics of wealth, while on the other, arguably more significantly, it constitutes a vital aspect of understanding human nature (Marshall (2009: 1). Marshall employs a comprehensive perspective when studying economics. He prefers categorizing his work under economics or social economics headings rather than political economy. He believes that political economy has a narrower focus, which only encompasses part of the scope of economics.

Classical economists argued that markets would automatically come into equilibrium in case of disequilibrium. On the other hand, John Maynard Keynes argued that contrary to what the classical and neoclassical claimed, markets could not come into balance on their own and that effective intervention by the state was necessary. According to him, the theory of economics needs to provide a set of definitive conclusions that can be directly applied to policy-making. Instead, it serves as a method rather than a set doctrine; it is a mental framework, a technique for thinking that enables its practitioners to arrive at accurate conclusions (Eatwell et al., 1991: 10). With this, Keynes emphasizes economic theory's dynamic and evolving nature, viewing it as a tool for understanding and addressing real-world economic problems rather than a fixed set of principles.

The most widely accepted definition of economics comes from Lionel Robbins, who built upon the classical economists' definition. According to Robbins, economics is a science that studies the various possible uses of scarce resources (Robbins, 2007: 15). Robbins underscores the core idea of scarcity and the distribution of resources to satisfy unlimited desires.

When we look at the definitions of economics in mainstream economics books, in simple terms, economics is defined as the study of the production and allocation of material goods and services. In addition, recently, in the context of behavioral economics and game theory, in the broader sense, economics is described as the study of incentives in all social institutions within the framework of initiatives and incentives. What is meant by social institution in this definition is a mechanism consisting of a set of rules that govern the behavior of individuals. While incentives include moral and social values that nudge and motivate individuals, besides these, they also include punishments that restrict their areas of action.

It would be appropriate to mention the compact definition attributed to Hayek, the Austrian School of Economics representative, showing that the economy is intertwined with human being life. It had been taken from a newspaper (Cansen, 2019: 3). The definition is in the concise words of the Austrian economist Hayek, saying that “*economics is not man-made, but there is man in it*”. In my view, this is the perfect definition of economics. As a human being, you cannot control thousands of variables affecting economics, but you are inside it as an ingredient in terms of your behaviors and choices.

According to Samuelson and Nordhaus (2009: 4), economics is fundamentally the science of choice. It examines how individuals and societies allocate their limited or scarce resources, including land, labor, equipment, and technical knowledge, to produce a diverse array of goods and services. Additionally, economics explores how these produced goods and services are distributed among different members of society for their consumption. The study of economics encompasses the decision-making processes involved in efficiently utilizing resources to meet a population's needs and desires.

Today, many essential economists define the economy by highlighting human choices. According to them, economists analyze a broad spectrum of human behavior. These behaviors represent various forms of decision-making and are all within the scope of inquiry for economists. Importantly, these decisions aren't solely about monetary transactions; they all revolve around the fundamental concept of choice. Rather than money, choice serves as the common thread unifying the diverse array of phenomena that economists investigate (Acemoglu et al., 2019: 41). They emphasize the importance of institutions in economic development.

This study compares the impact of capitalism and Islamic economics on social welfare within the context of production cost, income distribution, and market efficiency. There are many definitions in the literature describing Islamic economics from different perspectives.

According to Zarka et al. (2018: 14), economics is the study of how individuals and communities interact with money, goods, and services, as well as how economies function on both big (macro) and small (micro) scales. It focuses on how things are manufactured, shared, and utilized, and seeks to comprehend and resolve economic issues by examining facts (what is) and values (what should be). Islamic economics is similar to regular economics but adds a key aspect: it follows Islamic law (Shari'ah). This means that all economic activities and solutions to problems must align with Islamic principles. Supporters of Islamic economics believe it offers a better way to handle economic activities and address social and economic issues than conventional economics.

Kahf (2003: 23-47) addresses matters concerning the definition and methodology of economics. He argues that a viable economic system should be rooted in an ideology that establishes its foundation, objectives, axioms, and principles. Additionally, he suggests that the validity of an economic system can be evaluated through its internal consistency, alignment with other life domains, and capacity for enhancement and development. According to him, economics involves the examination of human behavior, both on an individual and collective level, and how resources are utilized to fulfill human material goals.

Kahf describes Islamic economics by comparing it with conventional economics by saying that;

When we look at a comparison between the Islamic economics and conventional economics, we notice that the secular economic thinking depends only on one source of knowledge which is the human rationale or mind. The Islamic Economic System has an extra source in addition to the human mind, which is the revelation (the Qur'an and Sunnah). For instance, the concept of social justice is generally described secular economics as well as in all religions' economics. But the Shari'ah goes beyond justice and introduces the Zakah الزكاة as a form of Rahmah الرحمة (mercy), obligatory on

richer individuals to poorer ones; the people who were not able to produce for themselves. (Kahf, 2014: 6).

According to Askari et al. (2017: 19) Islamic economics is a market-based economic system. According to them, Islamic economic system operates on a market basis, where markets are viewed as the most effective way to allocate resources for production and consumption. However, it's important not to mistake the efficiency of the market system for viewing markets as an ideology. This means that while markets are highly valued for their effectiveness, they shouldn't be treated as an absolute philosophy or the sole foundation of the economic system. Instead, for markets to function efficiently, they need to have rules in place, such as disclosing information, to safeguard the interests of everyone involved—workers, producers, investors, and consumers. Additionally, strict enforcement of these rules is essential for ensuring market supervision and integrity.

Naqvi (2013: 3-5) defines Islamic economics as a study of the representative Muslim's behavior in modern Muslim society. Naqvi describes the Islamic perspective on economics as intricately connected to its overarching ethical framework. This implies that we must ground our discussions in ethical principles to accurately discuss the fundamental economic principles and operations within an Islamic society, which can be seen as an ideal representation of a typical Muslim community. These ethical propositions are crucial benchmarks, allowing us to make valid and objective statements about economic motivations and processes. These statements, essentially rooted in values, are integral to Islamic economics and represent the cornerstone of understanding how a typical Muslim behaves economically within their society. Islamic economics aims to depict the economic behaviors of a representative Muslim in a Muslim society, forming the foundational core of this field. What sets Islamic economics apart from other economic theories—such as neoclassical, Marxian, or institutional economics—is its upfront and explicit emphasis on linking ethical and religious dimensions from the beginning stages of analysis and application. This distinctiveness lies in the deliberate integration of ethical and religious considerations into economic practices within Islamic frameworks, marking it as a unique economic approach.

According to Zaman, rather than thinking of society as a jungle where only the strongest survive, Islamic Economics suggests that being generous and working

together are better ways to organize things. The Quran encourages people to share and help others. Just like some economic ideas say that being selfish and competing is good, Islamic Economics says being generous and cooperating is better, encouraging people to act that way (Zaman, 2017: 11-12). He emphasizes generosity rather than selfishness and cooperation rather than cut-throat competition.

Ekrem Khan emphasizes cooperation and participation when defining Islamic economics. He defines Islamic economics as the study of human 'Falah' (success) achieved by organizing the earth's resources based on cooperation and participation (Khan, 1994: 34-37). In other words, it examines economic relations in a broader context, considering the afterlife.

Siddiqui first defines economics and then defines Islamic economics based on the definition of economics. According to Siddiqui, Economics is about figuring out how people in a community work together, both on their own and as a group, to handle making and sharing stuff like food, clothes, and services. It looks at how this affects the well-being of everyone now and in the future, considering what resources are available and how different groups in society think about different parts of life (Siddiqui, 2011: 126). In his view, Islamic economics is essentially the study of economics but looked at through an Islamic lens. It involves examining how various parts of an economy could be set up according to interpretations of guidelines from Islamic teachings in a society where most people are Muslim. While there might be some general agreement on the main ideas of Islamic economics across different Muslim countries and communities, there could still be differences in how things are done in detail. It's also important to understand that some basic ideas and ways of thinking in Islamic economics might be similar to those in capitalist systems (Siddiqui, 2011: 128-142). In his perspective, Islamic economics is fundamentally the study of economics examined from an Islamic viewpoint.

While mentioning the differences between Islamic and secular economics, Zaim considers the revelation, worldview, ethics, and moral values. According to him, Islamic economics is essentially the morally regulated version of the free market economy (Zaim, 2013: 18). However, in his view, the free market is not a laissez-faire market. Besides this, according to him, Islamic economics rejects an absolute-guided authoritarian or collectivist model (Zaim, 2013: 24).

According to Sabahattin Zaim, the economic man is superior in the secular economic model. The economic man (*homo economicus* - rational man) has absolute superiority in ensuring his interests. He will try to maximize his benefit in every way, regardless of whether it is halal or haram. In Islamic economics, which is based on revelation, individuals are limited by social balance. He criticizes secular economics since it restricts man's responsibility only to this world. According to him, in secular economics, individual responsibility has become secular responsibility and has lost its religious nature. The basis of secular responsibility is interest responsibility. A person makes a conscientious accounting about controlling his interests and acts accordingly. As a result, the goal of maximizing one's interest emerges. However, in Islamic economics, there is divine responsibility, and the measure and means of this is the *tazkiye* (cleansing) system (prohibition of interest and ordering *zakah*). Both are a means of cleansing from evil things (Zaim, 2013: 25-38). He explains Islamic economics and its differences from other economic systems using a holistic perspective.

Dinç draws attention to the essential characteristics of Islamic economics. According to him, Islamic economics discusses the issue of how to organize income distribution with a supply-side approach. From his point of view, demand can never be a source of crisis because demand is always too strong. Today, if billions of people buy costly smartphones even while meeting their essential needs, there is no such thing as a demand crisis. The real problem is the distribution problem. In a Muslim society, trade that is halal (permissible) to people is not capitalist trade. Promoted trade should be in the form of maximizing added value. According to him, Economic actors such as firms and consumers should consider both their own interests and the interests of society. Moreover, Islamic Economic thought's main approach is to consider the benefit of other creatures beyond the interests of humans and society (Dinç, 2023: 10-11). In these evaluations, it is stated that in addition to having a holistic perspective, Islamic principles, such as cooperation, should be taken into consideration in more detail.

The capitalist system, deeply rooted in the ethos of consumption, inherently perceives economics through the perspective of consumption and frames its definition accordingly. In contemporary discourse, a significant debate has emerged regarding the abundance, or even the infinity, of human desires. The perspective that capitalism has elevated consumption to the supreme value has, in turn, rendered many desires

desirable that are arguably not essential. Regardless of the necessity of these desires, a comprehensive definition of economics is essential, one that encompasses production and sharing relationships, which hold comparable importance to consumption and expenditure. While consumption undeniably fuels economic activity, the advent of production and production relationships during the Industrial Revolution has elevated the significance of sharing to a level proportional to consumption.

In essence, economics proposes a framework aimed at achieving social welfare through the dynamics of production, consumption, and equitable distribution. The principal actors in the economic landscape encompass the state, markets, firms, households, and non-profit institutions. Each of these stakeholders plays a role in the overall creation of economic prosperity. The following Figure 1.1 shows this mechanism.

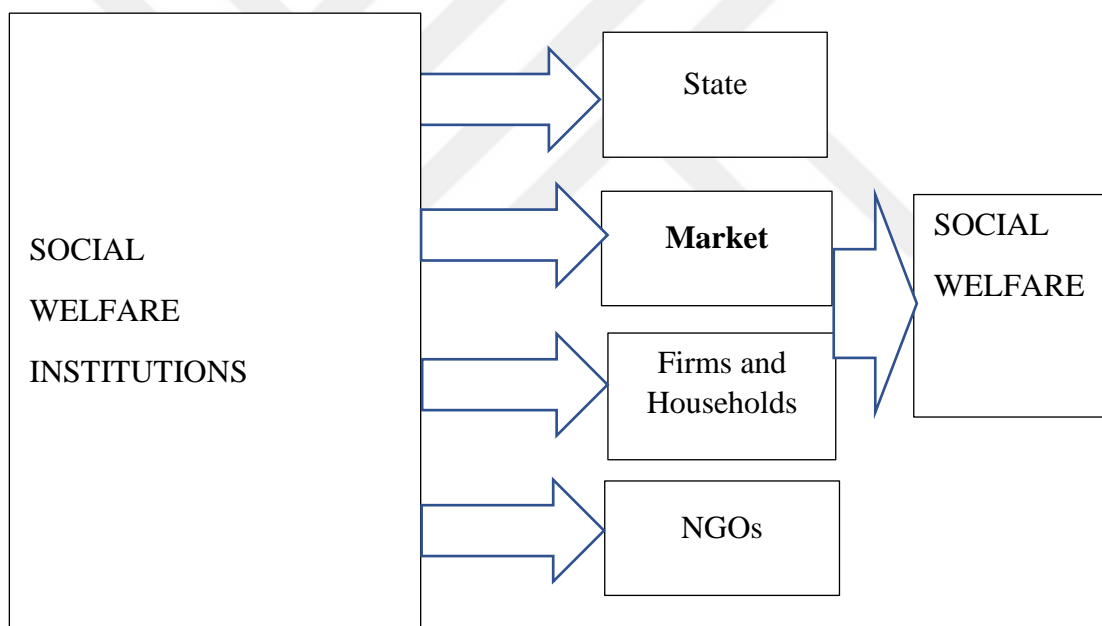


Figure 1.1: Social Welfare Institutions¹

Islamic economic principles focus on fair compensation, ensuring that labor receives just and timely wages. Equity financing principles in Islam, such as Mudarabah and Musharakah, provide an avenue for labor and capital to share in the gains of economic endeavors directly and proportionately. Returns to factors of production available for

¹ Modified version from (Butkeviciene, 2012:9)

rent are determined by market and productivity factors. These principles promote asset ownership without imposing it as a mandatory requirement.

In contrast, borrowing money with interest obligates repayment of both the interest and principal amount, irrespective of the productive outcomes of the economic venture for which the loan was obtained. This differs from Islamic principles, which stress a more direct and equitable profit-sharing among those involved in economic activities.

This study explores the fundamental tenets of Islamic economics and their impact on economic activities within corporations and the broader marketplace, elucidating how these principles contribute to social welfare within a tripartite conceptual framework, as shown in Figure 1.2.

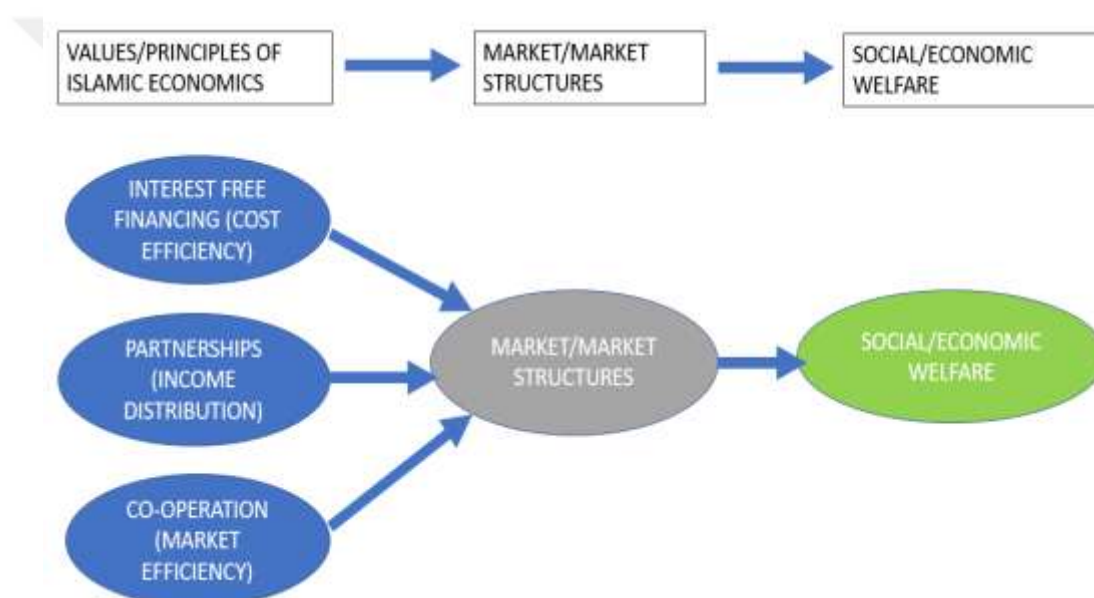


Figure 1.2: Conceptual Framework

Source: Author

The market concept has a rich history dating back to ancient times. Various market structures have emerged throughout its development, each with unique characteristics and impacts on social welfare. Understanding the historical development of markets and market structures is also essential for understanding their current role in shaping economic outcomes and influencing social welfare. Additionally, examining this historical development from the perspective of Islamic economics provides further insight into the evolution of market structures and their ethical dimensions.

Markets are structures that bring buyers and sellers together by facilitating trade and exchange. The first markets in which humans traded were more barter-like, consisting of barter exchanges where goods were exchanged directly without using a common medium of exchange.

After a while, markets evolved into more complex structures. The invention of money as a medium of exchange transformed all commerce transactions. This facilitated the growth of market economies and enabled individuals to sell goods and services more efficiently and effectively in the marketplace. Markets expanded beyond local borders, connecting distant regions with land and sea trade networks, leading to the emergence of global market systems. Today, with the influence of communication and information technologies, online marketplaces that are independent of location and do not have a physical structure have emerged.

A market is a virtual or physical space where suppliers and demanders come together to exchange goods, services, or resources, guided by prices, competition, and the forces of supply and demand.

According to al-Ghazali, in the course of societal evolution, markets experience a natural and gradual expansion, aligning with the inherent flow of events. This growth is propelled by the collective aspirations of individuals seeking to address mutual economic necessities. As people pursue their economic goals and aspirations, they contribute to the ongoing development and expansion of market dynamics, creating a common relationship between human endeavor and market evolution (Islahi and Ghazanfar, 1998: 24).

Islahi and Ghazanfar (1998: 2) bring attention to the extensive research conducted by Islamic scholars over 500 years, referred to as "The Great Gap" by the economic historian Schumpeter (1883-1950). The same study criticizes Schumpeter's approach as unjust and biased. Because they claim that in this period, there were several Islamic scholars, such as Abu Yusuf (731 AD -798 AD), Ibn Sina (980 AD - 1037 AD), al-Ghazali, Ibn Rushd (1126 AD -1198 AD), Ibn Taimiyah (1263 AD – 1328 AD), Ibn al-Qayyim (1292 AD -1350 AD), and Ibn Khaldun (1332 AD -1404 AD). These Islamic scholars conducted significant scientific studies.

Islahi and Ghazanfar (1998: 24) indicate that Ghazali's analysis of markets predates the perspectives held by many European classical economists. For instance, Ghazali's

illustration of the "farmer-carpenter" scenario precedes Adam Smith's well-known "butcher-baker" analogy.

After this very brief historical background, three basic market dynamics (Risk-sharing finance, Partnerships, and Cooperation) of Islamic economics and their effect on each other have been analyzed in this study. While risk-sharing finance provides cost advantages to companies, it leads to the structuring of firms in the form of profit and loss sharing, and with the emergence of partnerships, it leads to the emergence of a market structure that we call cooperation or sibling rivalry between companies.

The foundation of Islamic economics lies in promoting justice, equity, and societal well-being. Islamic economists emphasize the concept of a free and fair market that ensures cooperation, discourages monopolies, and safeguards consumer rights. Islamic economics advocates for market structures that adhere to transparency, equal access, and ethical conduct.

In simpler terms, the thesis analyzes how these three principles of Islamic economics affect each other, shape the market, and contribute to social welfare. The risk-sharing principle is given by revelation. Partnerships and cooperation in markets have been derived from the past experiences of Islamic economics.

This thesis examines how the benefits created by the three basic principles of Islamic economics contribute to social welfare through the market. With the interest ban, companies are enabled to produce in a more cost-efficient manner.

With partnership structures focused on real production and trade, it is ensured that small savings are brought into the economy and the income and profit obtained because of real activities are spread over a wide social base. Spreading income over a broad base contributes to social welfare.

Market structures that promote stability in Islamic economies contribute to social welfare. While competition-based market structures cause instability and inefficiencies by monopolizing markets, cooperation-based market structures ensure that the market operates more efficiently and steadily.

Islamic economics emphasizes market structures that promote competition, discourage monopolies, protect consumer rights, and ensure economic stability. When implemented effectively, these market structures can enhance social welfare by fostering an equitable and inclusive financial system.

The first foundational market dynamics involves conducting an equilibrium analysis comparing companies that provide risk-sharing finance (in the form of share issuance) with those operating under interest-bearing loans. This analysis seeks to arrange market equilibrium prices and quantities, with particular emphasis on cost structures, as shown in Figure 1.3.



Figure 1.3: Cost Efficiency Mechanism

Source: Author

In Islamic economics, the idea is to prevent the accrual of profit solely through the lending of money. Instead, it emphasizes that money should be utilized in ways that contribute to the real economy, such as investing in tangible assets or participating actively in business ventures.

In a capitalistic economic system, need-based and commercial loans often have the same interest rates. This pricing is based on the assumed opportunity cost, catering to the interests of capitalists. Islamic principles, however, promote voluntary charity or interest-free loans to address societal needs. If someone desires to generate returns from their investments, Islamic finance mandates that these investments must be directed towards productive assets. Profit is then earned through trading these assets or leasing them. Alternatively, if an individual seeks returns, they're encouraged to invest in a business as equity, participating as an entrepreneurial stakeholder in a productive enterprise.

The reasoning behind this prohibition is to discourage an economic system where those who possess money can generate wealth simply by lending it out without participating in actual economic activities or taking on risks. In the capitalist system, the practice of earning interest allows individuals or entities with capital to lend it at a fixed return rate (without risk sharing) and gain profit without actively engaging in productive ventures or sharing in the risks associated with business endeavors.

In contrast, Islamic finance encourages the deployment of capital into ventures that involve real assets or active participation in business, thereby aligning the generation of profit with genuine economic activities and entrepreneurship. This approach aims to create a more equitable and fair economic system, discouraging the accumulation of wealth solely through passive financial transactions.

An interest-based economic system often leads to wealth becoming concentrated among a select few. Numerous small savers entrust their surplus funds to banks, which then use these deposits to provide loans to a limited group of wealthy individuals. This process results in the transfer of wealth from many small savers to a handful of affluent capitalists, who amass significant profits and safeguard their assets and ventures. These large capitalists and corporations, the primary beneficiaries of bank loans, offset their financial costs by adjusting the prices of their outputs when necessary.

To rectify this unfair income distribution, the proposal is to establish multi-partner firms. This way, wealth and income can be distributed more equitably throughout society. So, the second market dynamic, which is about income distribution, underscores the imperative of disseminating income at the grassroots level through partnerships. This principle involves an examination of the implications of establishing multi-partnership companies in the market and financing them through partners, thereby influencing income distribution. Given the prohibition of interest within the Islamic economic paradigm, partnerships emerge as a prominent means of financing, allowing income and profits generated by companies to permeate a broader societal spectrum, thus promoting equitable income distribution. It is depicted below in Figure 1.4.

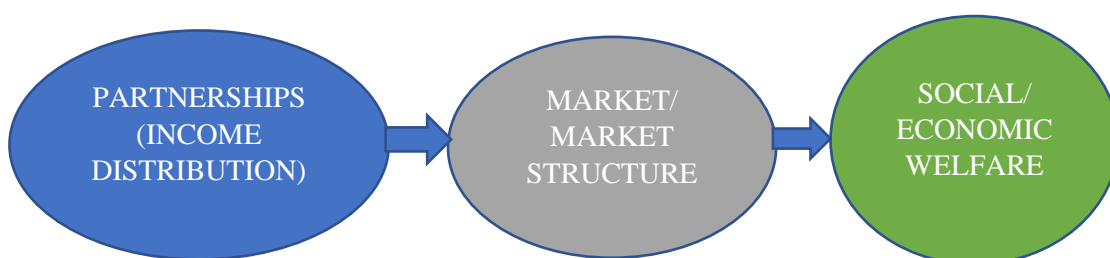


Figure 1.4: Partnership and Income Distribution Mechanism

Source: Author

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) describes Musharakah as an agreement where two or more parties come

together, pooling their assets, efforts, or responsibilities, with the goal of generating profits. In contrast, Mudarabah is defined as a profit-sharing partnership in which one party, known as Rab al-Mal, provides the capital, while the other party, known as the Mudarib, contributes their expertise and labor to manage the venture.

When we say partnership in this thesis, we mean both Musharakah and Mudarabah partnerships which are well-known in Islamic economics.

The third fundamental market dynamic of Islamic economics delves into the consequences of prioritizing cooperation as the foundational paradigm, as opposed to competition, which forms the cornerstone of the free market mechanism. This examination entails a comparative analysis between the market efficiency engendered by competition and that fostered by cooperation. This principle, as well as other principles, are based on the approach of Islamic economics that centers on the cooperation paradigm instead of the competition paradigm. The transfer mechanism of welfare through this principle and market is shown below in Figure 1.5.

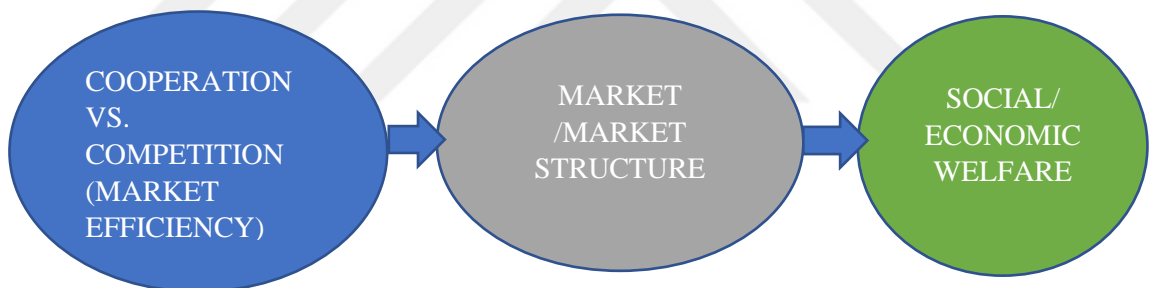


Figure 1.5: Cooperation and Competition Mechanism

Source: Author

Within the contemporary framework of capitalist economic systems, there exists a widely accepted definition characterizing capitalism as a system wherein the ownership and control of the factors of production reside within the private sector. The private sector, in turn, governs and utilizes these factors to its advantage, adhering to established regulatory frameworks. This delineation rests fundamentally upon the principles of supply and demand inherent in a market economy.

At the core of capitalism lies the paramount objective of securing maximal interests. In this context, producers strive to attain optimal profitability with minimized costs,

while consumers endeavor to derive maximal satisfaction from minimal expenditures. According to classical economic theory, the harmonization of interests among producers, consumers, savers, investors, and governmental entities engenders an equilibrium, thereby constituting an ideal societal framework. This conceptualization, commonly referred to as the "invisible hand," posits that the pursuit of individual self-interest collectively contributes to societal economic prosperity.

The historical trajectory of capitalism reveals a proclivity for crises, owing to its inherent nature. A central objective of this investigation is to substantiate the assertion that the absence of constraints or guiding principles in capitalism renders it perpetually susceptible to crises. In addition to crises, the historical narrative of capitalism is punctuated by phenomena such as liberalization, securitization of debts and derivatives, the proliferation of speculative activities, and the emergence of virtual transaction bubbles and financial crises, all of which have become intrinsic facets of its evolution.

According to Reda (2013: 20-43), in Islamic economics, the market operates effectively through the presence of ethical principles, honest actors (merchants), and regulatory frameworks promoting fair competition and collaboration.

1.2. Problem Statement

Capitalism is an economic system that can take shape according to three of the four production factors. Four factors of production; It is counted as labor, capital, natural resources, and entrepreneurial power. The shares they receive from production are respectively. It is determined by wages, interest, rent, and profit.

In other words, in capitalism, the way things are made, like factories and tools, are owned and controlled by people or businesses who are not part of the government. This means that individuals or companies, rather than the government, have the power over how things are produced and run. These private entities use and manage these resources to serve their own interests, operating within established market rules. The functioning of capitalism relies on supply and demand within the market economy. The primary driving force behind capitalism is the pursuit of maximum gain. Producers aim to achieve the highest possible profit while minimizing costs, and consumers strive to gain the greatest satisfaction with the least expenditure. This system results in a balance of interests among producers, consumers, savers, investors,

and the state, creating an ideal equilibrium for society. Essentially, it is supposed that by each individual striving to maximize their own interests, the overall economic prosperity is enhanced.

When we look at the history of capitalism, we see that it has a history of crises. The Dutch tulip crisis of the 17th century, the long depression between 1873 and 1896, the great depression of 1929, and the 2008 mortgage crisis we recently experienced can be given as examples. The root cause of the 2008 crisis is using risk-free earnings and risk transfer as the primary earnings method. When risk transfer became legitimate, for-profit, and greedy, retail banks made thousands of risky mortgage transactions sold to wholesale banks. In a sense, thousands of risky transactions that should not be done for profit have been transferred to others thanks to risk transfer. Those who took the risk on themselves bought these transactions out of greed and for extra profit. In this market where moral values have eroded; under-the-table agreements of insurance companies and rating agencies have also contributed to this crisis. All interest-bearing transactions, which are the basis of the capitalist system, are risk transfers based on the principle of earning without taking on risk. In Islamic economics, risk-sharing is essential.

The fundamental and driving paradigm of capitalism is competition. Companies' competition and profit maximization goal negatively affects the functioning of the market. The confrontational approaches that companies use to eliminate competition and each other from the market enable markets to turn into a more monopolistic or oligopolistic structure. This understanding of competition, which has an impact on the company from suppliers to customers, causes everyone in the market to do their best to beat each other. This understanding creates a negative impact in many areas, from reducing costs to just income distribution and the efficient functioning of the market.

While the current capitalist system and the free market increase the injustice in income distribution, it causes the free markets to become monopolistic and, ultimately, the market to be controlled by a few companies. According to Oxfam (2024: 20-32) Inequality report, the existing capitalist system, and existing markets have been producing the following results:

- The wealthiest 1% of people own almost half of all the money and investments in the world.

- If we compare the yearly earnings of a female worker in fields like healthcare and social services to the average annual income of a CEO in the largest companies listed in the Fortune 100, the difference is enormous. It would take the female worker about 1,200 years of work to earn the same amount as the CEO earns in just one year.
- Large corporations dominating industries and having no competition exacerbate the gap between the rich and the poor. These companies have the authority to dictate market conditions, including setting prices and terms of trade, without facing any threat from competitors. This lack of competition affects various aspects of our lives: it influences how much we get paid, the types of food we can afford and access, and the availability of medicines. Importantly, this concentration of power in the hands of corporations isn't accidental; it's a result of deliberate actions by governments that have empowered these monopolies.
- The shift from democracy, where the people have a say in governance, to plutocracy, where the wealthy hold the most power, is occurring due to extreme inequality fueled by private monopolies. When a few big companies have too much control, it's like corruption, making economic inequality worse. These big companies act like governments, making rules, regulating, and even competing with governments for power.

