# Demand For Money In Islam: Money Circulation And Social Values

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## Abstract :

Money demand is the amount of money demanded by the public. Islamic money demand has a few boundaries regarding its functions such as transaction matters and precautionary measures. Money demand as one of the most important instruments in monetary policy needs its attention so that economic stability can be achieved. In this case, our research purpose is to study the causing factors of money circulation and the application of the social value in giving impact on the money cycle. The methodology used in this research is Qualitative Content Analysis. This research sequence starts by finding journals and data from various sites such as Emerald, ScienceDirect, and Google Scholar. After the data is collected, and afterward continued by determining the theme and subtheme of the research. We collected 33 journals. The thematic analysis included 5 major themes as Islamic perspective about money, the money concept in Islamic economics and conventional economics, the theory of money demand in Islamic economics and conventional economics, macroeconomic factors affecting money circulation, and the application of social values in Islamic economics and the impact on money circulation. We found that in Islamic economic money stands on its fundamental function as a medium of exchange and unit of account, whilst in conventional economics is similar t the financial market that can be marketed as a commodity and commercial trade. Moreover, the Islamic economy explains that money is recognized as public goods, not private goods.

**Keywords:** Islamic, Money, Demand, Money Circulation, Social Value

## Introduction

Haryanti (2019) explains that demand is an activity to get what we want and what we can buy at every possible at a certain period to fulfill a need. Demand in Islamic and conventional economics is the same. But, in Islamic economics, there are some limitations and different views on commodities and the goals to be achieved. Afif (2015) explains that the theory of demand and supply in Islamic and conventional economics is different because in Islamic economics there are norms and moral boundaries in Islamic teachings by focusing on the influence of consumption on demand and supply, as known as zakah and infaq.

Annisa (2017) explains that the money concept in Islamic Economics is used to conduct transactions and be on guard. Money that is not used productively, will be reduced due to taxes. Therefore, money must be used productively so the amount is not reduced by taxes.Musa (2021) explained that money is considered very important because it has something to do with basic human needs throughout the world. So the right concept of money must be known by everyone. Purnomo (2019) explains that in making exchanges or shopping transactions we can use money, so the standard of doing transactions is money. Money is a medium that can be used to measure the value of each item and service.

Rosia (2018) explain that money is a public good, not a private good. The motive for asking for money is only for transactions and precautionary measures. Whereas in conventional, money has a function for speculative motives, and this is the cause of money being used as an ordinary business commodity with interest. Research by Nurlaili (2016) mentions that in Islam, the concept of public goods has been known since the time of the Prophet Muhammad. In the Islamic economy, public goods and their procurement are carried out properly. Money’s function in Islam is to be used as an exchange medium and unit of account, not as a commodity. The function of money is to provide usefulness, money will be helpful if it is used for goods or services. In Islam, the money concept is very clear and unequivocal, meaning that money is not capital.

Research by Rohmah (2018) explains that money is considered a commodity in the conventional economy, which means that money can be traded and rented. Whereas in the economics of Islam, money is considered an exchange medium, and not considered a commodity. Money is used to buy an item, to meet human needs.

Farid (2014) explains that the law of demand described the negative relationship between the price level in the quantity demanded. Maharani and Fattah (2021) explained that the dynamics of the monetary sector grew faster than the development of the real sector. In addition, money instruments dominate the global economic system which can affect the economy of a country. Therefore, monetary policy is implemented to maintain economic stability.