This study discusses the principles of Islamic economics, including risk-sharing finance, partnerships, and cooperation-based markets, to solve the problems that the capitalistic economic system has been encountering. That is to say, in Islamic economics, risk-sharing finance causes more efficient market equilibrium, partnerships can be a remedy for unjust income distribution, and cooperation improves market efficiency.

1.3. Research Questions

The thesis has been constructed based on the following research questions.

- What are the main market dynamics (Risk-sharing finance, Partnerships, and Cooperation versus competition concepts) that make the market effective in providing social welfare?

- What are the proxy dynamics that influence social welfare? For example, risk-sharing finance provides cost efficiency for firms; partnerships lead to income distribution to a large scale of society, and cooperation of firms in the market provides market efficiency.
- What is the role of market/market structure in achieving social welfare?

Within the framework of the above questions, the solutions offered by Islamic economics are explained and discussed in the study.

1.4. Objective and Importance of the Study

The objective and importance of the study can be described as follows.

- To compare capitalism with Islamic economics within the context of certain market dynamics such as cost efficiency, income distribution efficiency, and market efficiency.
- To investigate the impact of the cost efficiency of risk-sharing finance on the market equilibrium and social welfare in terms of the firm's production costs.
- To investigate partnership models on income distribution and its impacts on social welfare.
- To analyze the effect of cooperation among firms in the market instead of competition and its impacts on market efficiency and social welfare.
- To theoretically discuss market dynamics shaped by the principles of Islamic economics and to practically pave the way for these markets' formation.

1.5. Limitations of the Study

Firstly, although many factors contribute to social welfare within Islamic economics, this study has taken three essential dynamics into account within the scope of risk-sharing finance, partnerships, and cooperation-based market structure. Secondly, the study analyzes these concepts with a doctrinal understanding of a theoretical framework. The absence of an actual market structure that operates entirely with the principles of Islamic economics does not allow for an empirical study.

In the first part of the study, cost and resource allocation efficiency concepts are analyzed based on assumptions and employing software technology and mathematical models.

In the second chapter, where multi-partner companies are proposed, a theoretical model is proposed to establish the organizational structure and develop audit mechanisms for them. Another significant limitation is that a quantitative study cannot be conducted due to the need for a practical company model suitable for the proposed model.

The third principle, the cooperative market model proposal, is analyzed in light of the historical experiences of Islamic societies. While discussing how these business organizations based on brotherhood and cooperation can be reflected in today's markets, there needs to be more studies in this direction in the literature. Today, the highly competitive market is killing competition, profit-oriented capitalist system that turns everything into a commodity that can be bought and sold is creating problems. Despite all these limitations, this study will pave the way for studies that will allocate resources effectively, ensure fair income distribution, and contribute to social welfare with market structures based on brotherhood and cooperation within the framework of Islamic economics.

1.6. Literature Review

One of the main postulates of classical economics is the profit maximization postulate of firms. In the realm of Islamic economics, the pursuit of profit maximization is viewed with certain constraints imposed by Shari'ah principles. Contrary to conventional economic paradigms, the primary considerations in Islamic economics extend beyond profit, encompassing priorities such as survival, employment, equity, and the pursuit of the pleasure of God.

Profit-maximizing behavior, particularly as seen in mainstream economics, is not easily defended within this framework. Instead, the focus shifts towards the welfare of consumers, employees, and society as a whole. In this context, discussions revolve around internalizing social costs and benefits, emphasizing a holistic approach that aligns economic activities with the ethical guidelines set by Islamic principles. The acceptance of profit maximization within Islamic economics comes with modifications and restrictions, reflecting a commitment to social welfare and adherence to Shari'ah norms (Hasan, 2002: 95-118).

A number of theoretical studies have been conducted on interest and the costs it creates for companies in the context of Islamic economics. The objective of a firm has been

discussed and based on some assumptions made according to the principles of Islamic economics, market equilibrium has been determined.

There are studies showing that the sole purpose of the company is not just profit. Within the framework of Islamic economics, the firm's goal remains the maximization of utility. This utility, however, is uniquely defined as a function of profits and contributions to charity and social welfare. Contrasting with this perspective, Hasan, in alignment with conventional economic objectives, assumes profit maximization as the core aim. His analysis delves into the rewards assigned to factors of production and their impact on the cost of production within an Islamic firm. The distinctive outcome of this approach manifests in higher output coupled with lower prices when compared to conventional firms, primarily attributed to the prohibition of interest. This underscores the nuanced economic principles, where financial success intertwines with social responsibility within the Islamic economic framework (Hasan, 1992: 239-255).

Based on the historical experience and knowledge of the Islamic civilization, there are efforts to ensure that today's companies should act in a way that takes into account social benefits while carrying out their activities. Tabakoğlu (2008: 31-40) suggests that Islamic Economics should be developed within the framework of Islamic Economic History and the experiences of Islamic societies. He emphasizes that economic issues are context-dependent, varying from one society to another. Unlike the capitalist and socialist economic theories that emerged from the historical and theoretical evolution of Western societies, Islamic economics is distinct, reflecting the unique characteristics of the Islamic world.

For example, during the Ottoman Empire, pricing policy was implemented within the context of social and religious norms of Islamic economics. According to Oguz and Tabakoglu (1991: 63-74), the Ottoman approach to economic policies led to price stability by maintaining a stable and balanced overall supply. The *narh* system was employed for this purpose. Consequently, monopolistic tendencies were restrained, addressing the issue of resource allocation in a less-than-ideal manner, and inflation was no longer the primary concern. The system was structured to prevent intense competition, which tends to suppress competition and eventually leads to monopoly or oligopoly. Essentially, the *narh* system was used to determine market prices that would have existed under moderate competition. This approach could be seen as

beneficial since the prevalence of black markets was not widespread. Moreover, this system demonstrated a reciprocal relationship between prices and market conditions.

Tabakoğlu (2008: 31-50) highlights the emergence of Islamic economics as a response to the establishment of economics as a separate science within the Western Enlightenment tradition. He states that Islamic economics represents a new field of study shaped by Islamic beliefs, scientific principles, historical context, and fiqh (Islamic jurisprudence). Historical and political works, as well as fiqh literature, provide valuable insights into the economic experiences of Islamic societies.

Furthermore, Tabakoğlu (2008: 53-63) underscores the importance of basic Islamic economic theories on a thorough understanding of history. He proposes that Islamic Economic History be utilized as a primary reference for shaping Islamic economics, facilitating the generation of more practical results. The core principles of Islamic economics, originating from the Quran and the Sunnah (teachings of Prophet Muhammad), strive to establish a framework that prioritizes human rights. These principles encompass minimizing wastage, advocating for economic and political autonomy, fostering ownership, promoting social justice, ensuring security, and improving welfare. Firms should take these factors into consideration in their activities and consider social benefits.

Another study is about the allocative efficiency of Islamic economics based on public needs and their priorities by comparing conventional and Islamic market frameworks. Within the framework of Islamic economics, a firm operates as a profit-driven entity, albeit with significant Shari'ah constraints guiding its conduct. This approach requires the producer to internalize externalities within both utility and cost functions, emphasizing a broader responsibility to society. The producer is tasked with treating the resources at their disposal as a trust, framing the production of goods not merely as a commercial endeavor but as a duty with ethical dimensions. In shaping production decisions, the concept of 'maslahah—social benefit—takes center stage, further reinforcing the commitment to align economic activities with the broader well-being of the community. This multifaceted approach underscores the integration of profit motives with ethical considerations within Islamic economic principles. In the Islamic perspective on social welfare, as articulated by al-Ghazali and later al-Shatibi, a three-level hierarchy of activities or goods is proposed to promote overall well-being. These levels, in order of priority, are 'necessities,' 'conveniences,' and 'refinements.' From this

viewpoint, necessities hold a higher degree of *maslahah*, or benefit, compared to conveniences, and refinements follow suit. This hierarchy suggests that addressing necessities takes precedence, assuming they are not yet fully met, as a foundational step in enhancing social welfare. The emphasis on this three-tiered structure underscores a nuanced approach to societal well-being within the framework of Islamic teachings (Amin and Yusof, 2003: 5-21). In this study, it has been proved that Islamic economics has a better market equilibrium in terms of equilibrium price and equilibrium quantity demanded.

Metwally (1997: 941-957) describes an Islamic firm as a firm, with its primary objective being the maximization of utility, operates within a distinctive framework that integrates both financial success and social responsibility. In this unique perspective, utility is defined as a function of not only the amount of profits generated but also the extent of spending on charity or good deeds. Thus, the firm's success is measured not solely by financial gains but also by its commitment to contributing to social welfare through charitable endeavors. This approach reflects a broader understanding of utility, incorporating ethical considerations and social impact into the traditional economic objective of profit maximization.

Bendjilali and Taher (1990: 219-232) discuss the position and behavior of imperfect market structures like monopolies. Their conclusion is that in the realm of monopolistic practices, a unique ethical dimension emerges, urging the monopolist to prioritize social welfare. This perspective calls for a willingness on the part of the monopolist to make calculated sacrifices in terms of profits. The rationale behind such a stance is rooted in the pursuit of efficiency and the minimization of social welfare loss. This approach reflects a departure from a purely profit-driven mindset, acknowledging the broader impact of monopolistic actions on societal well-being and advocating for a balance between financial gains and ethical considerations.

Chapra (2007: 161-186), argues that in an interest-based relationship, there is a tendency for the lender to assume risks that they might otherwise avoid in a system based on risk-sharing. The structure of fixed contractual compensation in such arrangements can foster a climate of reduced prudence, potential carelessness, and unsound risk analysis. This, in turn, has the potential to contribute to losses and macroeconomic imbalances, even escalating to a crisis. The inherent difference in risk incentives between interest-based and interest-free systems highlights the broader

economic implications of the contractual frameworks employed, shedding light on the potential vulnerabilities and consequences associated with fixed compensation structures.

Although it has been considered immoral for a long time historically, the risk-sharing economic system and financing model cannot be considered by Western economists today. Western scholars found Islamic banking attractive due to its emphasis on avoiding interest payments. The concept of a financial structure functioning without an interest rate seemed unusual to those familiar with a fractional-reserve banking system. The absence of a conventional price for capital raised numerous questions, including how capital could be allocated most productively and how an entire financial system could operate without the use of conventional prices.

One fundamental tenet of Islamic economics is the prohibition of interest within the economic framework. Despite persistent uncertainties surrounding the establishment of an interest-free economic and financial system, substantial theoretical literature in Islamic economics and historical experiences with practical applications exist. Consequently, the profit-loss partnership (partnership financing) method emerges as a fundamental alternative to interest in the Islamic economy, particularly in the context of real economic activities.

There are studies on the effects of risk-sharing finance methods on the company. In a study prepared by Harunoğulları (2023: 209-224), the focus is on partnership financing based on profit and loss sharing and is explained through a mathematical model. This model establishes a mathematical framework for a planned macro model, providing insights into the implementation of profit-loss sharing as an alternative to interest within the Islamic economy. In this study, Harunoğulları (2023: 209-224) revealed how the partnership financing method was theoretically constructed and how the capital flow between households and companies was ensured. Ultimately, using profit-loss sharing instead of interest to ensure capital flow in the Islamic economy may be a solution. In this model, financing is provided directly to the real economy and decisions are made accordingly. In the proposed model, households and companies determine their decisions based on profit-loss sharing instead of interest, ensuring that economic decisions are determined according to real economic activities. Because now, the profit-loss ratio affects real economic activities as an internal dependent variable instead of an externally determined interest variable.

From the perspectives of Islamic economics, capital and enterprise factors are viewed as a unified entity, and their earnings manifest as profit. Consequently, one can interpret the Islamic economy as a system fundamentally grounded in profit and partnerships, encompassing elements such as earnings, equity financing, risk sharing, and fairness in the distribution of income and wealth.

In the framework of partnerships, Islamic economics possesses the capacity to provide an alternative economic model grounded in fundamental principles of justice, equity, and social responsibility. At the core of this alternative paradigm is a fundamental aspect — the incorporation of profit-loss sharing mechanisms instead of relying on conventional interest-based financing. This shift reflects a commitment to stimulating economic systems that prioritize fairness, equitable wealth distribution, and societal responsibility, setting the stage for a unique approach to financial and economic activities within the Islamic framework.

Multi-partner companies (will be referred to as MPC in the thesis) primarily aim to gather modest savings and employ them efficiently within the market. In the current capitalist system, companies increase their income, and company owners increase their wealth. For this reason, wealth is concentrated in the hands of a particular group. When multi-partnership companies work in this context, income distribution efficiency is obtained and positively contributes to social welfare. This approach enables the accrued profits to be distributed across a broader spectrum within society, ensuring a more widespread benefit from the gains achieved.

Some studies in the literature have discussed funding methods through interest-based funding and partnerships by sharing the risk. The primary distinction between an Islamic or interest-free banking system and the conventional interest-based banking system lies in their fundamental operational mechanisms. In the conventional system, interest rates are typically predetermined or established as a direct linear function of a benchmark rate. Conversely, in the Islamic model, the approach shifts significantly: profits and losses arising from physical investments are shared between the creditor and borrower. This sharing adheres to a formulated structure that mirrors the levels of involvement and participation of each party involved. In essence, while the conventional system relies on fixed or linear interest rates, the Islamic system stimulates a partnership-based framework centered on profit and loss sharing, aligning

the outcomes with the degree of engagement of the creditor and borrower (Mirakhor and Zaidi, 2007: 2-37).

This study delves into another interesting subject: the exploration of whether an economic paradigm founded on cooperation rather than competition can be cultivated. The inquiry navigates through the dynamics of how fostering a deeper comprehension of cooperation among market participants can potentially yield more effective market functioning. It involves an endeavor to reframe Islamic economic philosophy, methodology, doctrinal structure, and other facets of economic science by anchoring them on the principle of cooperation. This endeavor seeks to reimagine the foundational elements of Islamic economic thought within the context of collaborative principles, aiming to reshape perspectives on how economies function and how market actors interact within such a framework.

Dinç (2023: 17-40) asserts that the principle of cooperation is inherently embedded within Islamic economics. From his comprehensive exploration, often channeled through an economist's perspective, a pivotal and expansive observation surfaces: the values, principles, and theories encapsulated in Islamic economics, notably highlighted by the fundamental prohibition of interest and gambling, distinctly embody the essence of cooperation. This profound revelation signifies that these fundamental facets collectively represent the cornerstone of a cooperative framework within Islamic economic principles.

Dinç (2023: 36) also states that it is a duty upon us to build an economic thought approach including cooperation, integrating terms such as rights, consent, goodwill, sincerity, benevolence, charity, and all the other socioeconomic values that capitalism tends to disregard.

Dinç (2023) emphasizes the negative results of competition by stating that cooperation is indeed the fundamental paradigm of Islamic economics. Subsequently, the rivalry can be put into a sibling rivalry pattern. Competition in an environment without solidarity is deadly. He also asks that in a world of pure competition, can there be cooperation when resources (factors of production) are limited and needs/wants are unlimited? What can protect humans and other species from the emergence of meaningless and destructive competition in an environment of unlimited needs? Therefore, Dinç (2023: 169-170) argues that cooperation should not be viewed as

opposed to competition as a fundamental value. Instead, he suggests that competition should be restructured within the framework of Islamic economics. He contends that Islamic economics has the potential to bring a unique perspective to the field of science through this distinction.

Cut-throat competition is the main driver of capitalism. Capitalism thrives on conflict. According to Ersoy, Capitalism operates on a worldview centered around force and conflict. According to this perspective, which justifies might as right, conflict is inherent in the universe, with differences seen as triggers for contention. Balance is perceived to be attained through the dominance of the powerful, exerting pressure and imposing their will for a certain duration. Conflict is viewed as perpetual, with everything reliant on its counterpart for survival, unable to subsist in its absence (Ersoy, 2010: 38-61). Capitalism's fierce competition approach, which kills competition, brings with it many problems. These competitive and conflict-based approaches disrupt the balance of the market, and competition, which is considered an automatic market regulator, becomes a market-distorting element. The Islamic economy's approach, based on brotherhood competition and cooperation and considering the rights of others, creates a more balanced market structure.

Kallek (1997: 175-192) investigated the dynamics of market-state relations during the era of Prophet Muhammad (PBUH), focusing on the Medina market as a case study. He contends that following the Hijra, there was a dual objective: to establish a robust independent state capable of defending believers against external threats and to institute an equitable economic system that would prevent exploitation among Muslims. In pursuit of these goals, the 'Hisbah' organization emerged and evolved as a proficient and impactful executive entity to bolster the state's regulatory authority.

Drawing insights from the market structure and experiences in Medina, Kallek advocates for the establishment and sustenance of chambers of commerce and industry, as well as associations such as employee-employer unions and economic communities, wherein Muslims would hold control (Kallek, 1997: 175-192). When the Medina market is evaluated from this perspective, not only the market and its structure can shed light on the elimination of information asymmetry but also the fair management of employee-employer relations. It is also essential to establish chambers of industry and commerce that will increase productivity on a sectoral basis and quickly notify the relevant authorities to eliminate any disruptions in the market.

CHAPTER II

FOUNDATIONS OF ISLAMIC ECONOMICS

This chapter explains the foundations of the Islamic economics perspective, which is presented as a solution to the array of issues described in the preceding chapter. It details the principles and essentials of Islamic economics, which are compatible in accordance with the Islamic worldview. The Islamic economic understanding based on revelation is explained with its components as opposed to the neoclassical economic understanding shaped by the secular worldview.

It's essential to recognize that economic frameworks cannot exist in isolation from the values inherent in the society they operate within or the perspectives of individuals. No theory is value-free. Thus, within this chapter, the ontological and epistemological foundations of Islamic economics, the definition and hierarchy of man in the creation hierarchy, sources of knowledge, and ethical precepts have been depicted. In short, the fundamental framework underpinning Islamic economics has been described.

2.1. Principles of Islamic Economics

In its literal sense, the term Islam conveys the concepts of surrender, submission, and obedience. It represents a comprehensive way of life, encompassing beliefs and practices aimed at stimulating peace and fulfillment in worldly existence and the afterlife.

Islam addresses every aspect of human existence, guiding family life, business endeavors, social interactions, and religious practices. Economic activities within the Muslim community are inculcated with significance within the broader framework of Islamic principles.

Islam is a worldview wherein the Prophet Muhammad (peace be upon him) received fundamental teachings and principles directly from God through revelation. He enacted these teachings as an exemplar for others to follow. Over time, Muslim societies have further developed Islam by drawing upon a variety of human knowledge, both theoretical and practical. As a result, Islam has evolved into a comprehensive framework encompassing principles and philosophies addressing various aspects of human life, including individual, societal, and governmental

matters. It has thus become a defining aspect of historical experiences, cultures, and civilizations.

Economic pursuits in Islam are integral to Islamic ethical values and hold a significant place (Tunç, 2010: 74). A solid belief in the afterlife, the belief that life is not just about the worldly life and that one will be held accountable after death, as well as the legal and social control of the individual in the world, shapes the economic behavior of a Muslim.

The interplay between economic activities and the broader Islamic holistic framework is depicted in Figure 2.1.

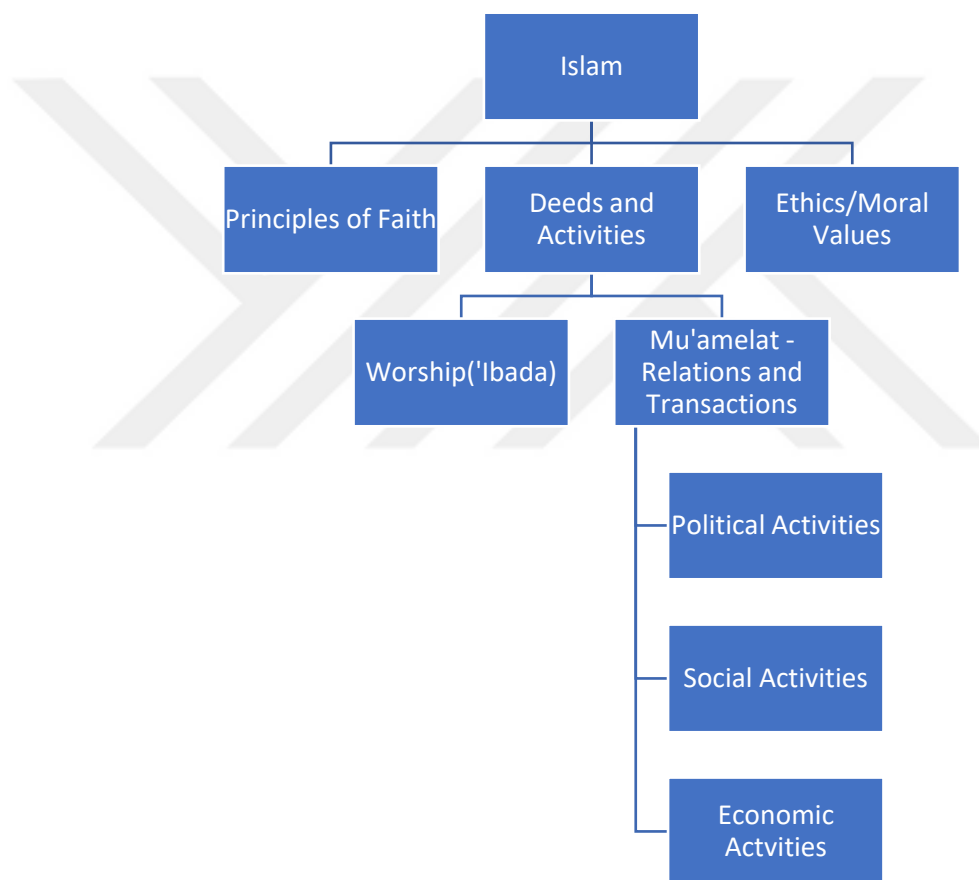


Figure 2.1: Place of Economic Activities in Islam²

Within this framework, economic activities fall under the category of transactions. This hierarchy illuminates a fundamental truth: Islamic economics finds its significance within the comprehensive structure established by these principles. Economic conduct and commerce in Islam are interlaced with elements such as faith,

² Modified version of Islam and Economic activities (Tunç, 2010: 74)

morality, and worship, each reinforcing the other. Put simply, Islamic economics derives its essence and functionality from elements such as faith, morality, and worship. When economic activities are separated from these values and executed independently, they lose their intrinsic meaning. Hence, many contemporary economic challenges stem from interpreting and applying Islamic economics and trade through the perspective of capitalist values. It's crucial to recognize that Islam constitutes a holistic system encompassing principles of faith, morality, worship, and economic life, with each component fulfilling its true function within the integrity of the whole.

The primary sources from which Islamic rulings derive are the Book (Quran), the Sunnah (traditions of Prophet Muhammad), ijma' (consensus of scholars), and qiyas (analogical reasoning). These four sources serve as the foundational pillars of all Islamic disciplines, with all rulings deduced from them. In essence, judgments in Islam are substantiated by evidence drawn from these sources. While the Qur'an and the Sunnah hold primary status, ijma' and qiyas serve as supplementary sources (Tabakoğlu, 2008: 54-55).

As mentioned before, Islamic economics is an academic discipline that examines economic theory and practice within Islamic principles and values. It fundamentally emphasizes justice, equality, and socio-economic well-being and aims to develop an economic system consistent with the teachings of Islam. Islamic economics also uses principles and methodologies to aid its analysis and economic policy-making. The following list constitutes the three basic pillars of Islamic economics in its most general form:

2.1.1. Ethical Framework

Islamic economics is grounded in ethical principles derived from Islamic teachings. Islamic economics is grounded in ethical principles derived from Islamic teachings. It emphasizes concepts such as justice, cooperation, social welfare, and responsibility and promotes the idea of responsible economic behavior by economic actors. Transactions and economic activities in the market must be carried out within the framework of all Islamic ethical and legal rules that prohibit usury (interest), injustice, and exploitation.

2.1.2. Shari'ah Compliance

Islamic economics operates within the framework of Shari'ah, which encompasses a comprehensive set of Islamic legal and ethical principles. All economic activities are conducted in accordance with Shari'ah rules that govern finance, business practices, contracts, and property rights. Compliance with Shari'ah principles automatically ensures that economic activities are compatible with Islamic values.

2.1.3. Social Welfare

Islamic economics strongly emphasizes societal well-being and aims to achieve social welfare. With these principles, Islamic economics aims to reduce poverty and inequality and ensure fair distribution of resources. Economic policies and practices are determined by considering their impact on society's general welfare and prioritizing the needs of the excluded and poor segments.

2.2. Epistemological Framework of Islamic Economics

The epistemological framework of Islamic economics describes the foundational principles, knowledge sources, and methodologies fundamental in examining and evolving Islamic economic ideology. It lays the philosophical groundwork for comprehending and dissecting economic occurrences from an Islamic standpoint. Essential constituents of this framework include:

2.2.1. Revelation (Wahy)

Within Islamic economics, supreme recognition is accorded to the Qur'an as the fundamental source of knowledge. Regarded as the divine word revealed to Prophet Muhammad, the Qur'an is deemed an exhaustive manual for human existence, encompassing economic aspects. It provides ethical rules, moral directives, and guidelines about economic behavior, wealth distribution, and equitable economic principles.

2.2.2. Prophetic Traditions (Hadith)

The Hadith, encapsulating the documented statements, actions, and approvals of Prophet Muhammad, holds substantial importance in Islamic economic discourse. These narratives provide guidance on economic matters by providing deeper information on economic activities as well as all the many activities of the time of the Prophet (PBUH) and his companions.

2.2.3. Islamic Jurisprudence (Fiqh)

The framework of Islamic law provides comprehensive interpretations and applications of Islamic tenets across multiple life domains, including economics. Scholars specializing in Islamic law produce legal decrees (fatwas) regarding economic transactions, contractual agreements, property rights, trade, and complex economic relations based on Islamic principles.

2.2.4. Ijma' (Consensus)

Ijma' refers to the consensus of Islamic scholars on specific issues. The interpretations and guidelines agreed upon by Islamic jurists play an important role in shaping the epistemological framework of Islamic economics. Consensus is often sought to address new economic phenomena or clarify controversial economic matters.

2.2.5. Reasoning (Ijtihad)

Ijtihad refers to using human reasoning and scholarly effort to derive new insights and solutions in Islamic economics. Scholars employ deductive and inductive reasoning, analogical reasoning (qiyas), and other methods to apply the principles and guidelines from primary sources to contemporary economic issues.

In Figure 2.2 below, we see a hierarchy showing the values important in capitalism and Islam, including its economy. Let's break it down:

- **Outer Circle:** Islam is primarily based on revelation (messages from God) and rationalism (using reason and logic). Rationalism is a tool in Islam for understanding and putting into practice these revelations. This means that rational thinking in Islam is guided by the messages from God.
- **Inner Circles:** Within Islam, moral values and ethics are the innermost principles that guide Muslims. These values form the core of a Muslim's beliefs and actions. They influence various aspects of life, such as social interactions, economic activities, and worship. Essentially, these values act as a filter, shaping how Muslims behave in their personal, social, and economic lives.
- **Interrelation:** The inner and outer circles are interconnected, meaning that both internal beliefs and external actions are influenced by each other, all under the guidance of the revelations in Islam.

- Comparison with Capitalism: Capitalism also has its own set of values, largely influenced by Christianity and Judaism. However, these values are not as prominent or impactful in today's capitalist economy and finance compared to the influence of Islamic values in Islamic finance and economics.

In essence, the diagram illustrates how Islamic values, guided by revelation, permeate every aspect of a Muslim's life, including their economic activities, while also highlighting the comparatively lesser influence of religious values in contemporary capitalist systems.

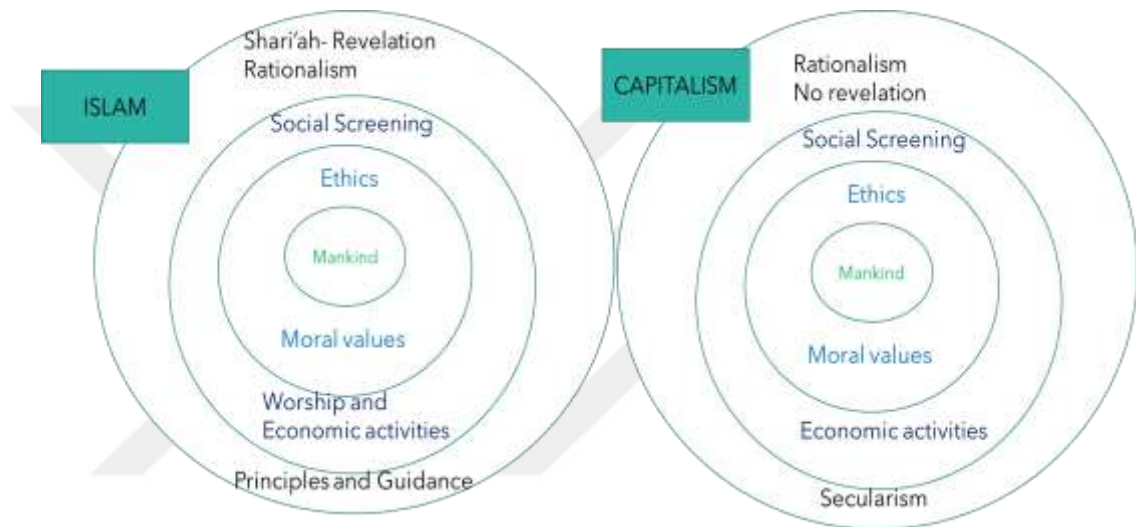


Figure 2.2: Circular Structure of Values of Islam and Capitalism

Source: Author

2.3. Ontological Framework of Islamic Economics

The ontological framework of Islamic economics is formed based on the nature of reality and the hierarchy of existence from an Islamic perspective. It refers to fundamental beliefs and assumptions about the purpose of existence and economic activities. It provides a philosophical and conceptual basis for understanding the ontological aspects of economic activities and shaping the goals and objectives of Islamic economics. Within the ontological framework, Islamic economics views economic activities as part of a purposeful existence in which belief in a higher purpose and responsibility to God guide human actions. For a Muslim, economic activities are evaluated as a means to accomplish one's duties, contribute to the welfare of society, and seek reward in the hereafter. In this regard, Islamic economics views economic

welfare and well-being as integral to human development. Economic activities are anticipated to enhance societal well-being, diminish poverty, and enhance the overall economic state of society. Islamic economics asserts that all resources, encompassing wealth, land, and natural resources, are fundamentally owned by the creator. Humans are viewed as trustees (Khalifah) entrusted with utilizing and governing these resources under principles of justice, sustainability, and societal welfare.