Widodo (2015) explains that the economic stability of a country is very dependent on the demand for money as the right monetary policy. Umam (2012) pointed out that the behavior of each Muslim in holding money will always be influenced by four factors: the function of money, the rate of return on assets, inflation, and zakah. It is shown that the Islamic money demand is also influenced by social values to realize the economy ummah as known as zakah and infaq. Research by Wilantari, Widami, and Bawono (2021) shows that to be more advanced than the conventional financial system, the real sector in Malaysia must be encouraged by an interest-free Islamic financial system. Kaleem and Isa (2006) explain that the central bank of Malaysia needs to revise their policies regarding the monetary system because of their transmission. Besides that, Hasan and Aldayel (1998) explain that the velocity of money in interest-free banks is more stable than in banks that use the interest concept because the velocity of money is lower. Awad and Soliman (2016) pointed out based on the study, that it is evident that the Islamic banking system ensures stability for the money function demand rather than a banking system based on interest. Rahmat (2016) explains that the view of Islamic money is a flow concept, money must always rotate in the economy. The faster money circulates in the economy, the higher the income level of the community and the better economy. Yahya and Agunggunanto (2011) explain that the flow concept is more relevant to profit sharing, meanwhile, the stock concept is based on the bank interest theory. Maysami and Nie (1999) stated that the positive influence of a monetary system that is interest-free is shown on the stability of finance, usefulness, and economic efficiency proven by the experience of Sudanese, Pakistani, and Iranian. Meanwhile, Darrat, (1984) stated that due to external factors such as foreign interest rates and exchange rates Saudi Arabia is affected in the sense of their money demand function. Therefore, the monetary authorities of Saudi Arabia must take notice of those external factors for their stabilization policies. In addition, Celasun and Goswami (2006) explain that the estimation results show that the exchange rate stabilization on a strong oil balance income supports domestic money demand and contributes to a decrease in inflation.

In Indonesia, research by Ardiansyah, Jibril, Kaloge, and Karim (2019) shows that inflation has a positive influence on murabahah financing in a partial amount, and the rate of Indonesian Bank has no significant effect on Islamic banks in the monetary of Indonesia. However, inflation and interest rates simultaneously had a significant effect on murabahah financing in Indonesian Islamic banks. Noerdianti and Darwanto (2020) stated that inflation, Indonesian Bank rate, and an equivalent rate have a significant effect, meanwhile, GDP does not have a significant effect. Moreover, in the short term, Aditia (2017) explains that real GDP has a significant influence on the demand for Islamic money in Indonesia with the biggest contribution from social values. Ball (2012) explains that the money rate lies independent of (M1) with an explanation of short-term demand. Demand stability was in the period 1960-1993. Besides that, Sidiq (2005) explains that the exchange rate has an important role in the demand for money in Indonesia for (M1) and (M2), the government must maintain a more efficient market exchange rate.

Belonsia (2019) explains that measurement of the aggregate amount of money can act as a major role in the implementation of monetary policy, especially in the application of interest rate rules with a limit below zero. Abdullah (2016) explains that The value theory of Islamic monetary is directed to an Islamic equation of exchange that validates the research outcome, where money’s high value ascertains the long term low constant real prices. Al-Jarhi (2017) explains that Islamic finance can be a candidate as a conventional financial reform agenda if it is properly addressed. This greatly opens up opportunities for more recognizable monetary reforms in the current conventional economic system.

## Methodology

### Data Source and Collection

Our aim in writing this journal article is to examine a related concept of demand for money in Islam. In compiling this journal article, we referred to a systematic literature review through journals in ScienceDirect, Emerald, and Google Scholar. Through the collection of some journal references, we use the study literature review method and analyze it using the content analysis method. The research that we do is qualitative research with the results of which are hypotheses from previous research.

### Thematic Analysis

In this study, we conducted several studies starting with the Islamic economic perspective on the concept of money and its comparison with conventional economics, the theory of demand in Islamic and conventional perspectives, the circulation of money with the existence of Islamic banks, and the application of social values ​​in Islamic economics. Social values ​​as the application of principles in Islamic economics will not be separated from one another because it ​​acts as an important role in the stability of the Islamic economy, especially in the circulation of money.

From our preliminary study, we determined the main themes in understanding the demand for money in Islam, namely:

1. Islamic Perspective On Money

2. The Concept of Money in Economics of Islam and Conventional.

3. Money Demand Theory in Islamic Economics and Conventional Economics

4. Macroeconomic Factors in Affecting Money Circulation

5. Application of Social Values ​​in Islamic Economics and Impact on Money Circulation

Each theme will be developed based on literature studies that have been carried out through journal databases from ScienceDirect, Emerald, and Google Scholar. The content analysis that we do is an attempt to find out the demand for money in Islam.