This belief in divine ownership and human vicegerency (Khalifah) influences economic activities' ethical and moral dimensions. The foundational structure of Islamic economics underscores the ethical aspect of economic activities. It acknowledges that economic activities and transactions should align with Islamic ethical principles, including honesty, fairness, responsibility, and exploitation prevention. Economic goals are guided by moral reflections and principles drawn from Islamic teachings, tuning the pursuit of economic objectives.

Islam fosters equilibrium between material prosperity and spiritual growth through its ethical and legal principles. Within Islamic economics, the intrinsic link between material and spiritual facets of human existence is acknowledged. It advocates for material prosperity, spiritual contentment, and a harmonized approach to economic activities. Economic pursuits are viewed as a means to support individual and societal needs while seeking spiritual growth, ethical conduct, and attaining moral values.

Islamic economics strongly emphasizes social justice and equity. Equitable resource allocation, the equitable allocation of resources, equal opportunities, and eradicating exploitation and injustice are essential goals of economic endeavors. This perspective originates from recognizing that everyone possesses inherent dignity and rights to fulfill their fundamental needs and contribute to societal progress.

Islamic economics perceives a unity between religious and secular knowledge. It rejects the dichotomy between religious principles and economic theories, aiming to integrate Islamic teachings into the study and practice of economics. It emphasizes the importance of holistic understanding, where Islamic values and ethics inform economic analysis.

The ontological framework of Islamic economics offers a different perspective on the nature of economic activities by emphasizing concepts such as revelation, divine ownership, social justice, ethical orientation, and holistic well-being. It guides the

formulation of economic goals, policies, and practices within the Islamic principles and values framework, aiming to establish an economic system that aligns with human existence's and societal welfare's broader objectives.

2.4. Ethical and Moral Dimension of Islamic Economics

Islamic economics originates from and is based on the revelation. Muslim identity is clearly defined by the revelation. The aim of a Muslim is to be virtuous and to be beneficial to society and humanity. In Islam, the concepts of doomsday, judgment day and people's rights are very strongly emphasized. The strong moral values preached by Islam are expected to guide Muslims and guide their economic activities efficiently.

Classical economists claim that this structure will create an ideal market structure and that resources will be distributed effectively. When classical economists say this, they also include morality.

Buğra (1995: 16-26) describes the studies of Adam Smith as considered the founder of economics according to Western academics, and he was also a professor of ethics. Two primary purposes make their presence felt in Smith's works and complement each other. The first of these is the scientific purpose, which envisages applying the methods applied to natural sciences to economics. The second is to create a social order based on virtuous living that does not require oppression.

According to Bulut, although Adam Smith is the author of the book called “The Theory of Moral Sentiments” and is one of the thinkers who know the inner world of humans best in terms of his profession, he, unfortunately, excluded the field of morality and culture in his analysis in his work *The Wealth of Nations* and based it on *Homo Economicus*. Approaching the issues with this reductionist approach constitutes a significant obstacle to today's economic science from covering the events holistically. This situation prevents economic science from encompassing the entire field of life and condemns human beings and society to a particular framework of limitations independent of other areas of existence (Bulut, 2015: 107-110).

Capitalism does not have strong ethical and moral values that will influence the actors in their economic activities. A capitalistic economic system is based on competition and competition leads to confrontation among market actors. Without strong and robust ethical values, such a system based on only self-interest fails. Consumers try to maximize their utilities, and firms try to maximize their profits. In this discourse, they

may try to cheat and exploit others to reach their goals. This distorts the resource allocation mechanism in the market and leads to market inefficiency.

In other words, in a free economy, it's important for people to be guided by, strong and effective moral values. Kahf describes these values as including internal, external, and social screening. Internal screening involves self-reflection and personal integrity. External screening refers to considering the impact of one's actions on others and the environment. Social screening means taking into account the norms and expectations of society. These values should influence how people behave not only in their personal lives but also in their economic and social activities. According to Kahf (2014: 47), In the Islamic economic system, moral values are integrated into the decision-making process through a three-stage screening system. This system includes an internal screen within the individual's conscience, an external moral screen represented by Shari'ah (Islamic law), and a social screen that functions within the broader society. In broad terms, Islamic economics' ethical and moral aspects can be analyzed within a comprehensive framework encompassing ethics, wealth distribution, social justice, and welfare.

Within Islamic economics, wealth is perceived as a trust from God, with individuals seen as protectors of their resources. This principle opposes hoarding and stresses equitable wealth distribution. Islamic ethics advocate for the lawful acquisition of wealth (Halal) and its socially responsible use.

Excessive wealth accumulation and income inequalities are emphasized to be reduced; practices like Zakat (mandatory charity) and Sadaqah (voluntary charity) are encouraged in Islamic society to alleviate poverty and redistribute wealth. In Islamic economics, the charging or paying interest (usury) in financial transactions is strictly prohibited because Riba is considered exploitative, unfair, and unearned profit. Instead, Islamic finance advocates for profit-sharing agreements, partnership contracts, and risk-sharing mechanisms to deter unjust enrichment and exploitation of borrowers.

Additionally, speculative activities and gambling are discouraged in Islamic economics due to their association with uncertainty and economic injustice. Transactions must be based on tangible assets, genuine trade, and actual economic activities, focusing on productive investment and long-term real economic growth.

Environmental sustainability is also recognized as crucial, emphasizing human responsibility to preserve and protect the Earth. Islamic principles promote sustainable development, conservation, and responsible resource utilization, considering practices harming the environment as unethical.

One of the most important problems encountered today for firms, which are among the most critical actors in the market, is the agency problem. In other words, firm managers, who are representatives of capital owners, can do things to serve their interests at the expense of capital owners. Ethical and moral values reinforced by the belief in the afterlife affect managers' behavior and are supposed to have a positive impact on solving the agency problem. In firms since zero agency problems cannot be achieved, ethical values are expected to play a dominant role for a collaborative businessman.

CHAPTER III

MARKET AND MARKET STRUCTURES

This chapter explores the correlation between the market and societal well-being and the market's impact on enhancing social welfare. The definition of the market and its structural evolution are explained. This chapter analyzes the market, market structures, and components in this context. In this context, in addition to the tools of neoclassical economics used when evaluating markets today, markets and market structures are also evaluated in terms of Islamic economics.

The market and its components are discussed in the context of the principles of Islamic economics, and their contributions to social welfare are examined.

This section briefly presents the market's conceptual structure, characteristics, and structures. In line with the characteristics of this structure, a conceptual framework is drawn for the effects of the market on social welfare. The solutions and market structures offered are in line with the principles of Islamic economics, and they are based on this basic framework.

3.1. The Characteristics of the Market

Throughout history, markets have served as focal points for economic activities. In ancient times, specific locations were designated for people to exchange or sell their commodities. These traditional marketplaces facilitated the buying and selling of various goods, often arranged on specific days or intervals. The Industrial Revolution brought about a transformation in markets due to increased production and trade, leading to the emergence of expansive stores and retail chains.

Following the Industrial Revolution, the concept of retail underwent a shift. Urban areas saw the establishment of stores, simplifying the distribution of goods to consumers. Department stores increased, drastically altering retail trade, and expanding choices for consumers. This period also marked a significant shift in marketing strategies.

Subsequently, the rise of the Internet and digital transformation has increased the importance of e-commerce and online markets. The Internet has revolutionized

consumer access to global markets by fundamentally changing shopping behavior and redefining traditional retail concepts.

The market concept encompasses diverse economic and social interactions beyond mere transactions. Core to markets are the dynamics of competition and pricing, fostering continual competition among markets to deliver improved products and prices to consumers.

The product range within markets is shaped by consumer preferences, significantly impacting product diversity and quality. Additionally, the efficiency of markets is contingent upon the supply chain and suppliers, influencing processes like sourcing, storage, distribution, and sales.

Marketing strategies constitute a vital element in market functioning. Understanding consumer behavior and aligning product marketing accordingly is crucial for market success. Simultaneously, legal regulations delineate market operations, encompassing competition laws, consumer rights, and taxation policies that govern and structure market activities.

Crises in capitalist systems have stimulated research into the ethical implications of markets and the structure and essence of markets (Coyle 2011: 4-14). Diane Coyle (2011) argues that this is a reckless disregard for the future, mainly how the economy is managed. Coyle also discusses how development can be achieved without compromising a promising future for our children, communities, and the planet. She also criticizes the current essence and function of markets.

Clary (2011: 419-436) also states that ensuring economic prosperity is a social enterprise. We all need the cooperation and help of others to earn our daily bread. Exchange must occur at fair prices, and economic outcomes must be judged fair and equitable for the economy and society to thrive. This is the basis of the social economy. It is impossible to achieve and sustain general economic prosperity in an economy where unfair outcomes are not only permitted but also defended and richly rewarded. Clary (2011) views markets as social institutions that embody the norms and values of society. According to her, the current capitalist system is inherently unethical and, therefore, unstable.

For this reason, while the study evaluates the markets within a moral framework, it also offers criticism and solutions regarding the dynamics that dominate the market

(such as interest and financialization) and the essence and nature of existing capitalist markets.

3.2. Market Structures and Appraisal from Islamic Perspective

Economists classify markets in different ways. Generally, market types are classified into three groups. At one end of the spectrum lies perfect competition, while on the opposite end exists a monopoly market. The range of markets positioned between these two extremes falls under the broader category termed imperfect competition markets, which encompasses various types, including (1) Perfect competition, (2) Monopoly, (3) Monopolistic competition, and (4) Oligopoly. The distinct characteristics of each of these structural models significantly influence and mold the intricate dynamics governing how businesses interact, compete for market share, and operate within their individual market environments.

The concept of market structure entails a comprehensive understanding of how the framework of a particular market is configured. This analysis involves a deep exploration into various aspects, such as the nature and number of companies present, the magnitude of their influence or market control, and the intricate patterns of interaction between these entities. It delves into discerning whether a market thrives on robust competition among numerous players, operates under the dominance of a single entity, fosters differentiated competition among various entities, or operates within an oligopoly framework characterized by a few major players.

Understanding the specific market structure is crucial as it profoundly shapes the strategies and decisions of businesses within that realm. It affects how companies position themselves, compete, innovate, and strategize to capture market share or sustain their competitive edge in an environment defined by the specific market structure in which they operate.

Figure 3.1 depicts the market structures regarding the number of firms and competition level.

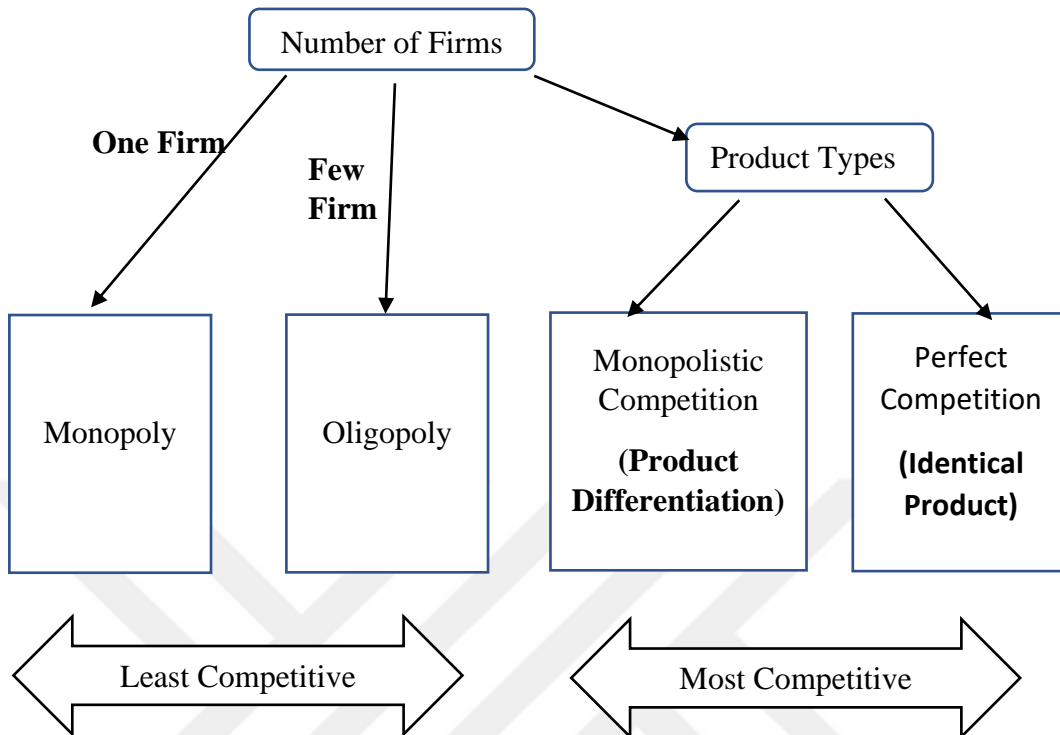


Figure 3.1: Market Structures

Source: Author

3.2.1. Perfectly Competitive Market

Perfect competition markets are theoretical markets. There are many buyers and sellers in this market. It represents a market where the interaction of supply and demand determines the prices of goods and services. In these markets, sellers operate under the paradigm of accepting a predetermined price as the market value of their offer. In other words, companies are price takers in the market. This fixed price constrains sellers from setting higher prices due to the surplus of sellers adhering to this standardized market rate. Simultaneously, buyers gravitate towards this established price as they cannot secure the same product at a lower cost elsewhere. The abundance of willing buyers reinforces sellers' adherence to the market price.

Key characteristics of a perfectly competitive market include:

- Abundance of buyers and sellers: The market accommodates many participants, ensuring that no single entity possesses the leverage to influence market prices independently. For instance, consider the apple market bustling

with numerous buyers and sellers. In this scenario, neither apple producers nor individual buyers hold sway over the prevailing price of apples. Within a perfectly competitive setting, a company acknowledges and complies with the prevailing market price, having the liberty to sell any quantity of goods at that price. Given the minute market share of any single company, their production and sales volume alterations do not impact the overall market price. Therefore, companies optimize their profit margins by determining the quantity of goods to produce and sell, aligning with the established market price and cost structures.

- Homogeneous products: The products sold in the market are identical or indistinguishable. In terms of quality and features, products are the same.
- Perfect Information: All buyers and sellers have complete and accurate knowledge about prices, quality, availability, and production techniques. There are no hidden surprises or information asymmetry.
- Free Entry and Exit: New sellers can enter the market quickly, and existing ones can leave easily. No significant barriers like high startup costs or restrictive regulations prevent entry or exit.

From the viewpoint of Islamic economics, while the perfectly competitive market aligns with the concept of a free market in conventional economic theory, specific limitations exist within the Islamic economic framework. This includes restrictions on trading goods and services not compliant with Shari'ah principles, which are permissible in the conventional, perfectly competitive market. For instance, items such as pork, alcohol, gambling activities, and transactions involving interest are prohibited in the Islamic free market but have no such constraints in the conventional setting.

The Islamic economic system establishes robust internal and external mechanisms to direct consumers and producers engaging in market activities. These mechanisms involve internal assessments of individuals based on ethical and moral values, which significantly influence the conduct of market participants. Additionally, legal and social criteria guide the behavior of consumers and producers, contributing to the screening process. Based on strong ethical and moral principles, these screening measures redefine the rational individual often portrayed in conventional economics into a morally conscious individual (virtuous individual) who prioritizes concerns for others and the environment.

Consequently, these powerful ethical frameworks inherent in Islamic economics tend to eliminate negative externalities. By emphasizing ethical values and social responsibilities, the system creates a market environment where harmful effects on society and the environment are inherently removed or at least minimized. In Islamic economics, depicted in Figure 3.2, economic agents are inherently guided by internal, social, and legal screening and ethical principles.

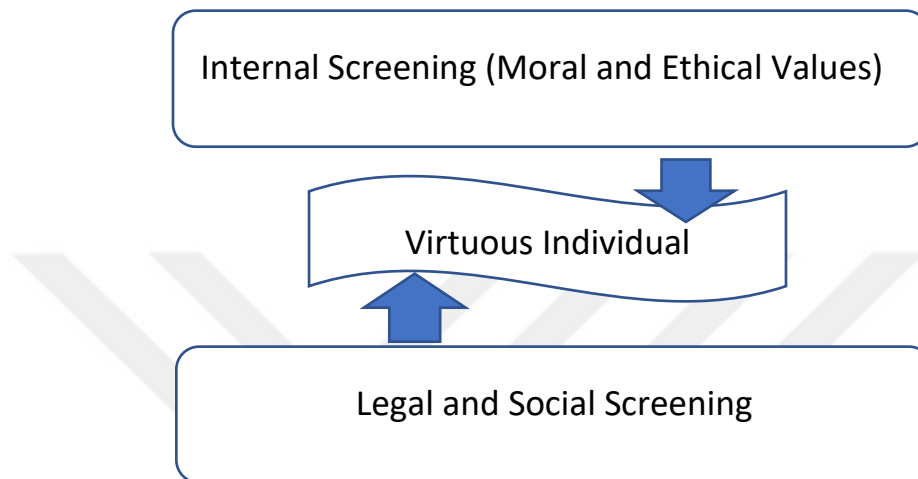


Figure 3.2: Values Guiding Economic Agents in Islamic Economics

Source: Author

3.2.2. Monopoly

A monopoly market characterizes an economic scenario where only one firm operates without any feasible substitutes for its produced goods. This singular entity, known as the monopolist, exclusively dominates the market without facing competition from other firms. The absence of alternatives means that even if the monopolist fails to meet certain consumer needs or product requirements, there's no possibility for other companies to step in and address those deficiencies. Essentially, the monopolist firm controls the entire market landscape, dictating prices and setting the norms for supply and demand dynamics.

Key features of a monopoly market can be outlined as follows:

- **Singular Seller with Multiple Buyers:** A solitary producer dominates the market while catering to multiple consumers or buyers.
- **Lack of Substitutes:** The product offered by the monopolist lacks viable substitutes, rendering consumers reliant solely on this firm for that particular product or service.

- **Absence of Competitive Environment:** Due to the absence of competing firms, there's no competitive landscape within the market. The monopolist operates without the pressures of competition.
- **Limited Advertising Scope:** Advertising or promotional activities within the monopoly market are restricted or irrelevant since there's no competition to attract or inform consumers about alternative products or services.
- **Price Determination by the Monopolist:** Prices within the market are solely dictated by the monopolist firm. Without competing entities influencing prices, the monopolist has complete control over setting the market price for its goods or services.
- **Barrier to Entry:** Market entry for other firms is immensely challenging or nearly impossible. The monopolist holds such a strong position that no other company can replicate or offer a similar product.

The primary factors that act as barriers to entry in a monopoly market are the following:

- **Natural Constraints:** One significant barrier arises from natural constraints, particularly economies of scale. When a production process benefits from economies of scale across a wide production range, a single company might be capable of producing and distributing goods to the entire market at the lowest cost. This advantage makes it more cost-effective for a sole entity to supply the entire demand rather than having multiple companies meet the market's needs separately. For instance, in sectors like telecommunications, setting up multiple networks for each household would be economically burdensome and redundant for a country. Similarly, constructing multiple railway systems would present a similar challenge regarding cost inefficiency.

In the case of natural monopoly, it becomes crucial for the government to actively oversee the market dynamics to ensure that the monopolizing entity doesn't impose excessively high prices. Industries like electricity, gas, and water, benefiting from economies of scale, observe a decrease in average total costs as their scale of operation increases. Leveraging these economies of scale, adopting a policy centered around pricing at marginal cost can result in increased output and a reasonable economic profit. Consequently, a natural monopoly has the potential to enhance societal well-being by efficiently delivering essential services. However, if the natural monopolist

attempts to limit output, regulatory bodies play a basic role in compelling the monopolist to adopt a marginal cost pricing strategy. This strategy ensures that the monopolist produces output at a level where the price aligns with the marginal cost, promoting fairer market practices.

- **Legal Restrictions:** Another barrier stems from legal regulations and rights granted by the state, such as operating privileges, licenses, patents, and copyrights. Entities holding these rights are exclusively authorized to produce certain goods or offer particular services. These legal protections create a barrier to entry for others attempting to enter the market. From a legal standpoint, these restrictions impede other players from accessing and participating in a monopoly market.

These barriers, whether arising from natural advantages like economies of scale or legal frameworks governing exclusive rights, collectively limit the entry of other firms into a monopoly market. This limitation, in turn, solidifies the monopolistic position of the existing entity, often leading to its sole dominance within the market.

Certainly, discussing the Islamic perspective on monopoly involves a detailed examination. In Islamic economic principles, the issue of monopoly isn't explicitly prohibited, but the ethical conduct surrounding monopolistic practices is emphasized. The focus lies on how monopoly power is utilized and its impact on societal welfare.

While in certain circumstances, monopolies might seem advantageous for reasons like efficiency and preventing redundant infrastructure, Islam encourages fair competition and discourages the exploitation of market dominance for selfish gain. This aligns with the Islamic principle that promotes a balance between individual interests and broader societal welfare.

Monopoly power, when utilized responsibly, can drive innovation and technological advancements through increased investment in research and development. Additionally, domestic monopolies, if managed ethically, could expand into global markets, contributing significantly to a country's export revenues, and boosting its economy positively.

However, the negative facets of monopolies should be considered. Islamic teachings caution against the exploitation of monopoly power that disregards societal interests for personal gain. The absence of competition allows monopolists to impose

significantly higher prices compared to more competitive markets, resulting in consumers bearing the impact of inflated costs.

Islam's stance on monopolies emphasizes the ethical responsibility of those in dominant market positions. While not explicitly banning monopolies, it condemns practices that exploit market power to the detriment of societal interests. This ethical perspective urges the responsible use of market dominance, ensuring fair pricing and consideration for the welfare of society over individual gain.

In Islam, the prohibition of monopolies revolves around preventing unfair practices like bribery and counterfeit infringement. These actions are considered both immoral and unethical within the Islamic framework.

A key characteristic of a monopoly market is that the controlling entity, known as a monopolist, can set excessively high prices while reducing the amount of goods or services produced. This strategy aims to maximize the monopolist's profits. To achieve this, the company limits its production below the level where the average total cost is at its minimum and sets prices higher than the cost of producing each additional unit. In this scenario, the monopolist faces no competition, leading to the elimination of competitors or the prevention of fair competition through unfair means.

It's emphasized that such behavior ought to be closely monitored by governmental bodies. The government should step in when societal interests are at risk due to these practices. This intervention becomes necessary when the monopolist's actions compromise the well-being of the broader society.

In essence, the rephrased version underscores the Islamic stance against unfair monopolistic practices while detailing how monopolies operate and how government intervention becomes crucial to safeguard societal interests in such scenarios.

3.2.3. Monopolistic Markets

Numerous firms compete in a monopolistic competition market, similar to what occurs in a perfectly competitive market. However, unlike the perfectly competitive market where homogeneous goods are produced, these firms manufacture differentiated goods that can be readily substituted for one another. This distinction in products, known as product differentiation, is an essential characteristic of monopolistic competition, granting monopoly power to the competing firms. Nevertheless, given the multitude

of firms in the market and the relatively small market share held by each, the pricing strategies of one firm do not significantly impact others.

Like a perfectly competitive market, in monopolistic competition, firms can enter or exit the market without any obstacles. Product differentiation, the characteristic of this market structure, is achieved through diverse means such as branding, service quality, post-sales support, installment sales, and packaging. The crucial aspect of product differentiation lies in creating a preference for a particular product in the eyes of the consumer, making it less dispensable compared to similar offerings from other sellers.

In a monopolistic market structure, individual firms operate independently from one another. Due to this independence, collusion among these firms to set or control prices is considered impractical or unfeasible (Nocco et al., 2014: 304-309).

When assessing monopolistic competition through the view of Islamic economics, it's essential to consider key traits like product differentiation. This aspect grants firms' monopolistic control over their product's pricing. However, within Islamic economic principles, genuine product differentiation is crucial; falsified or misleading distinctions are unacceptable. Upholding ethical standards means refraining from deceptive practices.

In the context of a monopolistic firm employing advertisements to highlight its product's uniqueness, it becomes imperative to provide accurate information. Transparency in advertising not only aligns with ethical standards but also diminishes information imbalances, an essential element for a market to function efficiently. Comprehensive product information further reduces information asymmetry and stimulates a more effective market environment.

3.2.4. Oligopoly

Oligopoly market is a type of market controlled by a small number of firms. It is a market structure dominated by only a few firms, none of which can keep the others from having a significant influence.

Firms may manufacture either a homogeneous or a heterogeneous product. When a firm produces and sells a homogeneous good, the market is termed a pure oligopoly. In contrast, a market where a firm produces and sells a heterogeneous good is called a differentiated oligopoly market.

The principal characteristics of an oligopoly market encompass several facets:

- Barriers to entry in an oligopoly market are high: Unlike in perfect or monopolistic competition, entering an oligopoly market isn't straightforward. The significant capital requirement, technical expertise, and various constraints, such as acquiring patent rights, contribute to the market's difficulty of entry.
- Price rigidity and non-price competition prevail: Altering prices to gain market share often triggers a chain reaction. If one firm reduces its price, others follow this firm, and all firms involved suffer losses. Consequently, firms in oligopolistic markets tend to bypass price-based competition, instead engaging in non-price strategies like promotional campaigns and advertising. Occasionally, they may pursue profits through agreements on pricing or production quantities, indicating a potential for collusion within this market type.
- There is mutual interdependence between firms: With only a handful of firms in the market, decisions made by one entity regarding pricing, marketing campaigns, or promotions significantly impact the sales and behavior of others. Consequently, firms must weigh their choices, understanding this interdependency and mutual influence, which is a central theme in the behavior of companies within an oligopoly market.
- Significance of economies of scale: Large-scale production becomes vital in an oligopoly market as it reduces per-unit costs, enhancing competitiveness. The limited number of companies in the market can fulfill the entire demand through extensive production.
- Company mergers as a strategic move: Mergers between companies, particularly to leverage economies of scale, lead to a reduction in the number of firms operating in the market, consolidating their position and influence.

The strategy adopted by an oligopoly could compromise the welfare of customers. When oligopolist firms form a collusion, this may potentially exploit customers with a price-fixing strategy. Therefore, the collusion must be stopped. Otherwise, due to collusion, a large monopoly emerges and harms customers and social welfare. Islamic economics is against this kind of implementation. Sometimes, there might be price wars among firms with price-cutting practices. With this practice, a firm wants to drive

out other firms in the market. Therefore, from an Islamic economics point of view, an oligopoly market should be monitored and regulated based on social benefit and preventing manipulative and unjust behaviors of firms.

3.2.5. Contestable Markets

The examination of competitive markets falls within the realm of competition, the foundational paradigm of classical economic theory. Competition is a fundamental concept in the capitalist system, shaping all market analyses. Coined and described by economists, Baumol and Panzar (1983: 491-496), the term "contestable market" emerged in the early 1980s within their studies that highlighted market competition's essence and the significance of entry-exit barriers. Their focus expanded beyond traditional classifications like monopolization or oligopoly, introducing the concept of contestability.

Within economic discourse, a contestable market denotes low entry and exit barriers, enabling easy replacement or competition among new and existing firms. Unlike monopolistic or oligopolistic markets characterized by high barriers, contestable markets facilitate potential challenges and replacements among firms.

In such markets, companies possess the capacity to compete or substitute for each other. The key lies in the minimal costs associated with entering or exiting this market. Essentially, the process of entry or exit does not entail substantial expenses for new or existing firms.

Contestable markets incentivize firms to offer competitive prices and enhanced services, aiming to sustain or augment profits within flexible competition dynamics. This environment often benefits consumers, encouraging companies to provide superior quality products or competitive pricing.

For consumers, contestable markets offer several advantages. Ongoing competition frequently turns into lower prices, prompting firms to optimize efficiency and reduce costs. Furthermore, the competitive landscape motivates innovation and improved product quality, meeting consumer needs effectively. Additionally, these markets stimulate an entrepreneurial environment by lowering barriers to entry, facilitating easy market access for new ventures, thereby expanding choices for consumers.

However, there are drawbacks to contestable markets. The perpetual competition might lead firms to prioritize short-term gains over strategic, long-term investments.

Frequent market entries and exits can generate instability and uncertainty, complicating long-term planning for companies. Moreover, established firms might misuse high costs to deter new entrants, hindering genuine competition and disadvantaging consumers in the long run.

In essence, contestable markets define an environment with low entry and exit barriers, promoting easy market access for new and existing firms. This promotes improved consumer prices and product offerings.

When examining the contestable market through the lens of Islamic economics, the following observations can be made: Given the prominence of competition within classical economic theory, as asserted by the contestable market theory, even the potential for competition among established market players prompts them to adopt specific stances, potentially disrupting the market's equilibrium.

In essence, it suggests that market participants will shape their strategies considering prospective competition, even if it hasn't yet materialized in the market. Contrary to the competition-driven approach emphasized in this perspective, Islamic economics prefers for microeconomic analyses centered around fostering cooperation among all present or future market entities.

Fundamentally, Islamic economics encourages a cooperative framework that preserves market efficiency and supports a constructive type of competition (a competition grounded in brotherhood).

3.3. Market Failures

Market failure emerges when the open market mechanism fails to distribute resources at an optimal societal level. In essence, it denotes scenarios where the expected outcomes in an ideal free market system are not met, or where resource allocation by the market is ineffective. These failures typically manifest in five primary categories:

- **Externalities:** Externalities occur when the actions of one individual or company affect others, either positively or negatively. Positive externalities (like a city park benefiting the entire community) or negative externalities (such as environmental harm caused by industrial operations) often lead to mispricing in the market, hindering resource efficiency.

Islamic economics, by its nature, generates and by means of its basic institutions called *manfa'ah* (benefits) and *mafsadah* (harm), positive externalities are promoted, and negative externalities are prevented.

According to Arshad (2015: 263-270), Islam forbids any action that may be detrimental to society. This restriction is consistent with the aims of Shari'ah. The Shari'ah's fundamental purposes are to promote advantages (*manfa'ah*), such as positive externalities, and to avoid harm (*mafsadah*), such as negative externalities. If an action is committed with full knowledge of the negative repercussions, it is considered unlawful and so forbidden. As a result, Islam condemns activities that have a harmful impact on others while promoting actions that have positive consequences.

- **Lack of Competition:** Market structures like monopolies or oligopolies, where a single entity or a few firms dominate the market, restrict competition. This limitation on competition reduces consumer choices and grants firms the ability to dictate prices. The absence of competition often results in high prices or bad product quality.
- **Public Goods:** These goods and services are not limited in use, and one person's use does not prevent others. It is challenging for the private sector to provide public goods effectively due to difficulties in covering costs for all beneficiaries. Hence, government intervention or funding is typically required.
- **Misallocation of Resources:** Market inefficiencies sometimes result in the misallocation of resources. Overproduction in some sectors and underproduction in others can lead to resources not being utilized optimally, reducing overall economic efficiency.
- **Information Asymmetry:** This refers to unequal information between buyers and sellers in markets. Sellers or buyers might possess more information than the other party, leading to incomplete information for buyers or sellers misleading buyers through false or inadequate information. This information asymmetry can distort market dynamics.

3.4. Government Intervention

Market failures necessitate government intervention, but such intervention doesn't always yield universally favorable outcomes. Hence, there's a need for a structured government intervention policy. This policy should be systematic, aiming to address

market inefficiencies while considering the potential drawbacks or unintended consequences that might impact various stakeholders.

In the context of social welfare, when negative externalities are at play, the ideal production level should be lower than the market's determination. Conversely, with positive externalities, the optimal production level should exceed the market's determination. How can authorities intervene in markets to achieve this balance? Governments can utilize several policy tools to address these issues:

- **Prohibiting Harmful Production:** The government can enforce bans on certain production activities that pose harm to society, such as the manufacturing or distribution of illegal drugs. This measure aims to prevent detrimental impacts on social welfare arising from these activities.
- **Environmental Regulations:** Governments can mandate that companies implement measures to mitigate environmental pollution, like treating wastewater or installing filters on factory emissions. These regulations aim to reduce negative externalities arising from industrial operations, safeguarding the environment and public health.
- **Fiscal Measures:** Governments can influence production and consumption by imposing taxes or offering subsidies. Taxes on goods causing negative externalities (like carbon taxes on emissions) aim to discourage their production or consumption. Conversely, subsidies on activities with positive externalities (such as renewable energy initiatives) encourage their production or use, promoting societal benefits.

These policy tools enable governments to manage market dynamics toward a more socially desirable outcome, aligning production levels with social welfare considerations and mitigating the adverse impacts of externalities.

Information asymmetry in the market leads the government to intervene and regulate the market accordingly. If consumers lack comprehensive information about all aspects of a product or service, they might mistakenly overlook potential adverse effects associated with it. This unawareness can lead them to purchase and use more of the product than they would if they were informed about these side effects. Consequently, this situation can harm consumers, indicating a market failure. To

safeguard consumers, the government might mandate manufacturers to provide complete information regarding the goods they offer.

It is essential for the government to actively engage in informing the public across various domains and to establish policies aimed at addressing market failures.

Another rationale necessitating government intervention in the market lies in the inequality of income distribution. Even within a theoretically perfectly competitive market framework, income inequality remains prevalent. This inequity comes from various factors influencing individuals' contributions to production and subsequently impacting their earnings. Factors such as inherited family wealth, mental and physical capabilities, gender, and ethnicity determine one's income. To address social welfare concerns, the government should safeguard the interests of low-income individuals and formulate policies to enhance their quality of life.

To achieve this objective, governments can implement several measures. The government might adopt strategies such as adjusting tax rates to address income inequality. This involves imposing higher taxes on luxury items while lowering tax rates for essential goods. By implementing these policies, the objective is to foster a fairer economic system. These policies aim to create a more egalitarian economic structure and improve the welfare of excluded or economically disadvantaged segments of society.

From an Islamic perspective, market failures require the government and the third sector (The Charity or voluntary sector) in the economy to work together to resolve the problems. Zakah, Waqf, and Sadakah institutions form the main components of the third sector in Islamic economics.

For an economy to sustain continuous or long-term growth, it necessitates the redistribution of wealth and income. Without an effective redistribution strategy that promotes demand, the economy may stagnate. This is because wealth accumulates among individuals whose spending capacity isn't significant enough to prompt producers to increase output.

The charitable sector plays a focal role by transferring wealth from the rich to the less privileged, subsequently boosting demand and offering crucial market signals. This sector operates on voluntary contributions and stimulates potential demand. The

magnitude of potential demand effectively mirrors the needs of lower-income individuals, shaping the distribution within this sector.

Muslim scholars have organized the goals of the Shari'ah into three distinct tiers based on their significance. The primary category, known as *daruriyyat* (necessities), is followed by *hajiyyat* (complementaries or conveniences), and finally, *tahsiniyyat* (refinements, embellishments, luxuries). Among these, the necessities encompass five essential elements: safeguarding religion, life, intellect, progeny, and wealth. Upholding these fundamental aspects is crucial for the preservation of humanity and the maintenance of societal order. Therefore, it becomes imperative for the government to institute measures that actively safeguard and advance the objectives outlined by the Shari'ah.

Through the metaphor of the skeleton, Kayadibi expresses that the existence of the state, which is one of the essential elements of social welfare, is a necessity for the objectives of Shari'ah and that other essential needs cannot be met without the state. He includes the state as one of the components of necessities (*daruriyyat*). Because the fall of the state will cause the destruction of all other fundamental values (Kayadibi, 2019: 16).

From the standpoint of Islamic economics, government intervention in the economy aims to enhance societal well-being. When contemplating intervention, the government is urged to engage in “*shura*” which is a process of consultation and decision-making involving experts and relevant authorities. This involves thorough discussions with recognized specialists in the field to analyze prevailing market issues that might necessitate governmental involvement.

Any proposed intervention policy must uphold justice and equity for all involved parties. For instance, in regulating excessive monopolistic profits, measures like price controls should consider the welfare of both buyers and sellers. Determining a fair return price or a socially optimal price involves assessing the sustainability of businesses and the societal demand for goods or services.

Variations in the market may happen due to many reasons. Changes in market demand and supply may be influenced by natural occurrences like weather patterns. The Prophet's (PBUH) stance against price control was primarily concerned with allowing normal price adjustments resulting from regular shifts in supply and demand.

Intervention becomes essential when the market ceases to operate efficiently or properly.

Decisions to impose price controls (such as price ceilings and floors) often stem from considerations based on the principle of maqasid, which aims to fulfill broader societal objectives. Once these prerequisites are fulfilled, intervention measures should be executed transparently and efficiently to achieve their intended goals.

When a society's fundamental needs remain unfulfilled, the implementation of price controls becomes a viable measure to safeguard the welfare of the population. This strategy aims to ensure that essential goods and services vital for the community's well-being remain accessible and affordable, particularly when market forces alone fail to adequately meet these crucial needs.

Islamic economics prohibits hoarding while allowing for storing, differentiating between the two based on intent and transparency. Hoarding involves withholding goods with the deliberate aim of earning a profit, often storing them in hidden locations. Conversely, storing is permissible and facilitates business activities to stabilize prices. Storing occurs in locations known to the authority, ensuring transparency in contrast to the secretive nature of hoarding. Thus, the distinction lies in the intent behind accumulation and the transparency of the storage process: hoarding secretly focuses on profit while storing aims for price stability with transparency under regulatory supervision.

The government can enact various supportive policies to maintain market stability. For instance, within the agricultural market, when abundant harvests lead to a surplus, causing prices to drop due to increased supply, the government steps in by purchasing these surplus products from farmers at elevated prices. The government stocks these goods, and so effectively prevents market instability. Conversely, when harvests yield in insufficient quantities, in this case, the government maintains market stability by selling stocked products, thereby ensuring a continued balance in supply and demand.

3.5. Ombudsman (Muhtasib) Organization

The Hisbah organization operates within the framework of Islamic law, tasked with upholding religious directives and prohibitions among the residents of a city. Its responsibilities encompass overseeing measurements, weighing standards, goods

quality, and ensuring fair wages. Additionally, the organization handles commercial matters and addresses certain public cases within the city.

The administration of the Hisbah organization is Muhtasib, entrusted with supervising and regulating market activities and transactions in accordance with the rules of Shari'ah law. Beyond the legal aspects, the Muhtasib operates from a foundation rooted in the moral and ethical principles of Islam. Their role extends to ordaining what is considered virtuous and right while forbidding actions deemed as morally or ethically incorrect, aligning with the ethical and moral framework of Islam as outlined in sources such as Kahf (2000: 9-10).

Our Prophet (PBUH) frequently stressed the importance of promoting good and preventing evil to ensure adherence to the rules he established on various matters. According to Kallek (2015: 132), the Hisbah organization was founded upon this principle of encouraging righteousness and deterring wrongdoing.

The scope of duty of the Hisbah organization covers many issues under three main headings:

Rights of Allah rights, people's rights, rights that have both aspects. The first group is to ensure that the adhan is recited on time, congregational prayers are performed on time, and Friday and Eid prayers are performed; preventing public violations and bid'ah in worship; preventing excessive entertainment, the use of intoxicating drinks, and male-female relationships that exceed the limits; Preventing haram transactions in general, invalid contracts, fraud and deception in particular, and fraud in measuring and weighing instruments and units; prohibition of begging that does not arise from need; It includes religious and social activities such as not allowing incompetent clergy to mislead the public. The second group is divided into two: general and individual rights. These roads, water channels, sewers, etc., are ruined due to negligence or impossibility. Ensuring the repair of infrastructure facilities, places of worship, and defense systems; resolution of employee-employer disputes; public works such as preventing violation of neighbors' rights, all kinds of violations of professional ethics, and default of debtors; These are issues related to the bazaar and market, such as ensuring compliance with the law in transactions. Thirdly, ensuring adherence to religious-moral rules in male-female relations in public transport or public areas; preventing overloading of vehicles; protecting the rights of workers, orphans, enslaved

people, and animals; feeding and drinking found animals or lost children; keeping roads clean and illuminated; It covers activities such as not allowing constructions contrary to public interest. While Muhtasib can use the authority to forgive in case of violation of Allah's rights, he does not have such authority in case of violation of people's rights (Kallek, 2015).

Kallek (2022: 20-28) explores the concept of the Hisbah organization and its relationship with the market within the framework of profit orientation, public interest, and control. He argues that viewing the market solely as a profit-driven entity raises important questions about decision-making within it. From an Islamic perspective, a business's social responsibility involves generating profits while considering the public interest or, at the very least, refraining from causing harm. In the absence of economic indicators such as profit and loss, activities oriented towards the public interest would not be viable. Therefore, Muslims would struggle to achieve economic growth, historically linked with socio-political stability. Given the diverse stakeholders involved, the market's purpose extends beyond mere profit maximization. It necessitates considering the vital and long-term interests of various groups, including employers, workers, producers, consumers, marketers, intermediaries, capitalists, shareholders, and the public. To ensure decisions align with the public interest, a governance framework is essential. Private ownership entails public responsibilities, such as preventing waste. The role of governance mechanisms, like Muhtasibs, involves appointing capable individuals and granting them autonomy to manage resources effectively across sectors (Kallek, 2022: 20-28).

3.6. Price Ceiling and Price Floor System

In modern free-market economies, governmental intervention in markets through price control mechanisms is sometimes observed.

The government sets a maximum price, known as the ceiling price, for a particular good or service. This price represents the upper limit at which the good or service can be legally sold. Transactions that exceed this designated price are forbidden and considered unlawful. Ceiling prices are typically implemented to safeguard consumers' interests, particularly during periods of conflict or famine when the supply of certain goods decreases, causing market prices to rise above what is deemed fair. By capping

prices below the market equilibrium, the aim is to ensure accessibility and affordability of essential goods for consumers facing economic hardships.

Price floor and price ceiling applications are commonly employed to either cap the prices of specific products or services or maintain them within a defined range.

Under the practice of price ceilings, the government steps in to set the maximum allowable prices for certain goods and services within the market. The upper limit established by the government for a particular good or service is termed the "ceiling price." Goods or services can only be transacted at this price or lower; any buying or selling above this set price is prohibited. Typically, the ceiling price is implemented to safeguard consumers, particularly during periods of war or famine, when the supply of certain goods diminishes, causing market equilibrium prices to fluctuate. In such instances, the ceiling price is deliberately set below the market equilibrium price to ensure consumer protection.

When legal regulations, through government intervention, control the pricing of specific goods or services, efforts are made to maintain official market prices within a specified range. Nevertheless, if demand surpasses the available supply, individuals might seek to acquire those goods or services at prices higher than the legally set standards.

This scenario can lead to an escalation of prices beyond the levels anticipated under regular market circumstances, often resulting in transactions conducted through methods prohibited by law. Consequently, this paves the way for the emergence of a black market.

Essentially, the black market denotes transactions occurring outside the dynamics of official market conditions. Such occurrences may be indicated in forms such as tax evasion or unlawful commercial activities. The existence of black markets can introduce instability into markets, triggering uncontrollable price fluctuations and adversely impacting consumers.

Sometimes, governmental intervention in markets involves the establishment of a minimum price, known as the price floor, set above the market equilibrium for specific financial services and elements of production. This intervention finds application, especially within specific sectors such as agriculture and the labor market.

In the agricultural domain, the government implements the price floor mechanism as a supportive measure by ensuring a guaranteed purchase of market products at this specified rate. Consequently, producers sell their goods directly to the government or external buyers at this base price. Often, surplus stock remains under government control, prompting efforts to manage this surplus through strategies like exporting at reduced prices or disposal through methods like destruction.

The government also implements a minimum wage policy in the labor market to ensure employees receive a sufficient living wage. This policy leads to instability and imbalances in the labor market. Such imbalances in the labor market can provoke issues such as unemployment and the engagement of uninsured workers in unauthorized employment practices.

Price formation and the state's intervention in the market are described by Tabakoğlu as follows:

In the traditional perspective of Islamic economic thought, the ideal practice is shaped around the formation of prices within a free market framework devoid of monopolistic tendencies. Moreover, a fundamental principle lies in establishing fair prices based on mutual agreement (Şu'ara, 26/183). This approach further acknowledges the principle of refraining from intervening in prices within certain markets operating under conditions of free competition. According to teachings attributed to the Prophet (PBUH), it is believed that Allah governs prices, regulates scarcity and abundance, and ensures sustenance. The prophet (PBUH) also emphasizes that he wants to meet Allah without someone having rights over him (Tirmizi, Buyu'/73). The hadith suggests a disapproval of unnecessary interference in pricing matters. Additionally, it instructs those in positions of authority to abstain from practices such as favoritism in income distribution and the infringement upon individuals' rights through actions like offering biased incentive loans. Consequently, any form of market intervention aimed solely at generating unfair returns or profit, contrary to the public interest, is rejected within the framework of Islamic economic principles (Tabakoğlu, 2008: 439).

Kallek (2006: 257-276) shares a viewpoint similar to Tabakoğlu's, rooted in the classical perspectives of Muslim scholars. The discussion revolves around the direct

involvement of the state in price regulation, exploring its historical and today's implementations. Kallek delves into the concept of official price-fixing, known as "narh" in Turkish and "tas'ir" in Arabic, describing it as establishing a price ceiling. This ceiling aims to prevent market prices of essential goods and services from surpassing specific boundaries by intervening directly and prioritizing the apparent public interest.

Within classical fiqh literature, this form of narh predominantly falls under the realm of price adjustments, encompassing both minimum and fixed price determinations. Consequently, Kallek draws a conclusion regarding the official price-fixing in the context of justice and the public interest:

In Islamic principles, avoiding price-fixing and similar government interventions is crucial unless absolutely necessary. However, when faced with the emergence of drawbacks, particularly within an imperfectly competitive market, implementing various measures for price stabilization becomes imperative. In the short term this might involve official price-fixing to ensure fairness in economic transactions and to secure the economic welfare of the society (Kallek, 2006: 257-276).

It cannot be said that price fixing should not be done absolutely under all circumstances in Islamic economics. This measure should not be used unless there are extraordinary circumstances. When pricing behavior in the market is disrupted and justice in economic activities is eliminated, a price-fixing policy can be applied to protect the welfare of society and ensure justice in economic activities, at least in the short term.

3.7. Black Market

The black market structure is another factor that negatively affects social welfare and market efficiency. This section will discuss the definition of black marketeering and its place in the Islamic economy and Fiqh. This market structure, called Ihtikar, will be explained in general terms based on historical experience when the principles of Islamic economics were applied.

The black market is where buying and selling takes place, usually through unofficial means, and prices are determined. In this type of market, trading occurs illegally, often outside the control of government or official authorities. Black market activities

generally involve illegal activities such as tax evasion, hiding the source of goods, illegal trade, and non-compliance with regulations.

A black market is a trading platform where normal trading does not take place, is not registered through official means, and is generally not taxed. This often results in an environment that is not subject to different pricing and regulations than official markets. Black market activities can often occur during periods of economic instability or when certain goods or services are subject to strict regulation.

Although the black market is a concept that focuses on illegal or uncontrolled trades, it can sometimes occur during periods of economic crisis or in over-regulated industries. However, such activities are generally against the law and are tried to be prevented by official authorities.

This kind of manipulation in the market is called *Ihtikar* in Islamic jurisprudence. When evaluated in terms of Islamic economic practices and the views of Islamic jurists, taking into account the partially different approaches of the sects, *ihlikar* can be given a comprehensive definition as " The withdrawal of consumer goods, the shortage of which would harm the public, from the market with the aim of creating a shortage or with the expectation of a price increase " (Islam Ansiklopedisi, 2023).

From the perspective of Islamic economics, the prohibition of "Ihtikar" initially focused on hoarding essential food items to inflate their prices, as interpreted by early Islamic jurists. However, this prohibition evolved into a broader framework, encompassing all activities aimed at creating shortages of any essential goods demanded by society.

Nevertheless, in implementing this restriction, a careful balance was struck between preventing actions that would hinder individuals from contributing to society while prioritizing the public good over individual interests. The prohibition was delimited to avoid extreme measures. Precautionary storage of surplus goods for future demand was not considered part of black marketeering. Hence, drawing on the example of precautionary stockpiling mentioned in the Yusuf Surah (12/47-49), the majority of jurists not only permitted but also encouraged the stockpiling of goods during times of abundance and low prices for future needs.

During the time of the Prophet and the four caliphs, the primary focus was on avoiding harmful interference that could disrupt the market's natural dynamics. Emphasizing

the maturity of human judgment and adhering to religious and moral principles aids in maintaining this equilibrium. However, if external forces disturb this natural balance by artificially manipulating the market, it becomes necessary for the government to implement countermeasures to alleviate potential negative effects. In the historical context of Islamic societies, such actions were typically executed through the Hisbah institution, supplemented by various religious and moral measures in the background.

3.8. Market Equilibrium

In a market setup, the convergence of supply and demand forms its foundation. Consumers aspire to lower prices within this market dynamic, while companies aim for higher prices. Consequently, the interests of consumers and companies stand in opposition, leading to a conflict of desires within the market. Whenever the price surpasses the equilibrium point, there's an excess in the quantity supplied compared to the quantity demanded, resulting in an oversupply scenario—thus disrupting the market equilibrium. Conversely, when the price falls below the equilibrium point, the quantity demanded exceeds the quantity supplied, leading to excess demand, again disrupting the market equilibrium. However, the price at which the quantity demanded equals the quantity supplied defines the equilibrium price, representing a state of balance within the market. The corresponding quantity at this price is termed the equilibrium quantity.

A change in the equilibrium price of a good may occur because of a change in demand or supply, or a change in both demand and supply.

3.8.1. Partial Market Equilibrium

Partial equilibrium analysis focuses on establishing the equilibrium price within a singular product or factor market and delves into understanding the mechanisms leading to changes in this specific equilibrium price. It doesn't consider the ripple effects or the impact of alterations in the equilibrium price of this particular market on the equilibrium prices of other interconnected markets. Alfred Marshall (1842–1924) introduced the concept of partial equilibrium. It usually deals with the market for a particular good, service, or sector while taking other factors as constant. For example, we consider only the price of a good or the sector's production level. In contrast, the prices of other goods or levels of production in other sectors are considered invariant.

However, partial equilibrium analysis has limitations—it doesn't encompass all economic factors and their interconnections. As a result, it might not fully capture the repercussions of changes in other sectors or markets. Consequently, economists often turn to general equilibrium models when analyzing an entire economy. These models offer a more comprehensive view by encompassing all economic factors and considering the intricate interactions between various sectors.

In this study, we will use partial equilibrium analysis while analyzing the demand and supply function and their equilibrium point.

3.8.2. General Market Equilibrium

General equilibrium refers to the interdependence of markets. General equilibrium analysis examines how equilibrium prices in all product and factor markets are determined simultaneously and how a change in the equilibrium price in any market will affect the equilibrium prices in other markets. In other words, general equilibrium analysis examines what kind of new equilibrium will occur in all markets.

The framework of general equilibrium analysis is often referred to as Walrasian general equilibrium analysis, owing its name to the notable French economist Leon Walras (1834-1910). Following Walras, a prominent figure in the domain of general equilibrium theory is the Italian economist Vilfredo Pareto (1848-1923). Pareto's contributions revolve predominantly around the concept of economic efficiency, famously known as Pareto efficiency, forming the cornerstone of his general equilibrium theory.

3.9. Static and Comparative Static and Dynamic Analysis

Static analysis is a method employed to scrutinize the state of an economy at a specific moment or within a period. This analytical approach relies on contemporaneous data to assess the condition of economic variables during that timeframe. It typically assumes that the economic variables remain fixed, focusing solely on the existing scenario.

Typically, static analyses offer a snapshot, capturing a singular moment without delving into the mechanisms or fluctuations within the economy. In contrast, comparative static analysis involves assessing the impact of alterations by juxtaposing circumstances across different time spans. However, this method falls short in comprehensively tracing or elucidating the ongoing transformations within the

economy. While these analyses serve to grasp the status at a particular juncture or to observe changes between distinct timeframes, they might not fully encapsulate the continuous evolution of the economy.

Comparative static analysis, on the other hand, centers on contrasting static conditions across diverse time periods. It serves to compare the economic landscape between two or more periods. For instance, scrutinizing the previous equilibrium against the anticipated new equilibrium resulting from changes in supply and/or demand due to factors other than price alterations is a manifestation of comparative static analysis.

The purpose of dynamic analysis lies in taking the interconnections and interplays among the past, present, and future, considering the economy's fluctuations over time. These analyses are instrumental in interpreting the permanent impacts of economic policies. It also examines the catalysts behind significant economic occurrences, such as expansions or downturns, and solves the complex relationships between specific economic indicators.

The method of dynamic analysis integrates the element of time into the analysis process. For instance, the cobweb theorem is explained through the dynamic analysis approach.

Dynamic analysis concentrates on comprehending economic processes and identifying trends, cycles, and continuous alterations. Moreover, these analyses often attempt to forecast forthcoming economic scenarios. For instance, investigating the long-term trends in the economy—such as growth, unemployment, and inflation—alongside the fundamental drivers behind these trends constitutes the primary side of dynamic analysis.

CHAPTER IV

METHODOLOGY AND ANALYTICAL FRAMEWORKS

This thesis is a theoretical study based on some assumptions made according to the basic principles of Islamic economics.

As mentioned before, in the literature review part, a similar theoretical study based on some assumptions and a mathematical model made by Amin and Yusof (2003: 5-21), based on the proposition that social welfare is promoted through a three-level hierarchy of activities or goods, namely, in order, necessities, conveniences, and refinements. From the social welfare perspective in Islam, necessities will have higher *maslahah* than conveniences and will be followed by refinements, assuming that the necessities are not yet fully met. It has been proved that Islamic economics has a better market equilibrium in terms of equilibrium price and equilibrium quantity demanded.

Another theoretical study has been made by Hasan (1992: 239-255). In his analysis, Hasan also used mathematical models and made assumptions to prove the results. His distinctive approach yields notable outcomes, evident in increased output and reduced prices compared to conventional firms, primarily attributed to the prohibition of interest. Such findings underscore one of the basic characteristics of Islamic economics, where financial prosperity works together with the social responsibility of firms within the framework of Islamic economics.

4.1. Methodology

Initially, while various elements contribute to societal well-being in Islamic economics, this study has specifically focused on three pivotal dynamics: risk-sharing finance, partnerships, and cooperation-based market structures. Secondly, an in-depth examination of these concepts is conducted through a doctrinal perspective within a comprehensive theoretical framework. However, the lack of a fully realized market structure adhering entirely to Islamic economic principles precludes the possibility of empirical investigation.

In the initial segment of this study, a thorough analysis of cost and resource allocation efficiency is undertaken, leveraging assumptions, advanced software technology (Python), and mathematical models using the Lagrange function. In the second

segment of this study, which introduces the concept of multi-partner companies, a detailed theoretical model is proposed to establish organizational frameworks and devise robust audit mechanisms. A notable constraint arises from the inherent difficulty of conducting quantitative research due to the absence of a practical company model that aligns seamlessly with the proposed structure.

Furthermore, the exploration of the third principle, the proposition of a cooperative market model, is contextualized within the historical experiences of Islamic societies. While discussing the potential integration of these organizations, characterized by principles of brotherhood and cooperation, into modern-day markets, it becomes evident that further literature exploring this direction is needed. The contemporary landscape, dominated by a highly competitive, profit-driven capitalist system, underscores the urgency of addressing these challenges. Despite the inherent limitations, this study serves as a foundational step towards future research endeavors aimed at effectively allocating resources, fostering equitable income distribution, and enhancing social welfare through market structures rooted in principles of brotherhood and cooperation within the framework of Islamic economics.

In this study, a combination of mathematical modeling and analysis using Python code has been used to investigate the efficiency differences between interest-free and interest-based financing in production functions.

4.1.1. Python Code Implementation

Python code has been developed to simulate production scenarios under both financing regimes to evaluate the efficiency differences between interest-free and interest-based financing. The Python code incorporated the mathematical model described above and allowed us to vary parameters such as input levels, interest rates, and production technology.

We conducted a comparative analysis of the simulation results obtained from the Python code to assess the relative efficiency of interest-free and interest-based financing. Key performance metrics, such as output levels, production costs, and profitability, were analyzed to quantify the impact of financing methods on economic outcomes.

4.1.2. Mathematical and Hypothetical Model

A mathematical and hypothetical model has been constructed to represent the production functions under both interest-free and interest-based financing scenarios. We assumed a simplified production process characterized by a production function, which relates inputs (such as labor and capital) to outputs (goods or services produced). For the interest-free financing scenario, a production function that reflects the absence of interest costs in the financing process has been formulated. Conversely, for the interest-based financing scenario, we introduced an augmented production function to account for the additional costs incurred due to interest payments.

Assumptions

Some assumptions have been made in our modeling approach to facilitate a comparative analysis between the two financing methods:

Cost Function: We assumed that interest-based financing imposes an extra burden on the producer's cost function compared to interest-free financing.

Production Efficiency: We assumed that production efficiency is affected by the financing method, with interest-free financing potentially leading to higher efficiency levels due to reduced financial constraints.

4.1.3. Limitations

It's important to acknowledge some limitations associated with our methodology. The simplifying assumptions made in the mathematical model may not fully capture the complexities of real-world production systems. Additionally, the analysis relies on the accuracy of the input parameters and the assumptions inherent in the Python code implementation.

4.2. Analytical Frameworks

Based on the conceptual framework, an analysis was conducted on the three principles of Islamic economics concerning various proxy variables that influence market structures. These principles were assessed in terms of their impact on social and economic welfare within markets and market structures.

4.2.1. Risk-Sharing Dynamic and Cost Efficiency

Cost encompasses the overall expenditure arising from the utilization of resources necessary for manufacturing or delivering a product or service. These resources typically comprise labor, raw materials, energy, equipment, and other essentials. In business parlance, cost denotes the outlays encountered by an enterprise and stands as a critical determinant influencing its profitability. It comprises both direct elements, like raw materials and labor, and indirect factors, such as operational expenses. Costs are frequently quantified either on a per-unit basis or as the total expenditure incurred.

There are three fundamental economic concepts associated with costs: explicit costs, implicit costs, and economic costs. Explicit costs, also known as accounting costs, refer to the direct payments made by a company to individuals or entities whose resources it utilizes for production activities, excluding the company's owners. These payments cover expenses such as labor, machinery, raw materials, and intermediate goods. Essentially, explicit costs represent the monetary outflows from the company's coffers. Implicit costs, on the other hand, comprise the opportunity costs of the firm's resources that the owners allocate to production. Economic cost is the sum of explicit costs and implicit costs. For instance, a company's loan from a bank, along with the interest paid, serves as explicit costs. When analyzing firm unit costs for cost efficiency, opportunity costs, which are very important in conventional economics, have not been considered. The opportunity cost represents the value of the most favorable alternative foregone due to the decision you have taken.

Cost efficiency is a concept that measures how effectively a business provides a product or service at a given cost. This term refers to the ability of the business to maximize product or service quality while minimizing costs. Cost efficiency reflects the enterprise's efforts to reduce costs and increase efficiency by making the best use of its resources. This often requires improving and optimizing business processes with the aim of producing more output or providing services at less cost. Cost efficiency can help increase profitability and support sustainable growth by increasing a business's competitiveness. In this section, the cost efficiency of risk-sharing finance is analyzed by taking into account the cost of interest on the company.

The first principle, risk-sharing finance, contributes to cost efficiency as a proxy variable, thereby exerting a positive influence on market structures. This results in an

improvement in socio-economic welfare. Cost efficiency was scrutinized using three distinct methods:

- The initial method compared interest-based firms with interest-free firms based on average and marginal cost.
- The second method, utilizing the Lagrange multiplier, compared production units with interest-based and interest-free financing.
- The third method focused on Islamic finance institutions' financial support in the real economy. The hypothesis posited that Islamic banks refrain from providing cash to businesses and instead support authentic economic transactions and activities. These actions signal producers in the market, fostering production. Conversely, interest-based banks directly inject cash into the market (households, businesses), which might not necessarily be utilized for real economy production or trading transactions.

4.2.2. Partnership Dynamic and Income Distribution Efficiency

The second market dynamic searches about partnerships and their influence on income distribution. Its primary objective is to demonstrate partnerships' positive role in enhancing income distribution within the market. By doing so, partnerships significantly contribute to the broader social and economic welfare spectrum.

4.2.3. Cooperation Dynamic and Market Efficiency

The third dynamic advocates restructuring the market according to the cooperation-focused principles of "Futuwwa" and "Akhism" observed in the historical context of Islamic economics. By adopting this approach, the market attains a steadier equilibrium while ensuring enhanced market efficiency.

This principle also advocates a cooperative paradigm over the conventional competition-based approach in classical economics. Rather than encouraging competition, which often disrupts market structures and leads to monopolization within capitalist systems, this principle asserts that cooperative endeavors provide market stability and equilibrium.

4.3. Cost Efficiency

In terms of firm production costs, cost efficiency refers to the firm's ability to obtain maximum output or benefit while minimizing the input or cost required to produce that output.

In other words, it means maximum production with low costs of used factors of production. Providing and using risk-sharing capital has a positive impact on productivity due to the absence of initial capital cost and interest. Collecting and using risk-sharing capital has a positive effect on productivity as it resets the initial capital cost.

In equity financing, risks are shared between the parties. There is no fixed obligation to repay funds as in interest-based financing. Therefore, if things go bad, no payments are made to the capital owners. In this case, the company does not face bankruptcy. When evaluated from a social perspective, risk-sharing finance (equity financing) has a distinct advantage. Since the risks are shared between the entrepreneur and the capital provider, the company will face bankruptcy in interest-bearing borrowings during economic contractions, while its production will not be interrupted in interest-free borrowings.