## Result

The analysis reveals the relationship between topics, namely: the Islamic perspective about money, the concept of money in the economics of Islam and conventional, money demand theory in Islamic economics and conventional economics, Macroeconomic factors affecting money circulation, Application of social values ​​in Islamic economics and impact on money circulation.

### Report Interpretation

Table 1. Content Analysis

|  |  |
| --- | --- |
| Theme | Content Analysis |
| Money | Money is a medium of exchange for transaction matters to fulfill human needs. |
| Demand | Demand is a desire to purchase goods and services with the will and ability to purchase at the given price and period. |
| Money Circulation | Money circulation is the continuous movement of money in the process of circulation and payment. |
| Social Values | Social values are moral principles from various definitions such as traditions, culture, and social behavior. |

Diagram Picture. 2

Money Circulation

Social Values

### Result Explanation

### Islamic Perspective On Money

Research by Ichsan (2020) shows that based on the Islamic economics perspective, money is something that is generally accepted and issued by exposition institutions. In religion, the use of dinars and dirhams is an obligation. The dinar and dirham are very stable currencies and are not subject to inflation. In the perspective of Islamic economics, money has a function as an exchange medium, unit of account, or value measurer and as a store of value if the money is made of gold and silver.

### The Concept of Money in Economics of Islam and Conventional

Mansur (2008) explains that in conventional economics the most liquid asset is money, and it is also a commodity in the economy. In this case, money can acquire such goods and services. So that makes money synonymous with capital and leads to the practice of interest in the market. In the Islamic perspective, the function of money is only as an exchange medium and as a unit of account. So in Islam money is not synonymous with capital and cannot be stored for a long time. Money dies in public society, to carry out economic activities. So money has a flow concept and not a supply concept, money is public goods and not individual goods.

### Money Demand Theory in Islamic Economics and Conventional Economics

Nurlaili (2016) mentions that in the Islamic economy, money is recognized as public goods and its procurement is carried out properly. Money’s function in Islam is to be used as an exchange medium and unit of account, not as a commodity. as mentioned by Rosia (2018), money is the property of the public, not the individual. The motive for money usage is only for transactions matters or precautionary measures. Whereas in conventional, money has a function for speculative motives, and this is the cause of money being used as an ordinary business commodity with interest.

Based on research by Rohmah (2018) explains that money is considered a commodity in the conventional economy, which means that money can be traded and rented. Whereas in the economics of Islam, money is considered an exchange medium, and not considered a commodity. Money is used to fulfill human needs.

### Macroeconomic Factors in Affecting Money Circulation

Widodo (2015) explains that the demand for money has a significant role for monetary policy authorities in deciding suitable policies to keep the stability of economics. The demand for money analysis is an analysis that is needed to help the policies taken by the government. Shortly, the money demand is not influenced by the variable of GDP and the three-month deposit interest rate, while the price level and the rupiah exchange rate have a notable effect on the money demand. However, the demand for money in Indonesia is positively and highly influenced by GDP and the price level in the long run, while interest rates and the rupiah exchange rate have no effect.

Viphindrartin, Zainuri, & Anugrah (2020) report that the Islamic financial system has resilience in anticipating financial crises. Research by Wilantari, Widami, and Bawono (2021) shows that to be more high quality than the system of conventional financial, the real sector in Malaysia must be encouraged by an interest-free Islamic financial system. Kaleem and Isa (2006) explain that the central bank of Malaysia needs to revise their policies regarding money because of their transmission. Maysami and Nie (1999) stated that the positive influence of a monetary system that is interest-free is shown on the stability of finance, usefulness, and economic efficiency proven by the experience of Sudanese, Pakistani, and Iranian. Meanwhile, Darrat (1984) stated that due to external factors such as foreign interest rates and exchange rates Saudi Arabia is affected in the sense of their function of money demand. Therefore, the monetary authorities of Saudi Arabia must take notice of those external factors for their stabilization policies.