Taking advantage of increased production to reduce average costs per unit as output volume grows. This often involves bulk purchasing, production automation or expanding operations. Reducing waste, eliminating unnecessary steps, and improving operational processes increase efficiency. Making better agreements with suppliers and reducing overheads are other factors that reduce costs.

In the long term, it is necessary to benefit from technology and innovation to increase efficiency, facilitate operations, and reduce costs. Risk-sharing finance allows this at a low cost.

In general, cost efficiency is maximizing the value produced or cost spent per unit of input. Using the company's capital factor efficiently ensures increased profitability.

The partnership and equity-based model is more productive and contributes more to social welfare than the debt-based financing model (Maikabara et al., 2020).

From a high investment return perspective, Investors want to make more money from their investments. When individuals are confident about receiving substantial returns,

they tend to increase their investment. Now, when one borrows money for expenses like a project, a vehicle, or a property, the additional gain earned from this transaction tends to be less compared to pooling resources with another individual for an investment.

In the first scenario, where money is lent by a single party, only the lender benefits from the interest or profit associated with the borrowed sum. However, when two or more people collaborate in an investment venture, they share in the profit generated based on the proportion of their respective contributions. This shared investment model often results in both parties receiving returns on their invested amounts.

Typically, the potential to generate higher profits through collaborative investments surpasses the returns gained solely from borrowing money. This increased potential for profit in joint investments stems from the combined resources, diverse expertise, shared risk, and potentially larger investment capital, which can yield greater returns compared to the narrower scope of benefits from borrowing funds alone.

Equity-based financing also promotes employment. Debt financing carries a cost. When this cost goes up, companies often cut costs by laying off employees to save money, which means they don't usually hire new skilled workers. In contrast, a type of funding called equity financing, where ownership is shared, encourages companies to create more jobs. As the expected profit increases, those who invest are motivated to hire more workers to make more money, aligning with ethical and Islamic business laws. This helps achieve the goals of Islamic law and benefits the public. In any business, it's crucial to follow Islamic rules and conditions within contracts (Yusof et al., 2009).

Equity-based financing, like partnerships through Musharakah and Mudarabah contracts, can be more beneficial for individuals. These partnerships help both the investors and the managers, supporting sustainable social and economic growth. Unlike debt-based financing, which can increase debts and does not promote financial independence or productivity, equity-based financing fosters better financial health. This approach is central to Islamic finance, which focuses not only on religious duties but also on achieving social good through responsible investments.

4.3.1. Risk-sharing Finance (Python Code Method)

A market serves as a space where buyers and sellers convene to conduct transactions and engage in the trade of goods and services. The primary participants in these markets typically include businesses (firms), individual households, and the government, all playing pivotal roles in these exchanges. Firms produce goods and services by using the factors of production (land, labor, capital, entrepreneurship) provided by households. The sum of the costs of the factors of production with all inputs (raw material, electricity, semi-products, etc.) constitutes the total cost of the firm. In a conventional firm, interest is paid to the owner of the capital in return for the capital. Interest is a cost element for the conventional firm and this cost is reflected in the price of the produced good. Since interest is prohibited in Islam, there is naturally no cost element in the form of interest in Islamic firms that are established on a partnership basis. Then the equilibrium price and the equilibrium quantity have been calculated both for conventional firms by taking the interest paid to money capital into account and for also interest-free firms. Then, the equilibrium price and quantity of this conventional firm are compared with the equilibrium price and equilibrium quantity of the interest-free firm. As a result of this comparison, it has been proved that the interest-free firm can allocate resources more efficiently and its productivity will also be higher because the interest payment is not included in its production costs. This provides cost efficiency for a firm financed on the basis of risk-sharing. In this section, it is tried to show that interest-bearing borrowing increases production costs and this situation negatively affects social welfare.

There are many theories regarding the optimal capital structure of a firm. Modigliani and Miller (1958: 261-297) claimed that in a capital market with no taxes, bankruptcy costs, and transaction costs, the firm's value is independent of the firm's capital structure. This theory, which was developed with some assumptions disconnected from the real world, has been criticized and developed in many ways.

The Trade-Off and Pecking-Order theories that came later analyzed how optimal capital structures should be with more realistic assumptions. Trade-off theory (Myers, 1977: 147-175) analyzed how the optimal capital structure should be (ratio of debt and equity in capital) and suggested that the optimal capital structure is affected by taxes, financial distress, and agency costs.

Pecking-order theory (Myers and Majluf, 1984: 187-221) states that instead of the optimal capital structure, a financing hierarchy should be created by considering asymmetric information (company managers having more information about the company) and that internal financing (retained earnings) should be preferred first then debt and at last equity should be preferred.

Whited (1992: 1425-1460) explores the connection between debt levels, liquidity constraints, and corporate investment choices. The study reveals that companies with higher debt levels experience more significant liquidity constraints, which limits their capacity to invest in profitable opportunities. Consequently, these firms face higher financing costs, which in turn lowers their overall value. The rise in debt levels leads to increased financing expenses, subsequently driving up the prices of the goods and services they produce.

Lamont (1997: 83-109) investigates the influence of internal cash flow on investment decisions within firms, particularly during periods of financial distress or high debt. The study reveals that cash flow limitations have a notable effect on a firm's ability to invest, especially when external financing is expensive due to elevated debt levels. Lamont's research offers empirical evidence showing that firms with significant debt encounter higher financing costs and are more prone to cash flow constraints.

Hennessy and Whited (2007: 1705-1745) estimate the costs of external financing using a structural model. They show that firms with higher debt levels face significantly higher costs when raising additional capital, leading to cash flow constraints. This situation can exacerbate the underinvestment problem and increase the overall cost of production.

As debt levels rise, organizations frequently face greater interest payments. These payments might increase total production costs since businesses must spend more resources to service their debt. Increased debt can make lenders perceive the company as riskier, causing them to demand higher interest rates for future borrowing. This increases the cost of capital, making industrial investments more expensive.

Higher debt costs might lead to decreased capital and technology investments, reducing efficiency and increasing long-term production costs. Furthermore, greater debt payments can limit the cash flow available for operational demands, potentially resulting in production delays or increased expenditures to handle cash flow shortfalls.

Lenders may become concerned about the higher risk involved when a company takes on more debt. They might ask for higher interest rates to protect themselves, ensuring they are compensated for the increased chance that the company could struggle to repay the loan. This increases production costs and raises the unit cost of its goods and services.

The analysis has been performed based on the following assumptions:

- Conventional firms finance its operations with debt and therefore total cost is high due to credit based interest and high debt.
- Islamic firm is established based on partnership (Mudarabah and Musharakah)

The definitions of the efficiencies are the following:

- Productive Efficiency

Produce goods and services at the lowest cost possible through utilizing limited resources and technology – contributes to society’s well-being – both consumers and producer's benefit as shown below in Figure 4.1.

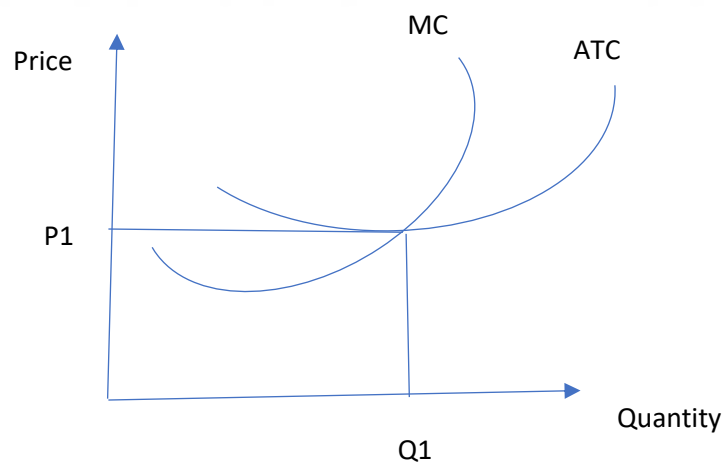


Figure 4.1: Productive Efficiency

Source: Author

- Allocative Efficiency

In economics, allocative efficiency refers to the distribution of resources in such a way that the total benefit or utility to society is maximized. In other words, it occurs when

the value of the resources used in production equals the value of the goods and services produced, ensuring that resources are directed to their most valuable applications.

All available resources are used to produce goods and services that satisfy society's needs and wants at most as shown in Figure 4.2.

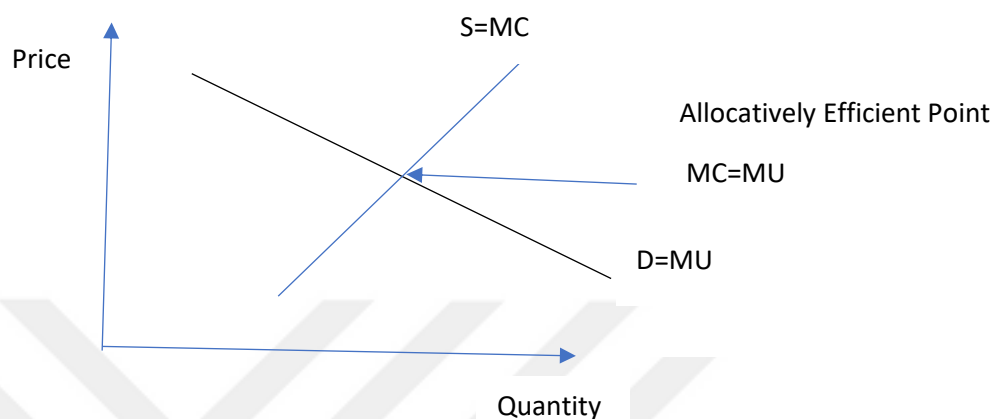


Figure 4.2: Allocative Efficiency

Source: Author

As debt levels rise, organizations frequently face greater interest payments. These payments might increase total production costs since businesses must spend more resources to service their debt. Increased debt can make lenders perceive the company as riskier, causing them to demand higher interest rates for future borrowing. This increases the cost of capital, making industrial investments more expensive.

Higher debt costs might lead to decreased capital and technology investments, reducing efficiency and increasing long-term production costs. Furthermore, greater debt payments can limit the cash flow available for operational demands, potentially resulting in production delays or increased expenditures to handle cash flow shortfalls.

Debt agreements and lender-imposed constraints can also limit a company's operational freedom, perhaps resulting in less efficient and costly operations. Debt agreements and lender-imposed constraints can also limit a company's operational freedom, perhaps resulting in less efficient and costly operations. The increase in borrowing increases borrowing costs, and this situation increases the marginal and average costs of the company at an increasing rate level as the production quantity increases for conventional firms, as shown in Figure 4.3.

Python has been used to generate cost curves for both conventional and interest-free firms, as shown in Figure 4.3. The relevant Python code is in Appendix A part.

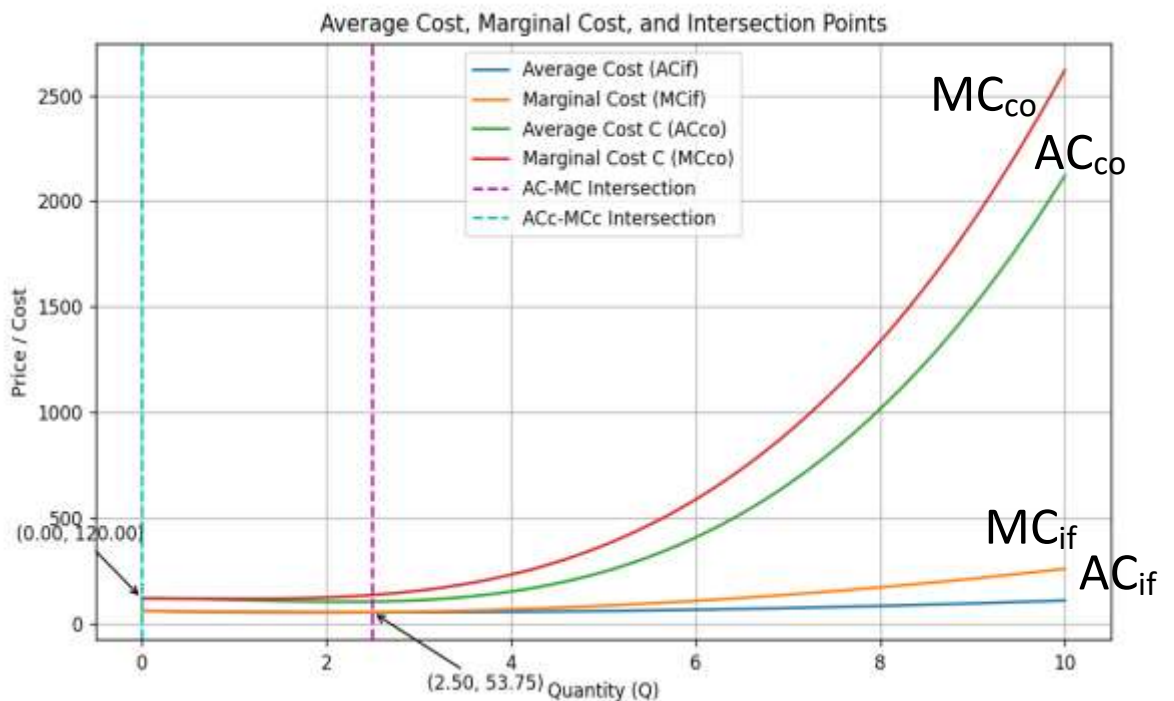


Figure 4.3: Cost Curves of Conventional and Interest-Free Firms

AC_{co}: Average cost curve for conventional firm

MC_{co}: Marginal cost curve for conventional firm

AC_{if}: Average cost curve for interest-free firm

MC_{if}: Marginal cost curve for interest-free firm

The result is that equity financed firms are better than conventional firms whose financing is based on interest in terms of productive and allocative efficiencies.

Additionally, during times of high inflation and interest rates, it is more beneficial to make investments through risk-sharing rather than through interest-based borrowing. This approach can boost production and aid in fighting inflation. However, in such high-interest and inflationary conditions, investments relying on debt are less likely to materialize due to their dependence on interest rates. Investors accustomed to lower rates may choose to avoid using their own capital, which complicates efforts to combat inflation. This is another drawback of interest-based borrowing to produce in inflationary environments.

4.3.2. Risk-sharing Finance (Lagrange Method)

In the second method, we'll assess cost efficiency within the production function framework using the Lagrange multiplier. This involves comparing a production unit with capital costs tied to interest against one without interest-based capital costs. The Lagrange multiplier helps find maximum or minimum values under a constraint. This involves a Lagrange function comprising an objective function and a constraint function, where the maximum or minimum value is determined. The Lagrange function sets the constraint function as zero, which, when multiplied by λ (Lagrange multiplier) and added to the objective function, doesn't alter the value of the objective function since the constraint function remains zero.

Assumptions:

Using only labor and capital as production factors,

Both firms have the same production function,

$Q =$ Production quantity,

$Q=f(K, L)$, Production is a function of capital and labor production factors,

$Q= 10KL$,

$K=$ Capital,

$L=$ Labor,

Both firms have the same isocost constraint function,

$TC=wL + rK$, ($TC=$ Total Cost, $w=$ wage coefficient, $r=$ interest coefficient))

The interest cost ($r =$ interest coefficient) is the capital cost within the production function of the interest-based production unit.

The capital cost does not have an interest cost within the production function of an equity-financed production unit, or the interest cost coefficient is one (1).

For interest-bearing production unit, $TC=10L+20K$ (20=interest coefficient),

For equity-financed production unit, $TC=10L + K$,

If the fixed cost constraint is $TC=1.000.000$ for both production units.

Status of the interest-bearing production unit.

Using the Lagrange function, we find out how much capital (K) and how many labor (L) factors will be employed to produce the maximum good under the constraint $TC = 1.000.000$.

The objective function of the production unit is

$$Q=f(K,L)= 10 KL, TC=10L+20K.$$

In the case where the fixed total cost is $TC = 1.000.000$, the constraint function is

$$[1000000 - (10L + 20K)],$$

The Lagrange function (will be denoted by Z),

$$\text{It will be } Z = f(K,L) + \lambda [1000000 - (10L + 20K)].$$

$$Z = 10 KL + \lambda [1000000 - (10L + 20K)],$$

$$Z=10 KL + 1000000 \lambda - 10L \lambda - 20 K \lambda$$

When we take the partial derivatives of the Lagrange function with respect to K, L, and λ ,

$$\partial Z/\partial K = 10L - 20 \lambda = 0,$$

$$10L=20 \lambda,$$

$$L= 2\lambda$$

$$\partial Z/\partial L = 10K - 10 \lambda = 0,$$

$$10K=10 \lambda,$$

$$K= \lambda$$

$$\partial Z/(\partial \lambda) = 1000000 - 10L - 20K = 0, 1000000 - (10 \times 2 \lambda) - 20 \lambda = 0,$$

$$1000000 = 40 \lambda,$$

$$\lambda = 25000$$

$$\text{If } \lambda = 25, L= 50, K=25$$

$Q= 20 KL = 20 \times 25 \times 50 = 25.000$ Unit can be produced maximum, at $L=50$ and $K=25$

$$\text{Average cost of product} = \frac{TC}{Q} = \frac{1000000}{25000} = 40$$

The status of the interest-free financed production unit.

Using the Lagrange function, we find out what amount of capital (K) and what amount of labor (L) factors will be employed to produce maximum goods under the constraint $TC = 1000000$.

The objective function of the production unit is

$$Q=f(K,L)= 10 KL, TC=10L+K.$$

In the case where the fixed total cost is $TC = 1.000.000$, the constraint function is

$$[1000000 - (10L + 2K)],$$

The Lagrange function (will be denoted by Z),

$$\text{It will be } Z = f(K,L) + \lambda [1000000 - (10L + K)].$$

$$Z = 10 KL + \lambda [1000000 - (10L + K)],$$

$$Z=10 KL + 1000000 \lambda - 10L \lambda - 2K \lambda$$

When we take the partial derivatives of the Lagrange function with respect to K, L, and λ ,

$$\partial Z/\partial K = 10L - 2\lambda = 0,$$

$$10L=2 \lambda,$$

$$L= 0.2 \lambda$$

$$\partial Z/\partial L = 10K - 10 \lambda = 0 ,$$

$$10K=10 \lambda,$$

$$K= \lambda$$

$$\partial Z/\partial \lambda = 1000000 - 10L - 2K = 0, 1000000 - (10 \times 0.2 \lambda) - 2 \lambda = 0 ,$$

$$1000000 = 12 \lambda,$$

$$\lambda = 83.333,333$$

$$\text{If } \lambda = 83.333,333, L= 16,6, K=83,3$$

$Q= 20 KL = 20 \times (83,3) \times (16,6) = 27.767$ Unit can be produced maximum, at $L=16,6$ and $K=83,3$

$$\text{Average cost of product} = \frac{TC}{Q} = \frac{1000000}{27767} = 36$$

As can be seen, the average cost of interest-free financed production is lower than interest-based production units, and it has cost efficiency over interest-based production.

4.3.3. Financing Real Economy (Interest-Free Financing)

In the third approach, within the first principle's methodology, market analysis focuses on evaluating the financial services provided by various financial institutions within the market. Conventional financial institutions with interest provisions typically offer cash to their clients. They also finance real economic transactions. Conversely, interest-free financial entities engage only in financing real economic endeavors. The cash injections from interest-based banks might not find their way into productive or trade-related activities. There is a possibility that this cash may not generate any value in the economy. This process and signal mechanism are depicted in Figure 4.4.

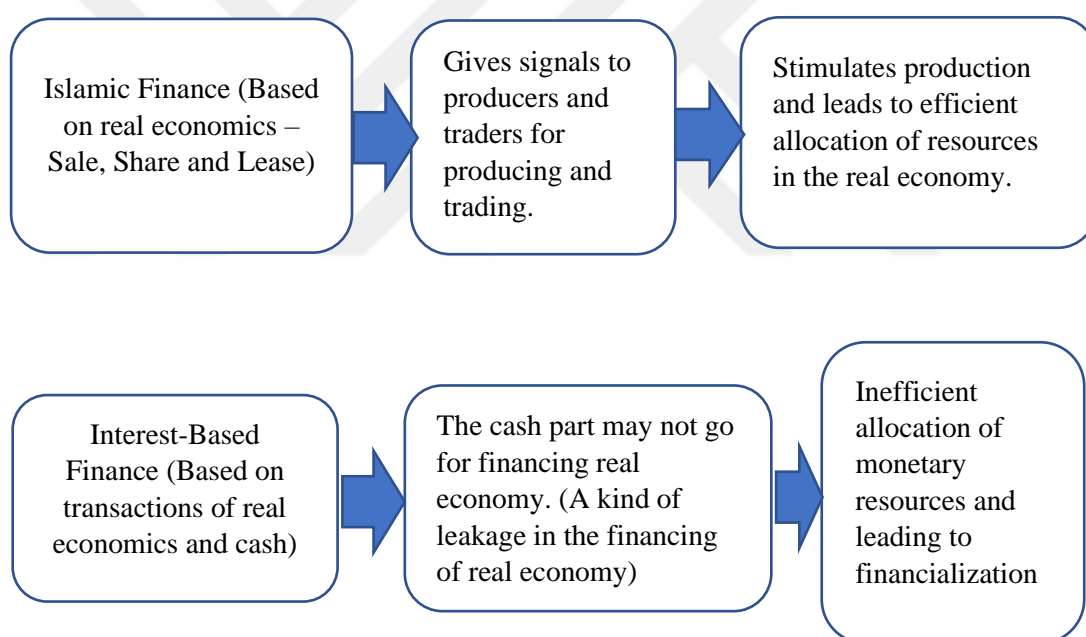


Figure 4.4: Signal Effect on Markets of Islamic and Conventional Finance

Source: Author

In other words, interest-free banks channel their finances into productive ventures and trade, generating demand within the market. This rise in demand serves as a signal for both producers and traders. Responding to this signal, producers escalate their output, while traders increase the volume of goods sold. This increase in production and trade significantly contributes to the socio-economic landscape, fostering more efficient allocation of resources.

4.4. Income Distribution Efficiency

The classical economist Smith (2010: 52) emphasized that a society cannot be considered genuinely developing and content if the vast majority of its members are impoverished and suffering.

Currently, the main economic system, capitalism, leads to issues with how income is shared. Here's a simpler breakdown:

The problem is straightforward in our view: In capitalism, those who own capital (like money or assets) tend to get most of the income generated from it using the power of the capital. The system hasn't been successful in fixing or lessening this issue for society. Specifically, unfairness in how income is distributed has gotten worse with the financialization of capitalism. This involves creating complex financial methods to make money from money itself, rather than from real economic activities. These intricate financial products, often called derivative products, rely on selling risk and using models based on interest to make profits.

The way capitalism focuses on finance in the Western world caused a lot of problems. Essentially, activities like making securities, speculating, disconnecting from the real economy, and moving resources from actual businesses to the finance sector created crises. As technology improved and communication got better, the world got smaller. This made it perfect for moving money around and making profits by investing in developing countries. But when all financial markets joined together, every economy became vulnerable to financial problems.

Samuelson and Nordhaus (2010: 467) outline the features of modern financialized capitalism, which is characterized by speculation, virtual transactions, and instant push-button operations. According to them, a speculative bubble seems to work well at first. When people believe that stock prices will keep going up, they start buying stocks, which drives the prices even higher. This encourages more people to buy, creating a cycle. Unlike games where some win and some lose, in this situation, everyone seems to win. But the gains are mostly on paper and would vanish if everyone tried to sell their stocks at once. Still, why would anyone want to sell stocks that seem to be making money? The reason prices keep going up is because of hope and optimism, not necessarily because companies are making more profits or paying higher dividends.

Income differences became much bigger because of this financial-focused capitalism. The rich used globalization to make more money without directly investing in businesses, which can be risky. Here are some numbers that show how extreme income inequality has become: A small number of people, just 8, have as much wealth as half of the entire world's population (Oxfam, 2017: 2). Another report says 26 super-rich individuals own as much as the poorest 3.8 billion people (The Guardian, 2019). These statistics show how financial capitalism leads to a few people or a certain group gathering a huge amount of wealth in the world.

In 2024, the situation in income distribution in the world has become worse. According to Oxfam (2024) Davos report states that the injustice in income distribution and the monopolization of companies in the free market and that this monopoly companies increase the injustice in income distribution:

- From 2020 onward, the wealth of the top five richest individuals has more than doubled, meaning they now have much more money than before. Meanwhile, around five billion people, which is almost two-thirds of the world's population, have experienced a decrease in their wealth, making them poorer over the same period.
- If the five richest men spent one million dollars every day, it would take them 476 years to use up all their money together.
- Monopolies, where one company controls a large part of the market, and billionaires, individuals with extremely high wealth, are closely linked. Industries with high levels of favoritism and monopoly power tend to produce more billionaires. Additionally, companies merging and becoming larger is a trend happening globally, leading to fewer but bigger corporations.
- In the past twenty years, ten big pharmaceutical companies combined from sixty smaller ones.
- Nowadays, only two big companies control more than 40% of the world's seed market, while twenty-five years ago, it took ten companies to have the same control.
- The majority, specifically 62%, of the global pesticide market is dominated by just four large corporations.

- A significant portion, approximately three-quarters, of the total expenditure on online advertising worldwide comes from only three major corporations: Meta (formerly Facebook), Alphabet (Google's parent company), and Amazon.
- Google is used for over 90% of all online searches.
- The majority, specifically 74%, of the global accounting market is controlled by the four largest accounting firms, often referred to as the 'Big Four'.
- Corporations contribute to inequality by applying pressure on workers, evading taxes, privatizing state assets, and exacerbating climate change, all in pursuit of further enriching their rich owners.

Financial markets play a crucial role in connecting people who have money to spare with those who require funding. However, it's important that these markets don't deviate from their primary function and become virtual spaces where fictitious or artificial transactions occur. When financial markets disconnect from the actual economic activities and instead facilitate exchanges of income and wealth among a select group of capitalists, it exacerbates the problem of unfair income distribution and widens income inequalities within society. This means that rather than serving their intended purpose of efficiently allocating resources, these markets contribute to an uneven distribution of wealth, causing disparities in income among different sections of the population.

And what Allah restored to His Messenger from the people of the towns - it is for Allah and the Messenger and for [his] near relatives and orphans and the [stranded] traveler - so that it will not be a perpetual circulation among the rich from among you. And whatever the Messenger has given you - take; and what he has forbidden you - refrain from. And fear Allah; indeed, Allah is severe in penalty (The Qur'an 59: 7).

In essence, when money earns a profit without taking any risks and is used to generate income without teaming up with labor, it's called interest. This kind of risk-free gain from capital contributes to the creation of monopolies in wealth. The scenario where those who own capital make profits solely because of the capital they possess continuously adds to their wealth. Over time, this ongoing flow of income contributes to a widening gap in earnings between individuals without capital and those who

possess it. This disparity becomes harder to bridge as time passes, perpetuating a significant income divide between those who own capital and those who don't. Income inequality is inherent to capitalism, and it has no capability to overcome or at least alleviate this problem so far.

One argument presented in the thesis suggests a solution to address this problem. It proposes a partnership approach as a means to overcome this negative situation. This proposed partnership model involves sharing the income generated among a wide group of participants or stakeholders. In essence, the thesis advocates for a collaborative model where the benefits or profits are distributed among a larger base of individuals or entities involved in the partnership. The partnership model will be discussed in the Partnership – Income Distribution Efficiency part.

4.4.1. Partnerships, Trust, and Income Distribution

Partnerships are a specific form of cooperation where individuals with capital assets collaborate among themselves and those who provide labor. This collaborative effort is instrumental in establishing partnerships. Furthermore, in societies where partnerships are prevalent, it's observable that collaborative business models are often favored and widely adopted. In other words, partnerships and cooperation are directly proportional.

Shirkah or Musharakah, which translates to "sharing," involves a collaborative business approach where all partners collectively partake in the profits and losses of the venture. Profits are distributed based on a predetermined sharing ratio, while losses are allocated according to each partner's contributed capital ratio.

In Musharakah, all partners actively engage in the enterprise and share both profits and losses, without differentiating between working and investing partners.

The Musharakah contract emphasizes sharing risks rather than transferring or avoiding them. Unlike interest-based lending, where the lender receives a fixed return regardless of the borrower's profits or losses from the loan, in Musharakah, partners do not have a guaranteed share of profit.

In terms of fair distribution of income and justice, Musharakah stands out as an exemplary financing method, fostering inclusivity, economic mobility, and a more equitable income distribution.

The current economic structure is an interest-based financialized capitalist economic structure. Interest and financialization constantly cause economic crises, negatively affect income distribution in society, and cause many socio-economic problems.

Banks operate on a foundation of trust, which is essential for them to attract funds from customers. In ancient times, individuals needing funds would directly receive support from those who possessed surplus funds, typically within close-knit communities where mutual trust prevailed. However, with urbanization, trust became a challenge as people became less familiar with one another, leading to the emergence of financial intermediaries in metropolitan areas. These intermediaries securely facilitated funds transfers between fund providers and users. Initially developed in Western contexts, such financial institutions were exported to Islamic societies. Today, alongside conventional banks that function with interest, interest-free financial intermediaries are built on trust, subject to strict audits by regulatory bodies. These institutions, overseen by central banks, public entities, and independent auditors, have become trusted channels for fund management.

This section proposes the adoption of Multi-Partner Companies (MPC) that resemble financial intermediaries but directly manage collected funds instead of merely mediating transactions. The text explores the structures of such companies, including their auditing processes, becoming a partner, and share transfers. Additionally, it suggests considering models of companies engaging directly with funds collected through partnerships as complementary to traditional Islamic financial intermediaries.

Interest and virtual financialization (derivatives, debt trading, virtual transactions, etc.) are the main causes of many problems today. Could MPC based on profit-loss sharing be implemented in our economy today against interest and virtuality of finance? The purpose of such a firm structure is that MPC, with the capability of transferring monetary resources to the real economy, can be a remedy against the interest-based economy and virtualization of the finance sector.

Financial intermediaries are playing a very important role in today's financial system. Conventional banks and other interest-based financial institutions are at the center of the economy. The market share of Islamic banks (participation banks) in Turkey is about %10. In other words, %90 of monetary resources have been mobilized and utilized based on interest by conventional banks. These conventional banks also play an

important role in the financial markets. The transactions in the financial markets are mostly virtual and interest based. The increase of the impact of financialization on the economy, Globalization, and liberalization of capital movements accelerated the spread of the interest-based economic structure throughout the World, including Muslim countries.

On the other side, profit and loss sharing business models that are based on real transactions and the real economy can be promoted through business partnerships. MPCs are one of these efficient business structures that work based on profit and loss sharing. The proposed conglomerate will be open to all society, and everyone will be able to become a partner of such a conglomerate by investing a small quantity of money. These Multi-partner firms proposed against interest-bearing institutions will operate based on direct financing and will engage in direct commercial and production activities using the monetary resources they obtained from the public. This paper focuses on the thesis that Multi-partner firms can be a good alternative to interest-bearing financial systems. The study also claims that through the Multi-partner firms, monetary resources will be transferred directly to the real economy and income will be distributed to a wider part of the society more fairly. Transferring monetary resources to non-interest-based partnership structures will contribute to the development of entrepreneurial spirit in society, too.