In Indonesia, research by Ardiansyah, Jibril, Kaloge, and Karim (2019) shows that inflation has a positive influence on murabahah financing partial amount and the rate of Indonesian Bank has no massive effect on Islamic banks in Indonesia. However, inflation and interest rates simultaneously had a massive effect on murabahah financing in Indonesian Islamic banks. Noerdianti and Darwanto (2020) stated that inflation, Indonesian Bank rate, an equivalent rate have a significant effect, meanwhile, GDP does not have a significant effect. Besides that, Aditia (2017) explains that real GDP has a high influence on the demand for Islamic money in Indonesia with the biggest contribution from social values. In addition, Celasun and Goswami (2006) explain that the estimation results show that the exchange rate stabilization on a strong oil balance income supports domestic money demand and contributes to a decrease in inflation. Ball (2012) explains that the money rate lies dependent on the money with an explanation of short-term demand. Belonsia (2019) explains that measurement of the aggregate amount of money can give a major role in the implementation of the policy of monetary, especially in the application of interest rate rules with a limit below zero. Ascarya, Hasanah, and Achgani (2008) explain that the response rate of Islamic money demand is faster than the conventional money demand.

### Application of Social Values ​​in Islamic Economics and The Impact on Money Circulation

Gustiani, Ascarya, and Effendi (2010) explained that social values variables, which are monetary instruments in the Islamic economic monetary system, still have little effect on the demand for Islamic money. This happens because people do excessive consumption and conventional systems that still dominate the Sharia system. Zakat is one of the variable social values that have a positive impact on providing investment funds because the payment of zakat on the property will make the muzak seek income from their property so that they can pay zakat without reducing their wealth.

## Discussion

Based on the analysis, the Islamic economy is using gold and silver because both components are resistant to inflation or economic crisis that is known as dinar and dirham. Compared to fiat money that is currently used as a currency and medium of exchange worldwide, the dinar and dirham are way more stable because both of them will not be affected by the fluctuation of the economic monetary system.

In a conventional economy, money is the most accessible asset to convert to cash which causes easy access for money to be marketed as a commodity like goods or services. In this case, the financial market will be similar to riba practices. Whilst in the Islamic economy, money stands on its fundamental purpose as an exchange medium and unit of account. In this case, money in the Islamic economy is contrary to the conventional one which is similar to the financial market that can be marketed as a commodity and commercial trade. Money in the Islamic economy cannot be held by one party for a long time based on The Flow Concept. The idea of the Flow Concept obligates money to be circulated in economic activity. This is because money is recognized as public goods, not private goods.

There are four factors that affect money circulation in Indonesia. First, GDP with the conception that money will have a positive impression because it’s parallel with transaction motive in a long term. Whereas in the short-term, money will have a negative impression in parallel with a precautionary motive. Second, the exchange rate or currency in the short term has a good impact and negative impression in long term with the assumption that the depreciation of the Rupiah exchange value will make the public lean towards saving money in the currency of the US Dollar. Third, interest rate with negative impact under the assumption that if the interest rate is rising, the society will rather keep their money in bank deposits than to hold it by themselves. Lastly, inflation with positive impact in both the short-term and long-term under the assumption of rising real value because inflation requires a lot of money usage.

One of the main reasons why there is still low to no implementation of social values is that the conventional economy still dominates the economic system. This causes the zakah as a monetary instrument in Islamic economy still not be implemented. The positive impact of the existence of zakah is to motivate muzakki to be productive with their assets so that it will not decrease the assets and the Suzuki can take care of their zakah payment.

## Conclusion

In this research, we found some information regarding money, money concept, money demand in Islamic economics and conventional economics, macroeconomic factors in affecting money circulation, application of social values ​​in Islamic economics, and impact on money circulation. We found that in Islamic economic money stands on its fundamental function which is exchange medium and unit of account, whilst in conventional economics is similar t the financial market that can be marketed as a commodity and commercial trade. Moreover, Islamic economy explains that money is recognized as public goods, not private goods.

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