Between the years of 1990 and 2000 in Turkey, several MPCs were established whose aim was to channel the monetary resources of the public into the real sector and share the gained profit with the partners. However, due to socio-political and economic reasons in those years, they failed in their operations. Besides, inefficient and poor management of these companies are also other causes of their failure.

As emerging technologies and growing financial structures reduce costs and improve quality, competition in the markets has intensified, and incentives such as low prices and after-sales services have become an integral part of the trade. Therefore, investment costs on the one hand and the provision of working capital on the other hand (expenses such as raw material, semi-finished material, and fixed expenses) made the cash flow very difficult for companies. Besides, Globalization in the world has integrated markets with each other. In this case, companies that have large capital can survive only under fierce competition. These are companies that can develop technology that promotes development and increases employment. Since such strong

companies require a strong financial structure, capital accumulation, unfortunately, is not sufficient, especially in developing countries. Increasing the savings and spreading the capital to the large-scale base is possible only by adding small savings to the economy. In this case, the vital importance of MPCs becomes apparent.

In such an environment, there is a need for large MPCs that are well-managed by professional entrepreneurs and audited by the relevant official authorities. These companies will utilize the savings of small savers in the real sector ranging from commerce to manufacturing.

At this stage, it becomes important to mention that there are already existing family conglomerates that are very dominant in Turkey's economy. After the death of many successful businessmen of the company, in the second and third generations, these companies are failing if they cannot succeed in the institutionalization of the company. Some family conglomerates through institutionalization, they succeeded to survive and continue their operations. Institutionalization is very crucial for large companies to survive and be profitable. Therefore, it must be one of the major characteristics of MPCs. Otherwise, MPCs cannot be successful in the market. These qualities can make MPCs survive for a long time with good management. Concerning share transfer of partners, partners will be able to transfer their shares to other partners when they need cash.

Another important feature of MPCs is that they are intrinsically able to spread out capital and profit to society at a large scale. This makes them a very powerful institution for distributing generated income among many segments of society instead of accumulating wealth in a few hands as in the family conglomerates.

MPCs will ensure the participation of many people abroad also and provide cost-free capital from abroad. It will transform the enormous non-economic wealth in the country into investment capital and will improve the sense of savings and initiative in the public.

4.4.2. Multi-Partner Companies (MPCs) in Turkey

Is it possible to promote MPCs in Turkey? Between 1990 and 2000, many MPCs were established and these MPCs were a good alternative for those who wanted to stay away from interest-based earnings. Some segment of society, who wants to stay away from interest earnings, became partners with these companies. These companies distributed

very well profit in the first years. The capital, which was not invested in the economy due to interest at home and abroad, moved to these companies. However, these companies were not subjected to any official financial control. After a while, they felt themselves under pressure due to the change in the political conditions in Turkey. They were described as green capital. In this way, they were tried to be discredited. After a while, they were dragged into bankruptcy. Non-professional executives and poor management of these companies are other reasons leading them to bankruptcy.

Figure 4.5 below shows the monetary resources coming to MPC. The funds may come to MPCs from national and international savings. These funds are transferred to MPCs based on partnership agreements based on the profit-loss sharing model. MPC, as a conglomerate, utilizes these resources in any real sector, such as manufacturing, energy, commerce, and services by the decision of professional managers.

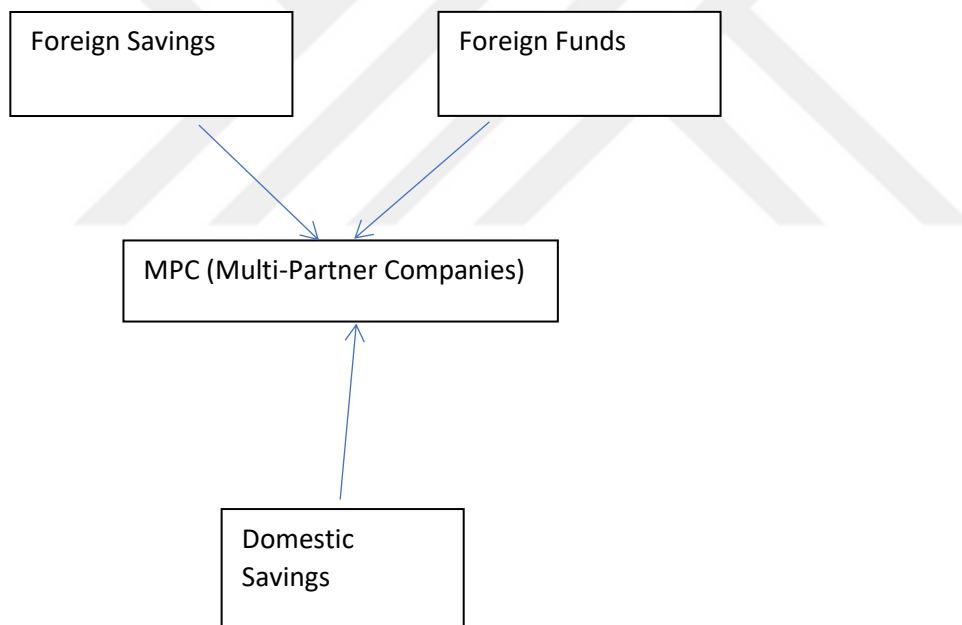


Figure 4.5: Function and Position of MPC

Source: Author

There are already existing commercial Islamic banks operating in a risk-sharing manner. Could these banks promote partnership based contracts when utilizing the collected funds? Unfortunately, the Participation banks, which were established to use partnership-based funding methods, could not use this method due to their risks.

Isn't it possible for commercial Islamic banks as a financial intermediary to finance the real economy based on partnership contracts? As a financial intermediary, participation banks are liable to their depositors. Therefore, they should invest the monetary resources that they collect from the public in less risky transactions. They should prefer projects with a clear exit plan. Because of these, the Participation banks in Turkey mostly use Murabahah transactions (about %95 of their total transactions).

Another question is: Is a Wakalah (Agency) based fund-collecting contract an obstacle for utilizing these collected monetary resources on the partnership contracts for commercial Islamic banks? Since the Participation bank is an Agent of its depositors, as an Agent it should avoid risky operations as much as possible. In other words, as a financial intermediary, Commercial Islamic banks should minimize risk and therefore avoid implementing partnership based contracts because of the risks that these contracts have. Murabahah is very similar to mortgage transactions carried out by conventional banks. This creates a perception that participation banks operate like conventional banks which are not correct. But, both are financial intermediaries and they are operating in the same market and they are exposed to the same risks. Therefore, the Participation banks should act accordingly and avoid price and liquidity risk.

In this context, MPCs can transfer the monetary resources they have collected directly to production and trade by making partnerships that participation banks cannot do. Besides the risks, MPCs may appear attractive to fund holders because of their high profits, as profits from trade and production will be higher than profits from bank customers' contracts. MPCs although there are risks of losing but with a high profit of coming from directly carried out transactions, they can also attract the customer of conventional banks. In this way, monetary resources are transferred directly to the real sector without any financial intermediary.

Also, It would not be wrong for MPCs to say that they complement their participation banks with these aspects although they take a role in different categories. The Participation banks also can be a partner of MPCs.

4.4.3. Structure of Multi-Partner Companies (MPCs)

MPCs can invest in any real sector area that they think is profitable. Investment decisions are taken by professional managers. The organizational structure is very

important for MPCs. The three characteristics which are indispensable for MPCs are professional management, institutionalization and auditing, and supervision mechanism as shown in Figure 4.6.

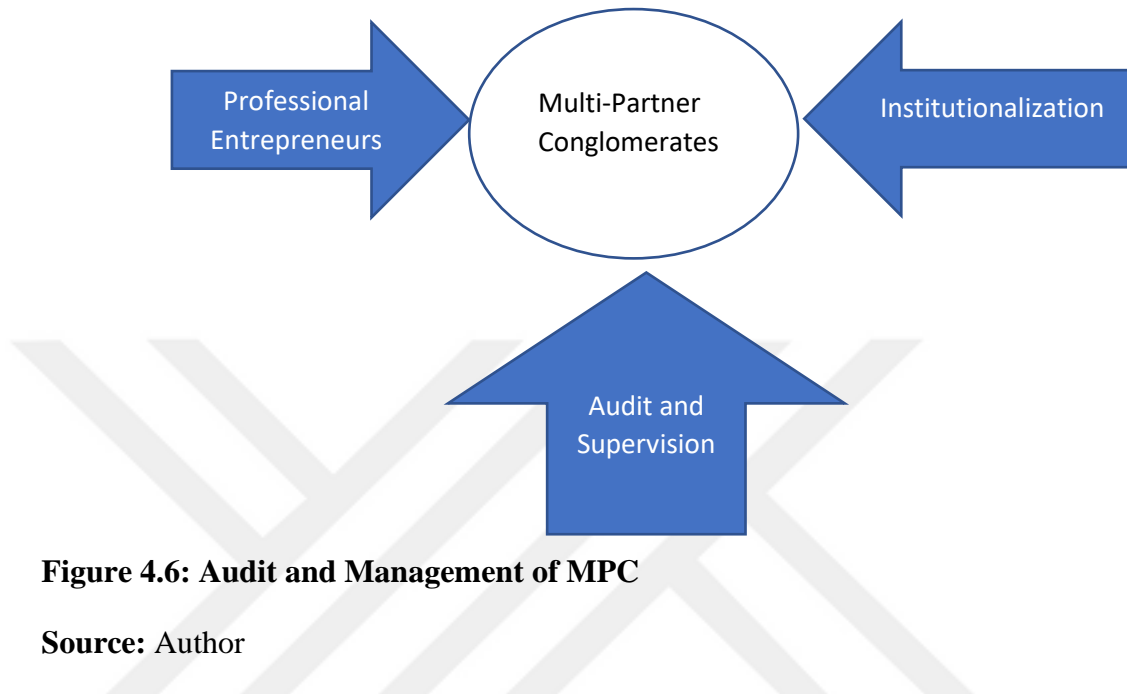


Figure 4.6: Audit and Management of MPC

Source: Author

Institutionalization is the process of having a structure that enables an institution, organization, business, or brand to continue and improve its activities without being dependent on individuals. Many family-owned conglomerates in Turkey could not continue after the death of their founder because they could not institutionalize, and they finally disappeared.

Professional entrepreneurs are those who will set up MPCs and have a business qualification certificate from the relevant chambers of commerce and industry. Thus, investors will become partners in the holdings to be established by these people, based on their qualification documents taken from the relevant chambers of commerce and industry.

Such companies need to be regularly audited to prevent any misuse. Unfortunately, many companies established between 1990 and 2000 have not been regulated by the government. Anyone who can establish a holding has collected money from individuals with the promise of a simple document profit from home and abroad. Because this system operates without supervision, it becomes susceptible to potential

misuse. Therefore, it becomes crucially important for the government or authorized independent audit firms to conduct audits on these holdings.

4.4.4. Principal-Agent Problem

One of the most common problems in multi-partner companies is the famous principal-agent problem. The principal is the owner of a company share.

The agent assumes the role of overseeing daily operations, while the principal aims to motivate efficient work to maximize the company's profits.

The principal-agent problem occurs when the agent, representing the principal, holds motivations or interests that diverge from those of the principal. This misalignment can generate conflicting interests between the two parties, leading to adverse consequences for the principal.

The agent may not always prioritize the principal's interests. For example, an employee (agent) or a company manager may not work as diligently as the principal desires because their motivations may not completely align.

The agent usually has more knowledge about the task or job than the principal. He can use this information (asymmetric information) to his advantage, which may lead him to make decisions that benefit himself rather than the principal (moral hazard).

The following steps can be taken to eliminate possible principal-agent problems in partnerships:

Incentive application: The success of the agent can be rewarded. The agent may be given a performance-based fee or bonus.

Monitoring and Auditing: Implementing systems to monitor and evaluate the agent's performance to ensure it is aligned with the principal's goals.

Contracts and Agreements: Instead of giving a fixed salary for the agent, a percentage of the profits can be given. In other words, a partnership agreement should be made to share profits and losses. Anything given in advance to the agent should be deemed as part of his share in the profit. That means, if the partnership's profit is below the amount given to the agents, the agents have to give back the difference to the partnership. Here the agents represent top managers consisting of CEO, deputy general managers and other managers.

4.4.5. Monitoring-Regulation and Law of Multi-Partner Companies

These MPCs must be regulated and audited by the government or any independent auditing organizations to prevent any moral hazard that may occur in the partnership. Law can be enacted as a new type of company for MPCs. The rules regarding the amount of capital of the company, how to establish it, who will establish these companies should be included in this law. SPK (Capital Market Board) can issue a regulation for MPCs and they are being monitored under this law.

4.4.6. Advisory Board (Like Shari'ah Board in Islamic Banks)

In multi-partner companies, it may often be beneficial to establish an advisory board separate from management, as in Islamic banks. Advisory boards are crucial for shaping the company's strategic path, utilizing expert guidance, and enhancing business outcomes. Usually comprised of external experts, industry figures, or independent individuals, these boards collaborate with management to steer the company towards its long-term objectives. In the proposed structure, advisory board members must know Islamic law. Members of the advisory board decide on activities that invest in the real economy, with senior executives at the helm who are experts in company management and trade to create synergy together.

Especially in multi-partner companies, there may be different views and interests among shareholders. Therefore, an advisory board independent of management can evaluate the company's strategic decisions in a more balanced way, using a variety of perspectives. This board can also function as a mechanism to monitor and direct management, thus making the company's decision-making processes more transparent and accountable.

The impact of advisory boards varies based on the unique circumstances and requirements of each company. The key factor is ensuring sufficient collaboration and communication between management and the advisory board. Therefore, by investing in the correct areas according to Islamic law and business facts, establishing the advisory board is essential for the company's long-term success. The advisory board should report directly to the chief executive officer within the organizational chart as shown in Figure 4.7.

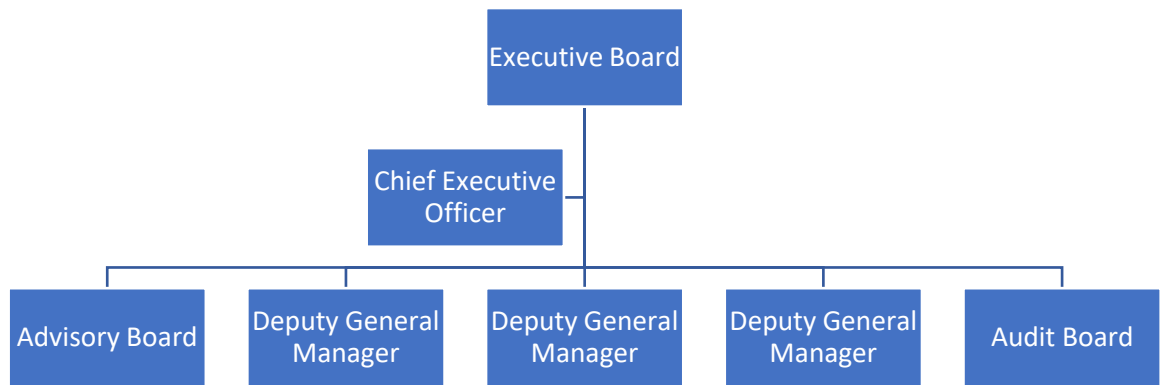


Figure 4.7: Organizational Structure of MPC

Source: Author

4.4.7. Relationship Between Chambers of Industry and Commerce and MPCs

What will be the role of chambers of industry and commerce in terms of entrepreneurial activities that will form the basis of these conglomerates?

One of the biggest reasons for the failure of MPCs established in Turkey between 1990 and 2000 is that they are poorly managed. For this reason, the entrepreneurs who will establish these companies must have some skills. These capabilities and whether entrepreneurs have these capabilities or not can be determined by the existing chambers of industry and commerce in Turkey. Today, many businessmen are members of these organizations. Through scoring or referencing, these institutions can identify the people who will establish MPCs.

4.4.8. Government and Multi-Partner Companies

The government can make tax reductions and several incentive schemes to encourage the establishment of these companies and make partnering attractive. The government can provide third party guarantees in certain areas where MPCs will invest. The government's support as an independent party and being a guarantor will cause these companies which invest directly in the real economy, to create employment in the long run and increase GDP (Gross Domestic Product). This will contribute to the macroeconomic policies of the government.

One last point to be discussed is: Does it make any difference to have MPC since we already have MPCs in the stock exchange market where individual investors can be their partner by buying their shares? That is another important reason to promote MPCs.

One of the most important problems today is excessive financialization. Exchanges are detached from the real economy due to virtual transactions. For this reason, interest rates distorting the market discipline and instruments in the over-financialized stock market led to virtual transactions. We recommend the establishment of MPCs to remove the company shares and their sales from the over-financialized stock market environment and put it on the right ground, which is real life. Today, thousands of transactions are made at the same time per second at the computer and the welfare is transferred from one side to another. Today, many economists have expressed the idea that exchanges are like a global casino.

An alternative to today's financial markets, which are entirely based on the principle of "interest" or "betting on prices", are economic initiatives based on profit and loss sharing partnerships. MPCs can be a solution to both interest and financialization. At this point, the success of MPCs is vital for those seeking an Islamic solution.

Based on this proposal, the general features of these conglomerates and their business doing styles can be listed as follows: The establishment, audit, and profit distribution structure will be determined by SPK (Capital Market Board) legislation. They will be established by professional entrepreneurs who have got references from chambers of commerce and industry. These conglomerates will have a partnership agreement with their funders. The shares of the conglomerate will be traded in the "Multi-Partnership Holdings" market that will be created within BIST and secondary market sales of the shares will be handled through the conglomerate itself. In this way, the real relationship between the firm and the transactions of its shares in the stock market will not be cut, and so a kind of secondary market structure that causes many virtual transactions will be prevented. These Multi-partner and publicly traded companies will operate in the service, trade, and production sectors and will also be able to establish different sub-companies that will contribute to the real economy by allocating their resources to the real sectors directly. With the tax advantages and incentives, these companies can be supported by the government in terms of tax advantages.

4.5. Market Efficiency

The efficiency being discussed here relates to market efficiency achieved within real economy contexts, not in financial contexts. Within these real markets, efficiency signifies the effective allocation of resources to enhance production and societal well-

being. Essentially, real market efficiency relies on optimizing resource allocation across various sectors and industries. This optimization guarantees that resources like labor, capital, land, or technology are channeled toward their most effective applications, thereby stimulating economic expansion and welfare. Efficiency within real markets intricately intertwines with the dynamics of competition and innovation.

The efficacy of the price mechanism closely correlates with real-world market efficiency. Prices function as indicators of scarcity and demand, guiding producers and consumers in decision-making processes. In efficient markets, prices accurately mirror supply and demand dynamics, streamlining optimal resource allocation. Additionally, quick responses to shifting conditions characterize efficient markets, facilitating rapid resource reallocation to their most valuable applications. Consequently, efficiency in real markets not only revolves around maximizing economic productivity but also revolves around enhancing societal welfare by ensuring resources are allocated and utilized in manners aligning with the needs and preferences of individuals and society.

4.5.1. Market and Cooperation

In this section, we will first examine how the concept of competition, which is the basic dynamic of the capitalist system, has been subjected to criticism in the Western world. Later, we will focus on the concept of cooperation, which resides instead in the Islamic world.

While competition in a free market has its merits, some counterarguments suggest the benefits of cooperation over pure competition. For example, Ostrom emphasized the importance of cooperation in managing common pool resources. Her work on the commons highlighted that communities could often manage shared resources sustainably through cooperative agreements rather than relying solely on competitive forces or government regulation (Ostrom, 2009: 49-65).

According to Stiglitz, cut-throat competition distorts income distribution and harms the environment. Therefore, government policies that promote income justice and reduce inequality should be implemented. Cooperation and collaboration between businesses and governments are needed to address issues such as income inequality, climate change, and access to essential services (Stiglitz, 1999: 595).

Cooperation improves collaboration among firms, allowing for joint research and development efforts. Instead of each company solely investing in innovation,

collaboration can lead to shared knowledge and resources, potentially accelerating progress, and breakthroughs.

In fiercely competitive markets, duplication of efforts often occurs, leading to inefficiencies in resource utilization. Cooperation can streamline resource allocation, reducing redundancies and waste.

Constant competition might incentivize short-term gains and sometimes volatile market behaviors. Cooperation, on the other hand, can lead to more stable relationships and long-term planning between businesses, creating a more predictable environment for growth and investment.

While competition may lead to homogeneity among products/services, cooperation can allow firms to specialize in niches. Cooperation can enable each company to focus on its strengths, leading to a diverse range of specialized offerings in the market.

Pure competition might lead to winners taking a disproportionately large share, potentially exacerbating income inequality. Cooperation can promote a fairer distribution of profits and resources, aligning with social responsibility values.

Cooperation among industry players can facilitate the establishment of standards and regulations that benefit the market as a whole. This can ensure quality control, safety standards, and ethical practices, which might not be effectively maintained in a fiercely competitive environment.

Porter (1998: 77-79) supports cooperation among firms interconnected to each other in a clustered way. He defines clusters as geographic concentrations of interconnected companies in a particular field. He highlights the significance of collaboration among businesses within industries and discusses the importance of cooperation in creating shared value, where companies actively engage in activities that benefit both their business interests and society.

Ultimately, a balanced approach that acknowledges the strengths of both competition and cooperation might be beneficial. While competition drives innovation and efficiency, strategic collaboration among businesses can lead to synergies, shared growth, and a more sustainable market landscape. This blend can result in a healthier, more productive, and socially responsible business environment.

While many economists recognize the importance of competition in markets, some advocate for greater cooperation or collaboration among businesses. In other words, there are perspectives suggesting that extensive cooperation or collaboration among firms can potentially disadvantage consumers in certain situations. Excessive cooperation among firms can sometimes mirror cartel behavior.

In some cases of heavy collaboration, firms might prioritize cost-cutting measures over product quality or service standards to maximize joint profits, leading to a decline in the overall quality of goods or services available to consumers. Excessive collaboration might also discourage innovation.

These arguments caution against unrestricted cooperation among firms, particularly when it results in market dominance, reduced competition, or anti-competitive practices that ultimately harm consumer welfare. Balancing cooperation with healthy market competition is often regarded as beneficial, as it encourages innovation, lower prices, and diverse consumer choices while also fostering collaborative efforts that can bring societal benefits.

Acknowledging the possible drawbacks of too much collaboration among firms, economists frequently suggest different actions to address these issues and safeguard consumer interests.

Enforcement of antitrust regulations without compromise is very important to prevent monopolies, secret agreements and unfair practices between companies. These regulations are designed to promote competition, deter price manipulation, and protect consumer choice and affordability by ensuring fair entry of new players into the market.

Promoting transparency among collaborating companies can help reduce potential negative impacts on consumers. Making information about collaborative agreements and practices public can enable regulatory bodies and consumers to monitor activities for fairness and ensure they benefit consumers.

Promoting a balance between cooperation and competition is crucial. Encouraging collaboration that doesn't stifle competition can be achieved through carefully crafted policies that incentivize joint efforts without harming market dynamics.

Fostering an environment that encourages innovation, even within cooperative ventures, is vital. Encouraging firms to focus on improving products, services, and

operational efficiency while collaborating can benefit consumers by offering better quality and innovative solutions.

Implementing and strengthening consumer protection laws ensures that consumers have avenues for redress in cases of unfair practices or quality issues arising from excessive cooperation among firms.

Policies that support and facilitate the entry of new competitors into markets can counter the effects of heavy cooperation among established firms. This support can foster innovation, diversity, and competition, benefiting consumers in the long run.

Regularly monitoring market dynamics and the effects of collaboration on consumers allows policymakers and regulators to identify and address issues promptly, ensuring fair competition and consumer welfare.

By combining these approaches, economists aim to strike a balance between fostering cooperation for mutual benefits and safeguarding competitive markets that prioritize consumer choice, innovation, and fair pricing. These measures aim to prevent the potential negative consequences of excessive cooperation among firms on consumers while encouraging positive aspects of collaboration.

Discussions on the economy and competition on the Western front continue in this vein. It is the concept of co-opetition (the combination of competition and cooperation) that ultimately reaches competition and cooperation (Melinte, 2013: 317-318) and the Value net. The Value Net is a strategic framework introduced by Adam Brandenburger and Barry Nalebuff in their book "Co-opetition." (Brandenburger and Nalebuff, 2011). It's designed to help businesses understand and navigate the intricate dynamics of competitive and cooperative relationships within their industry.

According to Brandenburger and Nalebuff (1997: 31-34), within the framework of the Value Net, businesses can identify opportunities for collaboration, assess competitive threats, and develop strategies that leverage competition and cooperation to achieve their objectives. The framework encourages firms to consider the broader ecosystem in which they operate and to strategically manage their relationships with other stakeholders to create value for all parties involved.

If you pay attention, a different market structure equipped with values is not mentioned in these discussions. The relationship between morality and market, morality and commerce, morality and market are ignored and the discussion is confined only to laws

and regulations. The crises experienced by the capitalist system have shown us that legal regulations are necessary but insufficient. For this reason, in addition to legal regulations, a value-based market structure needs to be created and supported by more dynamic and faster auditing structures such as the Hisbah organization. At this point, it will be important to emphasize the importance of the moral and ethical behavior of the actors of the market.

In economics, the market concept embodies a broader, more abstract meaning. A market serves as a structured platform that facilitates the interaction between buyers and sellers, enabling the exchange of information and commercial transactions.

Take, for instance, the wheat market—an arrangement where those interested in buying or selling wheat gather, disseminate information about prevailing prices, and conduct their wheat-related transactions within this informational framework. Presently, these market agreements are facilitated through the utilization of modern communication tools such as telephones and the Internet, enhancing the efficiency and reach of market interactions.

In economic theory, markets encompass various categories, each serving distinct functions. These classifications include factor markets, where the factors of production like labor and capital are traded; goods and services markets, where tangible and intangible products are exchanged; financial markets, which deal with the buying and selling of financial instruments like stocks and bonds; and foreign exchange markets, focusing on the trading of different currencies across the globe. These classifications underline the diverse nature and scope of markets in economic activities.

The Islamic economy operates as a market-driven system, albeit with a significant role attributed to the state. However, the function of the market within the Islamic economic framework significantly diverges from its role in secular systems. The pivotal difference lies in how individuals, functioning as producers, distributors, and consumers, engage within the Islamic paradigm compared to secular systems. The guidance for conduct in commercial dealings (mu'amalat) stems from the teachings within the Qur'an and the Sunnah (the traditions of the holy prophet).

Islamic jurisprudence (fiqh) draws distinct lines between what is permissible and impermissible in Islam, establishing clear boundaries. In instances of ambiguity, Muslims are encouraged to employ reasoning by seeking parallels through Islamic

precedents (qiyas) and consensus (ijma), rather than relying solely on personal opinions (ra'y). Generally, Islam advocates for moderation as a way of life, emphasizing a disdain for excessive behaviors.

Consequently, the marketplace in an Islamic economy operates within the confines of Islamic morals and ethics. While these limitations might appear to curtail the autonomy of market forces, they aim not to diminish market efficiency but rather to rectify market imperfections. These restrictions serve to refine the market, allowing for more efficient operation. Left unchecked, markets tend to veer toward excesses. Conversely, an outright suppression of the market would result in inefficient resource allocation and a loss in overall welfare. Thus, the balance lies in leveraging ethical constraints to optimize market functionality without stifling its effectiveness.

The Islamic economic system operates within a framework of freedom that prioritizes cooperation over fierce competition. Its essence lies in emphasizing collaboration for mutual benefit rather than solely focusing on individual gain. Islamic teachings stress the interconnectedness of personal welfare with the well-being of others, fostering a societal ethos where working for the greater good is regarded as serving one's own purpose and pleasing God. This cooperative ethos permeates Islamic social organization, intertwining individualism, altruism, and social consciousness. The Quran and the life of Prophet Muhammad, peace be upon him, advocate for brotherhood, evidenced by the companions of the Prophet who willingly shared their possessions with fellow Muslims. Islamic values underscore care for relatives, an extended family concept, and duties towards neighbors, reflecting the social orientation inherent in Islam.

4.5.2. Basic Features of the Madinah Market Established by Prophet (PBUH)

After the migration to Madinah, the Prophet (PBUH) observed that the location of the Madinah market was not suitable for the structure of society. The existing market was predominantly under the influence of the Jewish community, which began to show hostility towards the newly established society and state. This led to a lack of adherence to fair practices among sellers, buyers, and intermediaries in the market. In response, the Prophet, peace be upon him, sought to implement reforms.

His objective was to relocate the market away from the Jewish quarters, aiming to eliminate any external domination or reliance. His vision was to establish a new market

area situated near the homes of the indigenous inhabitants of Madinah, known as al Ansar. This shift aimed to create a market space independent of any external influences and to integrate it more closely with the local community.

Once he discovered an appropriate location for the new market, the Prophet, peace be upon him, personally inaugurated it. He decreed that there should be no levying of entry fees, taxes, or constraints imposed on the sellers, traders, buyers, or their goods within this market space.

In this market, the state refrains from intervening in the establishment of prices, thereby allowing them to be determined by the natural course of market forces and fair competition without any external influence or manipulation from state authorities.

The cornerstone of transactions in this market rests upon the exchange principle, wherein one gives something and receives an equivalent in return. Any acquisition of unearned gains through this exchange is not allowed, as it amounts to appropriating others' property without due cause or justification. Transactions that breach this fundamental principle are deemed unlawful, encompassing practices like lending with interest, exploiting the other party's ignorance by trading at exorbitant prices, or engaging in deals that unfairly distribute risk and uncertainty.

Moreover, integrity and truthfulness form the root of business dealings, denouncing cheating, deception, and any form of misleading information or false promotion—whether through false claims of high quality or orchestrated bids by fictitious buyers to inflate prices. Precision in measurement, by weight, volume, or other means, remains a non-negotiable aspect.

Enforcement of contractual obligations stands paramount, supported by the authority of the law. Any attempt to distort fair play within the market ecosystem is strictly prohibited. This includes outlawing monopolies and preemptively engaging with incoming caravans or transacting on their behalf before they arrive in the marketplace. Instead, the encouragement lies in producers and merchants bringing their goods directly to the market, fostering a more transparent and equitable marketplace.

In this research, the third principle focuses on advocating for a market framework rooted in collaboration rather than competition, highlighting its positive impact on market efficiency. The aim is to stimulate an economic concept centered on solidarity, emphasizing people's rights in contrast to competition-driven economic theories. The

claim is that cooperative structures enhance market efficiency and contribute significantly to societal well-being by emphasizing solidarity and cooperative endeavors.

The historical appearances of Islamic economics, notably Futuwwa and Akhism, represent models of markets built on cooperation rather than the competitive and conflicting paradigms often seen in conventional markets. Futuwwa can be considered the institutionalized embodiment of an ideal to construct a morally sound society within the Islamic framework, emphasizing the pursuit of good deeds and avoiding harmful actions. The Akhi order, originating among Anatolian Turks predominantly through groups of traders and craftsmen, represents its institutional form (Erdem, 2021: 173-174).

Drawing parallels from Futuwwa and Akhism to the contemporary landscape, cooperative-based firms' structures embody cooperation and solidarity over competition. Consolidating numerous companies and their suppliers operating within the same industry under a cooperative entity fosters solidarity within the market, enhancing its overall efficiency.

4.5.3. Futuwwa Organization

In the dictionary, Feta is described as "young, courageous, and generous," while Futuwwa signifies "youth, heroism, and generosity." Sufis associated fundamental moral principles and significant virtues with the term Futuwwa, elevating it to a foundational concept within Sufism. Initially rooted in Sufi practices, the institution evolved into a multifaceted structure encompassing social, economic, and political dimensions starting from the 13th century (İslam Ansiklopedisi, 2024).

When we talk about Futuwwa, we're referring to a way of living that's based on following the teachings of Islam, which include doing what Islam advises and avoiding what it tells us not to do. Akhism is a specific form of this lifestyle, which was created by the Turks in Anatolia (an area in Turkey), mainly among groups of traders and skilled workers like craftsmen. This way of thinking and living had a big impact on nearly every part of Islamic societies in the past, both in public and private areas.

In simpler terms, Futuwwa is about living according to Islamic principles, and Akhism is a particular version of this lifestyle that was developed by Turkish people in

Anatolia, focusing on tradesmen and craftsmen. This way of life influenced many aspects of Islamic societies in the past (Erdem, 2021: 173-174).

Although Futuwwa and Akhism are very similar, they are not the same. Futuwwa existed before Akhism and is generally referred to as Akhism in Anatolian Futuwwa. Turks who migrated from Central Asia to Anatolia adopted the concept of Futuwwa while settling down and the Akhi order emerged. Futuwwa refers to the reflection of the moral values recommended by the prophet and religious scholars on the individual's behavior (Akçacı and Özdemirci, 2014: 47-49).

Although the virtues and military characteristics deemed essential in Futuwwa are significant, the organizational structure and management approach of the tradesman become fundamental in Akhism (Çeker, 2017:84).

Not every individual within the Futuwwa Organization bears the title of Akhi; to attain such a status, one must possess a trade. However, being a Futuwwa member is also a prerequisite for becoming an Akhi.

4.5.4. Akhism Organization

The word Akhi means brother in Arabic. It refers to unions of tradesmen and craftsmen operating under certain rules in Anatolia. Akhism is a developed and changed form of Futuwwa. He took his moral and educational rules from Futuwwa. However, its organization and field of work have changed. In Anatolia, a person with Futuwwa was called Akhi. To become an Akhi, the candidate must have the virtues and attributes of being a Futuwwa. However, there is no obligation to have a profession or art. The candidate later acquired a profession of art (Andaç, 1993: 1-2).

According to Kaçanoğlu when Akhism mentioned, the immediate association is often with a guild-like entity consisting of craftsmen and traders, similar to modern-day chambers of commerce or artisan organizations. However, in truth, it represents more than just this narrow definition. Akhism embodies a philosophy, a lifestyle, a non-governmental entity, a school, and even a familial bond. It serves as an institution for some and encompasses a mentality, philosophy, and way of life for many, with diverse orientations (Kaçanoğlu, 2021: 152-154).

Akhism started in Anatolia during the 13th and 14th centuries and lasted in various forms until the 20th century. Ahi Evran, a prominent figure, established an

organization called the Ahi Association, which acted as a social and economic group, similar to modern trade unions, in cities like Kırşehir, Konya, and Kayseri.

Ahi Evran's real name is Sheikh Nasıruddin Ebul-Hakayık Mahmut Bin Ahmet el Hoyri. He is the child of a family that immigrated from Central Asia. Ahi Evran took fiqh and Sufism lessons in different madrasahs. He came to Anatolia in 1206 and laid the foundations of the Ahi order in Kayseri (Özerkmen, 2004: 57-59).

The main goal of Akhism was to promote essential qualities like honesty, fairness, and truthfulness, especially among tradespeople and craftsmen. Its main aim was to encourage good qualities like being honest and fair, particularly among people who worked in trade or made things by hand.

Today's current economic, social, and cultural order is inadequate to meet their demands and needs. Mainstream economic theories that try to explain economic balance with the concepts of supply and demand and claim that individuals act rationally to maximize their own benefits and companies maximize their profits are inadequate. Consumption, profit, and benefit maximization approach, and cut-throat competition harm societies.

Akhism order is equipped with many moral and spiritual values. These values create an internal control mechanism for market actors. The main purpose of Akhism is to create a society with good morals and to help the state in many different areas that concern the society (Bozbayır and Şener, 2021)

Since they aim to serve humanity, they must first approach the perfect human being. In Akhism, balance and peace in society are aimed without discrimination of rich/poor, producer/consumer nation/state (Yücel et al., 2020: 197-198).

Akhism order was nourished by Sufi values and aimed to create a perfect human being. The understanding of Akhism is an institution/organization with Sufi features that holds the social structure together with the Futuwwa tradition (Özerkmen, 2004: 57-59). Contrary to cut-throat competition brought by capitalistic market structure, Akhism offers a more humane and fair structure (Aktürk, 2021: 29-55). In Akhism, economic activities serve as a means rather than an end goal (Özdemir, 2007: 155).

4.5.5. Cooperation in the Market

Islamic teachings underscore a profound readiness to serve and sacrifice for the greater good of society when necessary. The Quran repeatedly highlights the value of cooperation and collective effort, presenting it as a divine command for doing good deeds. The Prophet Muhammad, peace be upon him, consistently emphasized cooperation among Muslims as the cornerstone of Islamic society, considering it the key to its success. His teachings emphasized the unity among believers, likening them to a single body, wherein the pain of one part affects the entire body.

At times, cooperation within the Islamic framework may necessitate the redistribution of wealth and resources. The Prophet Muhammad, peace be upon him, lauded the actions of the al Ash'ariyin clan, praising their practice of pooling resources during shortages and distributing them equally among themselves. This practice was endorsed as an extension of his own values, fostering unity and equitable sharing within the community.

In the Islamic economy, freedom indicates itself not solely in unrestricted competition but predominantly through cooperation. Islamic teachings emphasize that while individuals pursue their own interests and well-being, they should equally prioritize the welfare of others. Cooperation is a fundamental aspect of the social composition of Islam, where individualism, altruism, and social awareness integrate seamlessly. The approach underlines contributing to the welfare of others serves as a means to expand one's usefulness and find favor with God.

Islam promotes consciousness and consideration for relatives, advocates the concept of an extended family, emphasizes duties toward neighbors, and exhibits the social orientation inherent in Islamic teachings.

4.5.6. Cooperation or Competition

The fundamental principle of competition significantly affects classical economic theory, particularly in the ideologies of renowned classical economists like Adam Smith and David Ricardo. Within this framework, competition is fundamental, driving efficiency and optimal resource allocation in the market economy.

Similarly, classical economic theory assumes that competition promotes the productivity of producers. Within a competitive landscape, firms endeavor to attract consumers by offering superior products at reduced prices. This environment

encourages a competitive spirit among companies, stimulating innovation, cost-cutting measures, and enhancing the quality of goods and services.

Classical economists advocate that resources naturally move toward their most efficient applications in a competitive market. This principle stems from Adam Smith's "invisible hand" concept, suggesting that individuals pursuing self-interest automatically contribute to societal welfare by facilitating economic growth and efficient resource distribution.

According to Chapra, secularism, which places excessive emphasis on individualism and serving personal interest, does not have a mechanism to balance individual interest and social interest and encourages individuals to make any concessions. Secularism assumes that when personal interests are served, they will almost always serve social interests. Although this sometimes happens, it does not always happen and does not need to happen (Chapra and Sarac, 2014: 46).

An individual's prioritizing his interests and ignoring the interests of others (society, environment, other living things) may harm the environment in which he lives. For this reason, the individual's pursuit of his interests while considering others is essential in minimizing negative externalities. This understanding of responsibility, which includes the world and the hereafter, is a fundamental factor that directs the economic activities of the individual in Islamic economics.

Zaim (2013: 19-23) also put forward similar views that conventional economics ignores the social context in maximizing individual interests. According to him, homo-economicus, a rational man, is free to maximize his interest. In Islamic economics, increasing an individual's interest is based on the framework of justice and social benefits.

When it comes to competition, competition is the fundamental dynamic of the capitalist economic system and an integral aspect of the price mechanism's functionality. In competitive markets, pricing is determined by the forces of supply and demand. In such settings, prices accurately reflect the value of goods and services, considering consumer preferences and production costs.

Classical economists argue that competition serves consumers by presenting various choices at competitive prices. Consumers can select products or services suitable for their preferences and financial capacities within competitive markets.

For companies to grow in competitive markets, maintaining efficiency and meeting consumer demands are imperative for profitability. Consequently, firms often prioritize continual improvement and innovation to secure or expand their market share.

While classical economists emphasize the positive outcomes of competition in a minimally intervened free market—such as efficient resource allocation, heightened productivity, and innovation—alternate perspectives warn that unregulated competition may sometimes cause monopolies, inequality, cut-throat competition, and market failures. That is to say, according to this approach, competition kills competition. As a result, these viewpoints advocate for market regulation or intervention to some extent.

On the other hand while acknowledging the advantages of competition within an open market, some opposing viewpoints advocate prioritizing cooperation over pure competitiveness.

Cooperation stimulates improved communication among market entities, facilitating joint research and development efforts. Rather than each entity solely investing in innovation, sharing knowledge and resources accelerates progress and innovation.

In highly competitive markets, redundant investments often occur, resulting in inefficiencies and resource wastage. Collaboration aids in resource allocation, enhancing efficiency, and restraining unnecessary investments and waste.

Though continuous competition may yield short-term gains, it can induce unpredictable market behavior and instability. Collaboration improves more stable relationships and long-term business strategies, creating a predictable environment for growth and investment. It allows firms to specialize in specific niches, leveraging each other's strengths to diversify products and services.

Intense competition can disproportionately favor winners and intensify income inequality. Conversely, cooperation can promote a fairer distribution of profits and resources, aligning with social welfare-sharing values.

Cooperation can drive the establishment of market-wide standards and regulations, ensuring quality control, safety, and ethical practices often challenged in cut-throat competitive environments.

Therefore, a balanced market approach that acknowledges the merits of both competition and cooperation proves beneficial. Competition drives innovation and efficiency, while strategic cooperation stimulates synergy, collective growth, and a more sustainable market. This combination leads to a healthier, more productive, socially responsible work environment.

Elinor Ostrom, a well-known political economist, highlighted the concept of cooperation in her work, especially concerning 'the tragedy of common' economic issues. His most notable academic contribution in this field is his book "Governing the Commons: The Evolution of Institutions for Collective Action," published in 1990. In this book, Ostrom identifies how common resources can effectively manage shared resources through cooperation, collective decision-making, and social norms (Ostrom, 1990).

Joseph Stiglitz, a distinguished Nobel laureate economist, has extensively addressed cooperation across various academic works and public engagements. One significant aspect of his focus on cooperation involves its application within economic and social policies to encourage fairer, more inclusive societies. Stiglitz mainly discusses the realm of cooperation at an international level. Through books such as "Globalization and Its Discontents" and "Making Globalization Work," he examines how collaboration among nations, institutions, and individuals on a global scale can influence economic strategies aiming to combat global inequality, poverty, and financial instability. He advocates for policy reforms prioritizing cooperation over unrestrained competition to establish more balanced and just outcomes in global economics (Stiglitz, 2017).

The Porter Diamond Framework, developed by Michael Porter, is a model for examining how nations gain competitive advantages. It searches the primary factors and elements that play a role in a country's capacity to establish and uphold a competitive edge within specific industries. Michael Porter, a prominent economist, has stressed the importance of cooperation and collaboration across various academic writings, especially within the domains of business strategy and competitiveness. In his publication "The Competitive Advantage of Nations" Porter searches for the factors influencing a nation's economic success. He explores how cooperation among firms, industries, and supportive institutions within a country contributes significantly to its competitiveness globally (Porter, 1990).

Some argue that extensive collaboration among companies might, in certain situations, negatively impact consumers. Overly intense cooperation can diminish competition within the market. This decline in competition may result in elevated prices, diminished product quality, and reduced innovation, as companies face less pressure to enhance their offerings or lower costs when competition is limited.

These perspectives suggest that excessive collaboration might mirror cartel-like behavior among firms. Intensive cooperation could prompt anticompetitive actions, such as price-fixing or market allocation, directly affecting consumers by artificially inflating prices or restricting choices. Extensive cooperation might erect barriers for new competitors, making it challenging for emerging businesses to enter and compete. This lack of entry can impede innovation, limit product and service variety, and reduce the efforts of existing companies to enhance their offerings.

In deep collaboration, companies might prioritize cost reduction over maintaining product quality or service standards to maximize collective profits. This shift could lead to a decline in the quality of goods or services available to consumers. Excessive collaboration might also discourage innovation. When firms work too closely together, they might struggle to introduce new and improved products or services, diminishing their motivation to invest in research and development.

These arguments caution against unregulated cooperation among firms, mainly when it results in market dominance, diminished competition, or anticompetitive behaviors that ultimately harm consumer well-being. Therefore, balancing cooperation and healthy market competition is often deemed beneficial. It encourages collaborative endeavors that yield societal advantages while stimulating innovation, reducing prices, and offering diverse consumer options.

David S. Evans, in the study, discusses the antitrust implications of collaboration, particularly in two-sided markets, examining how cooperation between firms can affect consumer choice, consumer welfare, market dynamics, and market efficiency (Evans, 2003).

Another study titled as "Cooperative Strategy: Managing Alliances, Networks, and Joint Ventures" written by John Child, David Faulkner, and Stephen Tallman, discusses the various aspects of cooperative strategies, including alliances and

collaborations, and discusses their implications for competitive advantage, market dynamics, and consumer outcomes (Child, Faulkner and Tallman, 2005).

Various measures are necessary to mitigate the potential downsides of extensive company collaboration and safeguard consumer interests. Implementing and enforcing antitrust regulations can prevent monopolistic behavior, collusion, and anti-competitive practices among firms. These rules also promote competition, deter price fixing, and safeguard consumer interests by ensuring fair market access for newcomers.

Enhancing transparency among cooperating companies can alleviate potential adverse effects on consumers. Making details about collaboration agreements and practices publicly accessible could enable regulators and consumers to monitor activities for fairness and ensure they benefit consumers.

Forming a balance between cooperation and competition is crucial. Collaboration that doesn't suppress competition can be encouraged through well-designed policies promoting joint efforts without harming market dynamics.

Developing an environment that encourages innovation is imperative, even within collaborative ventures. Urging companies to prioritize enhancing products, services, and operational efficiency during cooperation can benefit consumers by delivering better quality and innovative solutions.

Reinforcing consumer protection laws ensures that consumers have recourse if quality issues arise from unfair practices or excessive cooperation between firms.

Policies facilitating the entry of new competitors into markets can counteract the effects of deep collaboration among established firms. This support can benefit consumers by encouraging innovation, diversity, and healthy competition in the long run.

Continual monitoring of market dynamics and the impact of collaborations on consumers enables policymakers and regulators to quickly identify and address issues, ensuring fair competition and consumer welfare.

All these approaches aim to form a balance between promoting cooperation among firms for mutual benefits and maintaining competitive markets, prioritizing consumer choice, innovation, and fair pricing. These measures aim to prevent potential negative

consequences of excessive company cooperation on consumers and encourage the positive aspects of cooperation.

To highlight the coexistence of competition and cooperation in our everyday interactions, Schweitzer and Galinsky give a strong foundation between competition and cooperation. According to them, humans have a natural tendency to both work together and compete. Sometimes, we enthusiastically team up with others, forming strong connections. Other times, we fiercely compete and pay little attention to others. Even in one interaction with the same person, we can switch between these two approaches. For example, in the Middle East, when bargaining for a carpet, you're competing on the price, but the seller will likely offer you tea first, showing cooperation. Similarly, in many parts of the world, business deals start with gift exchanges, karaoke, or shared meals. This book highlights that in both work and personal life, we're constantly balancing cooperation and competition, often simultaneously (Schweitzer and Galinsky, 2015: 10).

Classical economic theory defines competition as the rivalry among companies trying to sell goods or services in the marketplace. This competition is about offering improved prices, high-quality products, or superior customer service. Competition stimulates market diversity, regulates prices, and pushes continual advancements within companies. Moreover, competition serves as a catalyst for innovation and efficiency as companies strive for enhanced products or reduced costs compared to their rivals. While competition benefits consumers by providing better prices and superior products, it necessitates regulatory supervision to prevent unfair business practices among firms. These regulations ensure the preservation of fair competition and safeguard consumers from harm.

Specific scholarly investigations highlight the contentious and conflictive nature of capitalism, asserting that it introduces distortions into the market, consequently leading to the evolution of a monopolistic market structure. These studies advocate for a paradigm shift centered around cooperation rather than maintaining the prevailing competitive and conflict-driven paradigm that currently dominates the market landscape.

The monopolistic institutional structures inherent in Capitalism and the interventionist tendencies of the state within Socialist frameworks have failed to generate innovative

methods and institutions for addressing the current economic and social challenges faced by the Muslim world and other Less Developed Countries (LDCs). This failure persists because both Capitalism and Socialism are based on conflicting interest-based approaches. The advantages gained within monopolistic economies often translate into losses for LDCs, maintaining an uneven distribution of wealth and resources. There's a call for a shift in the prevailing paradigm to address these issues. This shift proposes a new approach grounded in parallel interests, drawing upon the foundational principles of Islamic economics. This new paradigm emphasizes the necessity for the owners of production factors to gather and create a voluntary agreement dictating the production process. This agreement should reflect their shared objectives and how they intend to distribute output by fairly allocating both costs and benefits among stakeholders. Islamic economics highlights cooperation in the market. It views the market as a critical economic institution that establishes cooperation, divides labor, and coordinates between those who own production resources and consumers (Ersoy and Altundere, 2017).

Kahf (2014) mentions on “Spirit of Cooperation” in Islamic economics as Islamic economy embodies freedom, yet this freedom is predominantly demonstrated through cooperation rather than rivalry and competition. Islamic moral principles emphasize that while pursuing personal interests and well-being, individuals should recognize the interconnectedness of others' welfare with their own. Cooperation stands as a fundamental principle within the social structure of Islam. Individualism, altruism, and societal consciousness are intertwined, promoting the idea that contributing to the welfare of others is a significant means of expanding one's value and finding favor with God. The act of contributing positively to society is considered equivalent to serving God.

Conventional economics promotes a view of society as a competitive jungle. It claims that cut-throat competition for survival of the fittest promotes efficiency. In other words, today's economic theory teaches us to be selfish and greedy, saying that cut-throat competition leads to efficiency among firms. Capitalist teachings say that the basis of society is individualism, hedonism, competition, and greed. All is fair in pursuit of pleasure, power, and profits. All transactions in this type of market are based on adversarial motives.

On the other hand, Islam offers a radical alternative. A society based on generosity, cooperation, social responsibility, and spirituality. That means all transactions in the Islamic economics framework are based on cooperation motives.

Asad Zaman challenges the competitive framework endorsed by neoclassical economists by presenting two contrasting propositions and questioning their plausibility:

- *Remove obstacles to free operation of markets. The powerful instincts of selfishness and greed of humans will lead them to acquire wealth in the most efficient manner and will enrich the society via the mechanism of perfect competition.*
- *Build integrity of character, trust and cooperation in a society. Encourage the wealthy and powerful to care for the weak and poor. This will build societies which are rich spiritually, morally, and materially (Zaman, 2012: 36).*

Zaman suggests that for economic institutions to be built on principles like working together, being generous, and having trust, there needs to be a significant departure from the current Western models. These models emphasize cut-throat competition and prioritizing one's own interests over others (Zaman, 2012: 54).

A market structure based on solidarity rather than competition has been experienced in the history of Islamic economics. While it initially had a Sufi nature, in the form of the Futuwwa mechanism that was institutionalized in the Abbasid period, it continued in the 13th century. It has transformed into a social, economic, and political structure since the 19th century. Futuwwa means "youth, heroism, generosity". Later, in the Akhi order of the Ottoman state, competition does not mean producing more and selling more. Instead, it is essential to produce quality goods. The accumulation of goods and wealth is kept in the background. Production and consumption are tools for happiness. Instead of seeing other tradesmen as rivals, there is harmony together. Thus, cooperation and solidarity prevail instead of competition. While in Akhism there is "production for humans", in capitalism human is a production factor (Alar, 2020).

There are also analyses discussing the role of Akhism within Islamic economics, proposing that a paradigm of solidarity, as opposed to competition, could provide more comprehensive solutions to contemporary challenges.

Akhism involves comprehending a mindset and morality grounded in fundamental economic principles. It extends beyond being merely a professional organization but does not constitute an economic system. A remarkable limitation in the analysis of Akhism lies in the tendency to overlook that Islamic Economics, encompassing Islamic procedures and principles, serves as a system distinct from capitalism. Essentially, Akhism represents an institutional philosophical framework within Islamic Economics. However, studies often erroneously compare Akhism to capitalism, neglecting to explore the potential solutions that Islamic Economics could propose for the contemporary world. Consequently, discussions should focus on the valuable insights that arise from comparing capitalism with Islamic Economics. Akhism, connected to the foundational principles of Islamic Economics, remains an influential Islamic institution amid the alternatives to capitalism today. The practical implementation of Islamic Economics is linked to Akhism, necessitating an examination of analogous institutions in Islamic history. A comprehensive exploration of Islamic Economics is crucial to present a more inclusive economic system to Muslim countries and humanity (Kaçanoğlu, 2021: 167-168).

4.5.7. Dowry Market and Market Dynamics (An Empirical Analysis)

Lastly, the thesis also conducted a small empirical analysis of the dowry market located in the Tahtakale district of Istanbul, focusing on the Kürkçüler Inn, which comprises approximately 40 shops. Given this quantity and the market's operational dynamics, it can be characterized as an oligopolistic market. Notably, one of its key attributes is the comparatively lower prices of goods compared to other locations. This is attributed to the shops maintaining slim profit margins and prioritizing revenue from high sales. Due to the market's established structure and reputation for affordability, customer interest and sales volumes at the shops are notably high. One possible question regarding this market could be: Does the presence of a limited number of sellers in this market potentially lead to collusion among companies and subsequent price increases?

The suppliers of the shops within this market are largely identical, which suggests uniformity in the cost of goods supply. Nonetheless, suppliers may offer the same goods at varying prices based on factors such as purchase quantity, buyer payment history, and payment terms. This circumstance results in slight price discrepancies for some goods within the market. However, due to the significant number of customers

and the wide variety of products available, shops are able to sell all their products, even with these price differences.

Assessing the level of competition and cooperation among sellers in the dowry market, it can be observed that a moderate level of competition exists. This level of competition does not suppress competition entirely and does not cause a kind of cut-throat competition. Regarding cooperation, when sellers are unable to provide a specific item requested by a customer, they can procure it from a neighboring seller and offer it to the customer at the same price. The objective here is to avoid creating a perception for the customer that the desired goods are unavailable in the relevant shop. This practice of mutual assistance has become customary in this market. Therefore, it can be concluded that there is a moderate level of competition and solidarity in this market, contributing to enhanced market efficiency.

The characteristics of this market and the derived conclusions are generally outlined as follows:

The characteristics of this market and the conclusions drawn are generally as follows:

- Approximately 400 items of a wide variety of goods are sold in the market.
- Goods prices and profit margins are very low.
- The variety of goods makes it difficult for customers to cooperate in keeping prices constant. In other words, when sellers come together and collaborate on many items with very low-profit margins, it creates operational costs, and this makes collusion meaningless.
- Customers usually make their payments in cash. Since credit card payments slow down the collection of payments from the customer, no payment is made by credit card.
- A sales strategy is followed by increasing revenue by selling a lot of goods and keeping turnover high. This situation prevents price fixing agreements in the market by making a secret agreement on price basis against the customer.
- In this market, each seller's procurement and payment maturity plans for goods from the supplier are different. This prevents sellers from cooperating among themselves and purchasing cheaper goods jointly from suppliers.
- Selling a large number of various goods items and the fact that the market is already very dense make it unnecessary for companies to develop a strategy to

compete with each other and completely dominate the market. Because profit margins are already low and the number of customers is very high, so it is meaningless to compete by lowering prices.

- While the structure of the market prevents the formation of a monopolistic power by coming together, it does not also allow cut-throat competition.
- Although there is no competition among the sellers, there is a small amount of cooperation. For example, when a customer who makes a lot of purchases does not have a product he wants, he buys it from another seller and sells it to the customer at the price he bought it from the seller. At the end of the day, he pays this debt to the other seller.

4.5.8. Economics and Ethics

An economy cannot exist or function efficiently without moral principles. Even, from my perspective, economics can be considered a component of ethics. Adam Smith, known as the father of economics, was originally a professor of ethics. Economics, being a social science, was shaped by his observations on the accumulation of wealth in nations through the division of labor and specialization. These phenomena are inherent in social interactions, where individuals' behaviors are guided not only by laws but also by moral principles. Therefore, economics can be regarded primarily as a moral science, as it encompasses rules that guide individuals to pursue their self-interest without harming others or society as a whole. According to Smith, seeking personal gain is considered morally acceptable as long as it doesn't violate the interests of others or society. According to Smith, the roots of capitalism can be traced back to Protestant beliefs and morals (Haakonssen, 2002).

Max Weber proposed that the key to economic development in capitalist nations lies in the influence of "puritanism," stemming from Protestant moral values. Puritanism embodies virtues such as diligence, honesty, helpfulness, pragmatism, rationality, simplicity, and humility, all of which constitute a high moral standard. However, with the decline of belief in the afterlife and being accountable after death, particularly in secularized societies, the effectiveness of morality has weakened significantly. The 2008 financial crisis serves as a stark illustration of this decline.

For a free-market economy to work properly, we need two important things: First, we need strong laws and rules that govern how businesses operate in our world. Second,

we also need a clear and convincing moral system that guides people's behavior beyond just what the law says. This moral system should provide a solid foundation for making ethical decisions in the business world. An economy without ethics becomes unprincipled.

Capitalism gave birth to imperialism, and socialism gave birth to Communism. Capitalism, based on freedom, resulted in exploitation, and communism, based on equality, resulted in impositionism. Developments in the nineties vindicated Sezai Karakoç, who said, "Just as culture and economy without faith and immorality are unthinkable, an economy without culture and culture without economy is unthinkable." Attempts to replace sacred culture with secular culture led to a major blockage in the economic and political spheres. As Marx claimed, the "opium" of societies was not sacred culture, but secular culture (Çetinkaya, 2015).

According to Karakoç, in capitalism devoid of moral values, property belongs to a single person in an absolute sense. Every person wants to keep even someone else's shadow away from the property after he has acquired it for himself. This is no different from the opinion that "other people are hell". The main philosophy of capitalism is that the strong oppress the weak and allow the birth of the proletariat, and this is exploitation that leads to imperialism (Karakoç, 2015).

The central figure in the Islamic economy is the righteous individual inculcated with Islamic principles. These principles influence every aspect of an individual's life, from family and social interactions to prayer and economic engagements. When explaining Ghazali's economic philosophy, Orman outlines the moral framework for market participants, which we summarize below (Orman, 2014: 105-106):

- Individuals should carefully manage their transactions with everyone they engage in business with, as they are accountable for their actions and will face scrutiny in the future. Therefore, they should anticipate and be prepared to justify their actions and words on the day of judgment.
- In their professional endeavors, individuals should strive to earn a lawful income to avoid dependency and begging, support their religion, fulfill the needs of their families, and assist fellow Muslims. Whether their business endeavors yield profit or loss, they are rewarded spiritually.

- Material gains in the worldly market should not overshadow spiritual pursuits. Places conducive to spiritual enrichment, such as mosques, should take precedence over worldly pursuits. Individuals should allocate the first part of their day to worship before engaging in commercial activities and should not neglect regular prayers during work.
- Individuals should not become overly attached to commerce and the marketplace. Once they have earned enough for their sustenance, they should transition from worldly business to focusing on spiritual pursuits for the afterlife.
- It is not sufficient to merely avoid what is forbidden (haram); individuals should also refrain from engaging in doubtful or suspicious activities.

4.5.9. Characteristics of Cooperation Based Market Structure

In today's world, markets are evaluated with the understanding that individuals try to maximize their benefits, and companies try to maximize their profits. The lifestyle of the capitalist system imposes this on the individual. Living in better houses and driving more luxurious cars are individuals' goals. For companies, profit maximization is shown as the target, and fierce competition is imposed. To achieve this goal, companies establish relationships with their employees, suppliers, competitors, and customers and try to achieve this goal by ignoring the social benefits. They may also harm the environment to obtain more profit. Within the scope of profit maximization, it pays its employees less. Likewise, since its relations with its suppliers and customers are determined based on profit maximization, it prevents the market from functioning in a way that produces social benefits and negatively affects resource allocation.

A more effectively functioning market can be created with the Akhism and Futuwwa institutions that dominated the past of Islamic societies. In addition, a market structure that allocates resources more effectively can be created through brotherhood based competition and cooperation instead of cut-throat competition.

The key characteristics of this market based on cooperation can be listed as follows:

- The essential element of this market is the virtuous individual.
- Ethical conduct and social justice are priorities in the market. Business activities should benefit society and avoid harm to individuals, communities, or the environment.

- This market operates in accordance with Shari'ah, Islamic law. This means transactions must adhere to principles such as avoiding interest (riba), uncertainty (gharar), gambling (maysir), and unethical investments (haram activities).
- The principles of Islamic economics make the market a catalyzer for providing social welfare and basic needs for all members of society. Resources are allocated accordingly. Zakat (charitable giving), Awqaf, and other forms of wealth redistribution are integral to Islamic economic principles.
- This market is overseen by regulatory bodies according to Shari'ah principles and ethical standards. The dynamic structure of the Hisbah organization takes proactive actions to prevent unfair practices, exploitation, and economic instability in this market.
- It prioritizes investments that should contribute to economic development and societal well-being.
- In this market individuals and businesses are encouraged to support one another through cooperation rather than engaging in cut-throat competition. This cooperative spirit fosters a sense of community and mutual aid.
- Partnership Models, such as Musharakah and Mudarabah, are promoted in this market. Within this partnership-based model, parties collaborate to share risks and rewards. These arrangements encourage cooperation and shared responsibility rather than cut-throat competition.
- In the market, risk-sharing is a fundamental principle. Instead of transferring risks entirely to one party, transactions are structured to distribute risks among all involved parties. This fosters cooperation and encourages stakeholders to work together to mitigate risks.
- Fair trade practices are carried out in the market. Islamic markets prioritize fair and ethical trade practices that benefit all parties involved. Transactions should be conducted with honesty, integrity, and transparency, stimulating trust and cooperation between buyers and sellers.
- Islamic economics strongly emphasizes social responsibility and caring for the less fortunate. Zakat, one of the Five Pillars of Islam, requires the wealthy to give a portion of their wealth to support those in need. So, in the market this spirit of social welfare improves cooperation and compassion within society.

When cooperation based market is evaluated from Islamic point of view, it can be said that Islamic economics promotes the development of strong communities where individuals cooperate to address common challenges and pursue shared goals. Economic activities are often directed toward meeting the community's needs and improving collective well-being. Islamic markets prioritize building long-term relationships based on trust, respect, and cooperation. Businesses focus on nurturing enduring partnerships that benefit all parties involved instead of viewing transactions as one-off opportunities for profit.

Cooperation in Islamic markets is supported by principles of justice and fairness in Islamic economics. Transactions should not exploit or harm others, and wealth should be distributed equitably among members of society. This commitment to justice facilitates cooperation and solidarity among market participants.

Overall, cooperation in Islamic markets is grounded in principles of mutual assistance, fairness, and social responsibility. Islamic economics attempts to build sustainable and inclusive economic systems that benefit society by prioritizing cooperation over competition.

In Islamic societies, in fact, cooperation exists not only in economic activities but in all areas of life, including social and business life (social cooperation, business cooperation, and commercial cooperation). It would not be wrong to say that Islamic societies are built on cooperation and morality in every aspect. Competition and surpassing each other in good deeds are recommended. In economic and commercial life, competition on the basis of brotherhood rather than cut-throat competition, as in the Ahi organization, is essential.

From a market point of view, Kahf envisages a new form of market structure called 'free cooperation' based on the themes of freedom and cooperation. According to him, the Islamic economy is free, but its freedom is expressed more in cooperation than competition. Despite the economic freedom given to individuals in the market, adherence to the Islamic economy's rules of the game is an obligation. Kahf also mentions that the Hisbah institution is responsible for ensuring that the rules are not violated in the market (Kahf, 1992: 146-150).

The following advice from Ibn-i Sina regarding business ethics is one of the best examples showing the Islamic societies' perspective on income (Kurtulus, 2005: 749-750).

Every surplus (surplus) obtained by crushing, forcing and struggling; Every profit earned through sin, shame, dishonesty, indecency, low dignity and stain of chastity; Even if the amount is large, it is insignificant, even if it is large, it is worthless, even if it seems useful, it is useless. Pure income and the surplus obtained without falling into exhaustion are tastier, more fruitful and more profitable, even if the amount is small and weighs light on the scale.

In Islamic economics, a crucial requirement for profit is its legitimacy. Any unlawful or prohibited gain holds no value. Hence, it's an obligation that earning endeavors remain within the bounds approved by Islam. Within this domain and market operations, Muslims have robust internal moral controls, social surveillance, and legal mechanisms in place.

4.5.10. Game Theory, Cooperation, and Market Efficiency

Game theory was first conceptualized by John von Neumann in 1937 and further refined by both von Neumann and Oskar Morgenstern in 1944. Subsequently, Professor John Nash contributed to the field, particularly in illustrating the interdependent nature of oligopoly theory. He formulated the concept of Nash equilibrium, for which he was awarded the Nobel Prize in Economics in 1994.

Capitalism is based on competition. Competition is praised in capitalism. Because with competition, the quality of goods and services increases, costs decrease, and innovation is made. On the other hand, there are incentives to destroy competition within capitalism itself. In other words, in capitalism, while competition is praised on one side, there are motivations within the system to eliminate competition on the other. This is the dilemma and systemic problem of the capitalist system.

Companies tend to take actions that destroy competition in the market to maximize their profits. Competition prevents profit from increasing and maximizing, at least in the short term. For this reason, competing companies try to increase their profits by making under-the-table agreements and increasing prices. But this time, the market shrinks because some consumers stop buying the product due to price increases.

However, what needs to be done here is to refrain from competing or making secret agreements on the existing market and engage in activities to expand the market.

According to game theory, individuals create an environment that will eventually harm them through their reactive behaviors to protect their interests in a competing environment.

In fact, the invisible hand that regulates the functioning of the free-market economy is the price mechanism. If the price mechanism works properly, scarce resources are allocated in a way that effectively maximizes social welfare. Another important dynamic in capitalism is competition and it is necessary for the price mechanism to work optimally. In capitalism, there is an argument which states that effective allocation of resources and production of quality goods and services occur when factors such as the free market system, the invisible hand or price mechanism and the competitive environment work together properly. The most critical issue here is competition. While competing, firms take into account the possible moves of their rivals and decide in a direction that will harm their rival or will get minimum harm. Therefore, this situation forces firms to act in a way that minimizes losses rather than maximizing profits. This is the most negative aspect of capitalism in terms of the competition paradigm, and this leads to price wars between firms, inefficient use of resources, and therefore market inefficiency and loss of social welfare. Game theory explains how to get rid of this harmful situation and reach a better point with the opportunity of cooperation.

As an example, let's try to explain this situation by taking two firms operating in the market and the competition between them. It may be in more than two firms. For each firm, the other firm or firms are competitors that must be defeated.

Table 4.1 below shows how much profit firms make in case of competition price and cooperation price. The numbers show the profits, the subscripts show which firm it is. In this current scenario, the cooperative price is not the price created by firms making secret agreements among themselves. This price is the result of a strategy for both companies to expand the market by opening to new markets, instead of competing for a fixed market.

Table 4.1: Firms and Their Profits Based on Prices

| <div style="text-align: right;">Firm A</div> <div style="text-align: left;">Firm B</div> | Earned Profit Competitive Price | Earned Profit Cooperative Price |
|--|------------------------------------|------------------------------------|
| Competitive Price | 7_A 7_B | 5_A 20_B |
| Cooperative Price | 20_A 5_B | 15_A 15_B |

Source: Author

When choosing the price, firm A takes the possible moves of firm B into consideration. If firm A applies the competitive price and firm B applies the cooperative price, its own profit will be 20, and B's profit will be 5. If firm A applies a competitive price and firm B applies a competitive price, the profit of both companies will be 7.

Likewise, when making a price choice, firm B takes the steps of firm A into consideration. If firm B applies the competitive price and firm A applies the cooperative price, its own profit will be 20, and A's profit will be 5. If firm B applies a competitive price and firm B applies a competitive price, the profit of both companies will be 7.

Companies do not trust each other. In the absence of trust and with the assumption that the other party will try to outdo them and reduce their profits, both companies tend to

charge competitive prices and earn low profits. The point to note here is this. The price was not set according to supply and demand in the market but was determined by companies lowering prices due to insecurity, and remained below the required market price. Although this situation may seem to be in favor of the consumer in the short term, it will be against social welfare and, therefore, consumers in the long term. As for the reasons for this, the first is that the price below the market price is a deadweight loss and a loss of social welfare. Resources were not allocated effectively to the market, and market inefficiency occurred. Secondly, companies that reduce their profit margins reduce the quality of goods and services to customers in order to compensate. They allocate fewer resources to innovation, research, and development activities. When you consider an industry such as the automotive industry, even if the car is purchased at a low price for the consumer, the price of maintenance services will be high, and the quality will be lower. Likewise, these companies, whose profit margins have decreased and may even be working at a cost or loss, will turn to a form of business behavior that will be in their favor and to the detriment of many stakeholders, from their employees to their suppliers, in order to compensate for these. Like making less wage increments for employees. Such as encouraging suppliers to produce lower quality materials. This situation will result in a situation that harms social welfare in the long term.

At this point, it can also be mentioned that a new understanding and paradigm should be established instead of cut-throat competition to maximize profits, which is the systemic disease of capitalism, and the social harm that occurs in the long term. This paradigm may also be how the Akhism and Futuwwa institutions we mentioned will be reflected in today's trade organizations. An approach strategy that considers social benefit can also be recommended for companies instead of fierce competition, expanding the market and sibling rivalry or maximizing profits. The relationship and results of the capitalist system and the Islamic economy in the context of competition and cooperation are shown below in Figure 4.8.

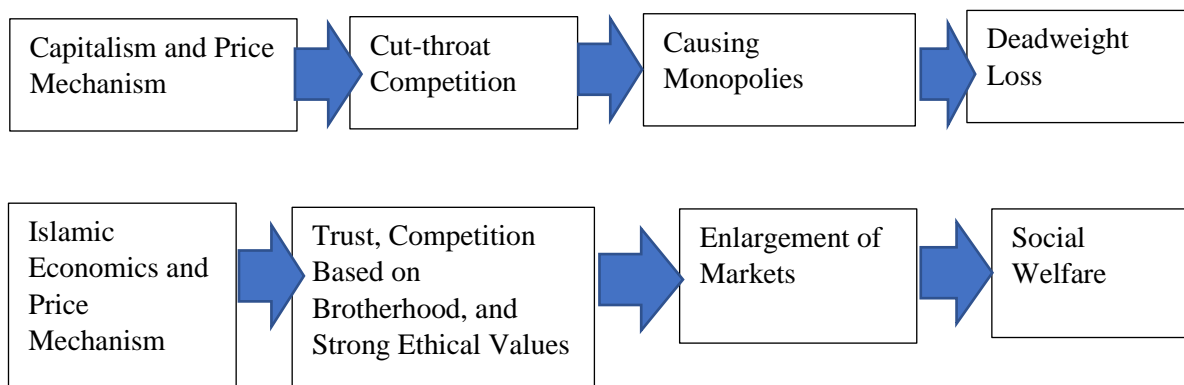


Figure 4.8: Price Mechanism and Social Welfare

Source: Author

When game theory and Akhism organization are taken together, they will create theoretical and practical synergy. This is a separate thesis topic in itself. One of the aims of this thesis is to facilitate the conduct of such a study.

CHAPTER V

CONCLUSION AND RECOMMENDATIONS

5.1. Summary of the Dissertation

The market is the most essential element of an economy. Economics is the market, and it presents itself in various ways. Economic, social, and technological changes have shaped the evolution of market mechanisms throughout human history. The market system began in prehistoric times with a primitive barter system in which goods and services were exchanged directly, and progress towards more complex mechanisms gradually emerged.

The discovery of money profoundly affected the functioning of the market. The introduction of money into ancient civilizations was an essential step in facilitating trade by serving as a universally accepted medium of exchange. As societies became more complex, marketplaces and trade routes developed, and economic interactions increased.

An effectively and efficiently functioning market increases social welfare. This thesis theoretically analyzes how social welfare increases based on the factors that enable the market to operate effectively and efficiently.

The effects of these factors on the market and market players and their positive contributions to social welfare have been tried to be proven theoretically.

The equilibrium between markets and the well-being of society is crucial for the efficient operation of markets and the promotion of equitable income distribution. In this perspective, the market functions as an entity that enhances social welfare. Additionally, the state, households, and non-governmental organizations are other entities that play a role in contributing to social welfare. Entities within the third sector, such as foundations, charitable organizations, and institutions involved in distributing zakat, also play a part in enhancing social welfare, positioning themselves alongside the private and public sectors.

Examining the markets and their attributes, the thesis demonstrates that Islamic economics, in alignment with its principles, has a greater impact on social welfare compared to conventional economic theory.

In the conceptual framework of this thesis, the approach to social welfare equilibrium is established upon three fundamental principles derived from Islamic economics. These guiding principles encompass:

- Cost Efficiency through Risk-sharing Finance:

The first principle revolves around achieving cost efficiency by promoting risk-sharing finance for companies. By their nature, Islamic financial institutions support financing the real economy, giving a powerful signal to investors and producers. This approach attempts to eliminate the reliance on interest-based financial mechanisms, stimulating a more equitable and sustainable financial landscape.

- Partnership Principle and Income Distribution Efficiency:

The second principle focuses on equitable income distribution across a broader spectrum. It underscores the importance of the Partnership Principle, emphasizing cooperative economic structures that contribute to spreading income more inclusively. By adopting this principle, the aim is to enhance income distribution efficiency by spreading income to a large base of society and reduce disparities within society.

- Cooperation Dynamic in Market Operations:

The third principle addresses the operational dynamics of the market. Rather than endorsing cut-throat competition, it advocates for a market structure based on cooperation or competition based on brotherhood. This perspective aims to foster cooperation and mutual support among market participants, ultimately contributing to enhanced market efficiency. In this way, the market becomes a space where economic activities are driven by collective benefit and shared success.

5.2. Recommendations

The conceptual foundation of the thesis is built with these three principles of Islamic economics, aiming to establish a social welfare balance that prioritizes cost efficiency, equitable income distribution, and cooperation-based market operations.

One of the primary focuses of the research questions in the thesis revolves around examining the impact of the risk-sharing principle on social welfare through the variable of cost efficiency. This study employs three methods within the theoretical framework.

In the first approach, Python programming language was utilized to determine the average and marginal costs associated with firms obtaining interest-based and risk-sharing finance. The Python code generated relevant graphs, illustrating that, when producing the same quantity, the cost and, consequently, the product's sales price is lower for companies utilizing risk-sharing finance. The increase in borrowing increases borrowing costs, and this situation increases the marginal and average costs of the company at an increasing rate level as the production quantity increases for conventional firms. This translates into a contribution to social welfare by enabling the production of the same quality at a reduced cost.

The second method involved utilizing the Lagrange function to identify the maximum production amount and unit costs of two firms operating under the same cost constraint. One firm utilized interest-based financing, while the other used risk-sharing finance. The theoretical framework mathematically demonstrated that the unit cost of the firm utilizing risk-sharing finance is lower than that of the firm relying on interest-based financing. It is important to note that these two methods are grounded in various assumptions and are proven within a theoretical framework.

The third method explored the influence of Islamic finance on social welfare through its financial institutions providing interest-free financing. These institutions directly support the real economy and avoid financing fictitious transactions. These institutions emerge as a robust alternative to financial capitalism, which engages in risk and debt trading, leading to instability in financial markets through fictitious transactions. Historical crises, such as the 1997 Southeast Asian crisis and the 2008 mortgage crisis, resulting from risk and debt trading, inflicted substantial damage on the global economy. In contrast, Islamic finance, with its realistic approach and resilience to financial crises, contributes to social welfare and ensures financial stability by directly funding the real economy.

Islamic finance operates on genuine economic principles, involving transactions such as sales, shares, and leases. These transactions serve as signals to producers and traders, encouraging production and trade. This dynamic stimulates production, ensures the effective allocation of resources within the real economy, and contributes to the enhancement of social welfare.

Conversely, interest-based finance is also rooted in real economic transactions but includes a cash component in a debt format. The cash portion may not necessarily contribute to financing the real economy, creating a form of leakage in real economic support. This form of financing results in an inefficient allocation of monetary resources and gives rise to a financialization characterized by virtual transactions.

The secondary focus within the thesis centers on partnerships, constituting another important principle of Islamic economics. This partnership dynamic is the natural and recommended result of the first dynamic. The objective is to underscore the significance of partnerships in the Islamic economic framework and their positive impact on social welfare. Partnerships play a fundamental role in facilitating efficiency in income distribution. They act as a mechanism to ensure that income is dispersed across a broader spectrum of society and its foundation. Through partnerships, the income generated within the economy is distributed more widely among various segments of society, as opposed to being concentrated in the hands of a select few.

Governments exert influence on the market through regulatory measures, while market participants seek new approaches and loopholes to circumvent these regulations. This pursuit can, at times, result in market instability. Essentially, regulators tend to lag behind market developments. To address this issue, a regulatory framework and establishing an ombudsman (Muhtasib) institution are crucial for dynamic monitoring and supervision of the market. This proactive approach helps restrain the evasion of regulations and the discovery of escape routes. The quick action of the ombudsman within the Islamic market structure ensures that regulations and inspections keep pace with market dynamics, promptly closing off avenues that could lead to market instability. This ombudsman institution played a crucial role in the Islamic market structure.

The ombudsman mechanism functions as an organization safeguarding the market order within the bounds of legal principles. This role was fulfilled throughout Islamic economics by structures like Futuwwa and Akhism and guilds, which regulated Islamic markets. These structures were pivotal in stimulating cooperation among various craftsmen groups and provided dynamic oversight. For instance, each craftsman group, be it blacksmiths, carpenters, barbers, or shoemakers, had its organizational framework managed by a master craftsman. These historical structures controlled the market and contributed to the development of expertise, innovation, and

cooperation within their respective fields. They facilitated cooperative market structures, eliminating cut-throat competition and promoting mastery. Operating on a cooperative basis, these professional groups benefited and made substantial contributions to the overall economy and supported social welfare. They efficiently addressed market issues, offering timely solutions.

Consequently, just as the key figures in today's Western economic and financial domain engage in enhancements and innovations within interest-bearing institutions and financial instruments, we, too, should approach the creation of partnerships with a mindset based on our values. This involves channeling our financial resources into the economy through legitimate means and exhibiting models that can serve as examples for humanity and promote social welfare.

In the domain of financial capitalism, markets have transitioned into a fictitious economy resembling casinos by means of speculation. Financial capitalism has transformed into an economic system that generates high taxes, inefficient social security systems, and perpetual crises that essentially suppress the economy, diminishing the effect of resources.

Islamic economics, grounded in its fundamental rules and principles, possesses the potential to address current economic challenges and build a financial system that promotes effectiveness in resource allocation through finance devoid of interest. Furthermore, it promotes efficacy in income distribution through the utilization of partnership financing methods. It establishes a market structure that is efficient by incorporating moral, ethical, and legal values within society.

Interest-free banking operates based on principles that support the real economy, involving the exchange of goods and services. Unlike conventional banks that guarantee fixed returns on funds collected from customers, interest-free banks utilize the Murabahah method, purchasing goods in cash and selling them on credit to finance actual transactions. In contrast to interest-bearing banks, which provide cash with attached interest, interest-free banks avoid giving cash directly to customers for potential use in speculative activities like gambling, Bitcoin, and virtual asset markets.

While both types of banks contribute to financing the real economy, interest-free banks adhere to specific principles. For instance, they avoid funding the production, storage, and promotion of items detrimental to human health, such as cigarettes and alcohol.

This distinction, among other factors, is one of the reasons why interest-free banks have relatively lower market shares in a market where interest-based and interest-free banking systems exist.

Much like their interest-free counterparts, interest-bearing banks contribute to financing the real economy. However, they also engage in funding activities that, while not prohibited politically or socially, are deemed impermissible in Shari'ah, such as supporting the production of alcohol and tobacco. These activities go against society's moral values and harm individuals. In contrast, interest-free banks fulfill their responsibility by refraining from financing such detrimental endeavors.

Interest-free banks efficiently carry out their duties by collecting short-term funds and making them available for long-term purposes. In a metropolitan life, the allocation of funds in this manner, essentially serving as financial intermediaries, represents a crucial function, and interest-free banks efficiently perform this role. The thesis suggests an additional financing model in addition to fulfilling these responsibilities as intermediaries for short-term resources in the real economy performed by interest-free banks. This model involves becoming partners in companies and actively supporting production, trade, and employment by mobilizing monetary resources into companies.

This approach redirects some of the monetary resources to companies through partnerships instead of relying on either interest-bearing or interest-free banks. Through this method, a portion of the companies' profits is acquired, meaning that rather than lending money to banks, individuals become participants in the gains and losses of companies in accordance with firm laws. The channeling of savings from small investors into companies via partnerships serves to distribute the income and profits generated by these companies across a wider spectrum. In the event of losses, a more extensive segment of society shares in the setback. Essentially, this model aims to enhance the efficiency of income distribution in the economy and establish a more balanced distribution of risks.

Critics argue that stock markets already fulfill a similar function. However, they point out that the current structure of securities markets allows for excessive speculation, virtual transactions, and paper trading. The utilization of information and communication technology, along with algorithmic and computer-driven transactions

in the form of buying and selling, tends to disconnect these markets from real markets, transforming them into virtual casinos independent of actual economic activities.

Due to this consideration, the thesis introduces an alternative partnership model that allows widespread participation. In this suggested model, companies with multiple partners would undergo audits conducted by both state and private auditing entities, focusing on aspects of corporate governance and financial matters. The proposal also advocates for the establishment of an advisory board within these companies to supervise transaction compliance with Islamic commercial law.

This board will be similar to the advisory board in interest-free banks. While the advisory board in interest-free banks examines the compliance of the financing with Islamic finance principles, the advisory board in these companies will audit the compliance of all transactions with the principles of Islamic commercial law.

Shares within these companies could initially be offered to existing shareholders or external investors interested in purchasing them. The announcement of such share sales would be made on the firm's website, with the actual value of the shares being determined and sold accordingly. All these transactions would be coordinated by the firm's investor relations unit. This approach aims to establish a more stable market structure by distributing profits and losses, allowing a broader segment of society to share the income generated by the firm. Ultimately, this strategy attempts to enhance efficiency in income distribution within the market.

Islamic economics underscores the significance of collaborative ventures within its economic framework. Partnerships, aligned with principles of justice, equality, and equitable risk-sharing, play a crucial role in fostering a just income distribution. The model of joint profit and loss sharing facilitates the effective handling of risks through cooperative efforts. Moreover, partnerships promote entrepreneurial endeavors and innovation, fostering the emergence of new ideas by supporting the mixture of diverse skills and abilities.

The Islamic economic system accepts risk-sharing finance principles and places a priority on channeling capital into production through collaborative ventures. Adhering to the principle of social responsibility and cooperation, the proceeds from partnerships can be directed towards social assistance or charitable initiatives aiming to enhance overall social welfare. In this context, partnerships stand as essential tools

that contribute to the equitable, transparent, socially responsible, and sustainable management of economic activities.

Zaman asserts that achievements in Islamic economics won't rely on theoretical advancements alone but on our capacity to initiate a societal shift that becomes an exemplary model for others. Generating this transformation within the Western context, which doesn't align with our values and objectives, seems improbable. Notably, Eurocentric economics is rooted in greed, hedonism, and individualism, conflicting with Islamic principles of generosity, cooperation, and social responsibility. The compulsory initial step is establishing a tangible model within Islamic societies before contemplating its spreading to the broader human population. Hence, directing our endeavors toward Muslims initially is crucial (Zaman, 2021: 9-10).

Competition and cooperation represent contrasting concepts, yet they coexist within the dynamics of a market among firms. Essentially, firms simultaneously engage in both competition and cooperation.

Competitive markets are frequently criticized for enabling anti-competitive practices, including price manipulation, collusion, market division among competitors, monopolization, attempts to monopolize, abuse of dominant positions, and involvement in mergers and acquisitions.

While certain perspectives within contemporary economic theory advocate for the advantages of competition in free markets, opposing views suggest the merits of cooperation over pure competition. Collaboration stimulates synergy among firms, enabling collective research and development endeavors. Instead of individual companies only investing in innovation, collaboration entails sharing knowledge and resources, potentially accelerating progress and breakthroughs.

In fiercely competitive markets, redundant efforts often arise, resulting in inefficiencies in resource utilization. Collaboration can streamline resource allocation, minimizing redundancies and waste.

Persistent competition may incentivize short-term gains and unsteady market behavior. Conversely, collaboration can develop stable relationships and long-term strategic planning among businesses, fostering a more predictable environment for growth and investment.

Competition may lead to product/service homogeneity, whereas collaboration can empower firms to specialize in specific areas. By leveraging collaboration, each firm can focus on its core strengths, leading to a diverse range of specialized offerings in the market.

Pure competition may disproportionately benefit certain winners, intensifying income inequality. Collaboration, however, can promote a more equitable distribution of profits and resources, aligning with values of social responsibility.

Inter-industry collaboration can facilitate the establishment of standards and regulations beneficial to the entire market. This ensures quality control, safety standards, and ethical practices, which may not be effectively maintained in fiercely competitive environments.

In the end, a well-rounded strategy that acknowledges the merits of both competition and cooperation can prove advantageous. Competition stimulates innovation and efficiency, whereas strategic collaboration among businesses can result in synergy, collective growth, and a more enduring market landscape. This combination can improve a healthier, more productive, and socially just work environment.

Highlighting the significance of citing specific verses and hadiths concerning the moral dimension that enhances social welfare within the Islamic economy and fosters the efficient functioning of the market, as asserted in the research, is crucial. Indeed, the essence of this perspective can be encapsulated in the following assertion: Within the Islamic economy, optimal market performance is achieved through adherence to moral principles grounded in considerations of the afterlife and corresponding worldly laws.

" O you who have believed, do not consume one another's wealth unjustly but only [in lawful] business by mutual consent. And do not kill yourselves [or one another]. Indeed, Allah is to you ever Merciful " (Nisa, 29)

" On the day of judgment, the honest Muslim merchant will stand side by side with the martyrs " (Tirmizî, Buyû', 4).

" The one who deceives us is not one of us " (Muslim, Îmân, 164)

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APPENDIX A

```
import matplotlib.pyplot as plt
import numpy as np
from scipy.optimize import fsolve

def average_cost(Q):
    return Q**2 - 5*Q + 60

def marginal_cost(Q):
    return 3*Q**2 - 10*Q + 60

def average_cost_c(Q):
    return 3*Q**4 - 10*Q**3 + 120

def marginal_cost_c(Q):
    return 3*Q**4 - 5*Q**3 + 120

# Calculate the intersection point of AC and MC
def intersection_point_AC_MC():
    equation = lambda x: average_cost(x) - marginal_cost(x)
    x_intersection = fsolve(equation, 5) # Initial guess: x = 5
    y_intersection = average_cost(x_intersection)
    return x_intersection[0], y_intersection[0]

# Calculate the intersection point of ACc and MCc
def intersection_point_ACc_MCc():
    equation = lambda x: average_cost_c(x) - marginal_cost_c(x)
    x_intersection = fsolve(equation, 5) # Initial guess: x = 5
    y_intersection = average_cost_c(x_intersection)
    return x_intersection[0], y_intersection[0]

# Generate values for Q
Q = np.linspace(0, 10, 100)

# Calculate corresponding AC and MC values
AC = average_cost(Q)
MC = marginal_cost(Q)
ACc = average_cost_c(Q)
```

```

MCc = marginal_cost_c(Q)

# Calculate the intersection points
x_intersection_AC_MC, y_intersection_AC_MC = intersection_point_AC_MC()

x_intersection_ACc_MCc, y_intersection_ACc_MCc =
intersection_point_ACc_MCc()

# Plot the graphs
plt.plot(Q, AC, label='Average Cost (ACif)')
plt.plot(Q, MC, label='Marginal Cost (MCif)')
plt.plot(Q, ACc, label='Average Cost C (ACco)')
plt.plot(Q, MCc, label='Marginal Cost C (MCco)')

plt.axvline(x=x_intersection_AC_MC, color='m', linestyle='--', label='AC-MC
Intersection')

plt.axvline(x=x_intersection_ACc_MCc, color='c', linestyle='--', label='ACc-MCc
Intersection')

plt.xlabel('Quantity (Q)')
plt.ylabel('Price / Cost')
plt.title('Average Cost, Marginal Cost, and Intersection Points')
plt.grid(True)

plt.legend()

# Annotate the intersection points
plt.annotate(f'({x_intersection_AC_MC:.2f}, {y_intersection_AC_MC:.2f})',
            xy=(x_intersection_AC_MC, y_intersection_AC_MC), xycoords='data',
            xytext=(30, -40), textcoords='offset points',
            arrowprops=dict(arrowstyle="->", color='black'))

plt.annotate(f'({x_intersection_ACc_MCc:.2f}, {y_intersection_ACc_MCc:.2f})',
            xy=(x_intersection_ACc_MCc, y_intersection_ACc_MCc), xycoords='data',
            xytext=(-70, 30), textcoords='offset points',
            arrowprops=dict(arrowstyle="->", color='black'))

plt.show()

```

CURRICULUM VITAE

Dr. Nuri AKSOY

A. EDUCATION

PHD: İSTANBUL SABAHATTİN ZAİM ÜNİVERSİTESİ, İSLAM EKONOMİSİ
VE FİNANS ANA BİLİM DALI

PHD THESIS: “MARKET DYNAMICS IN ISLAMIC ECONOMICS AND
THEIR EFFECTS ON SOCIAL WELFARE”, 2024, İSTANBUL
SABAHATTİN ZAİM ÜNİVERSİTESİ

MASTER: İSTANBUL SABAHATTİN ZAİM ÜNİVERSİTESİ,
ULUSLARARASI FİNANS VE KATILIM BANKACILIGI BİLİM DALI

MASTER THESIS: “İSLAM’DA MUDARABA VE KATILIM
BANKACILIĞINDA UYGULAMA POTANSİYELİ”, 2017, İSTANBUL
SABAHATTİN ZAİM ÜNİVERSİTESİ

UNDERGRADUATE: BOĞAZIÇI UNIVERSITY, COMPUTER ENGINEERING,
1989, İSTANBUL

B. BOOK CHAPTERS

BOOK NAME: TOWARDS A NEW THEORY OF FINANCE: CAN ISLAMIC
FINANCE BE IT? (MONZER KAHF, 2022), İSTANBUL SABAHATTİN ZAİM
ÜNİVERSİTESİ

EVOLUTION OF CAPITALISM INTO FINANCIAL CAPITALISM (**CHAPTER
3, NURI AKSOY**)

TOWARD REFORMING THE FINANCE SECTOR (**CHAPTER 9, NURI
AKSOY**)

WHAT MONETARY AUTHORITIES (CENTRAL BANKS) SHOULD DO FOR
ISLAMIC BANKS (**CHAPTER 10, NURI AKSOY**)

C. CONFERENCES

12TH INTERNATIONAL CONFERENCE ON ISLAMIC ECONOMICS & FINANCE – İSTANBUL SABAHATTİN ZAİM ÜNİVERSİTESİ,
(ESTABLISHING MULTI-PARTNER CONGLOMERATES IN TURKEY AND ANALYZING THEIR IMPACTS ON THE ECONOMY, 2020)

IV. IZU POST GRADUATE STUDENT CONGRESS – İSTANBUL SABAHATTİN ZAİM ÜNİVERSİTESİ, (A COMPARISON OF AN ISLAMIC FIRM WITH A CONVENTIONAL FIRM WITHIN THE CONTEXT OF EFFICIENCY, 2023)

D. WORK EXPERIENCE

ELSAN A.Ş ADANA – MUHASEBE PAKETİ YAZILIM GELİŞTİRME MÜHENDİSİ - 1994

ALCATEL – TELETAŞ A.Ş, VERİ TABANI YÖNETİCİSİ - 1997

PROJECT MANAGER, TTNET, 2008 – 2013

ALBARAKA TURK PARTICIPATION BANK, STRATEGY DEPARTMENT, 2013 – 2017