

# Kelompok 1 bahasa Inggris

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**Submission date:** 17-May-2022 09:00PM (UTC-0500)

**Submission ID:** 1838764410

**File name:** in\_Conventional\_Concepts\_and\_Concepts\_of\_Islamic\_Economics.docx (28.33K)

**Word count:** 3229

**Character count:** 16696

## **Comparison of Money Theory in Conventional Concepts and Concepts of Islamic Economics**

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### ***Abstrak***

Islamic economics as an alternative economy with differences comes from a one-way system of exchange and transfer that affects resources. The term money is often interpreted in modern economics as interchangeability, i.e. <sup>1</sup> money as money and money as capital. The presence of money in the economic system affects the economy of a country, which is usually associated with monetary policy in a country. This research uses qualitative descriptive methods as well as using data derived from some secondary data that is a source of information. In our study, we summarized the journals that we have collected with the concept of study dora obtained from publications including scientific journals, books and google scholars where the problem is discussed in research. The discussion that has been discussed in this journal is money that is viewed in an Islamic perspective where money is public good while capital is private good. The concept of money is the flow of concept which means that the concept of money flows in the real sector to get a return in society. <sup>4</sup> This study aims to find out a comparison of the role of money in the conventional and Islamic monetary economy. The result of the discussion of this study is the concept of money according to monetary economics Islam as a concept of flow that is used as a legitimate medium of exchange and has been used as an alternative barter system, while the concept of money according to conventional monetary policy is money as public goods and capital as personal goods.

Keywords: Money, Monetary Policy, Money Concept

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## 1. Introduction

Islamic economics as an alternative economy with differences comes from a one-way system of exchange and transfer that affects resources. In Islamic economics, there is a process of direct exchange relating to total well-being based on four main pillars, consisting of rabbani economy, which means divine economy, which seeks the pleasure of Allah, moral economy, in which every action is based on morality, the economy of humanity. aimed at the realization of human needs and the average economy that must be based on justice (sutopo & musbikhin, 2020). In Islam it is forbidden to have usury so that everything related to usury is prohibited in Islamic economics (Viphindrartin et al., 2022; Zainuri et al., 2021).

The term money is often interpreted in modern economics as interchangeability, i.e. <sup>1</sup> money as money and money as capital. The presence of money in the economic system affects a country's economy, <sup>1</sup> which is usually associated with monetary policy. However, different prevailing economic systems will have different views on money and monetary policy (Rahmawaty, 2013).

Money functions equally <sup>9</sup> as a medium of exchange and a unit of calculation, and thus bears no resemblance to capital and cannot be kept for long periods of time. Currency is liquid in society and must be circulated and used by the community to support economic activities. Money is the concept of flow, not the concept of bidding (Mansur, 2009). The difference between the concept of money in Islamic economics and traditional economics lies in the fact that money is not the same as <sup>5</sup> capital, money is public goods, capital is private goods, money is the concept of flow, and capital is money (Endriani, 2015).

The purpose of using the time value of money is to maximize the usefulness of goods, this shows the fact that the time <sup>1</sup> value of money uses the concept of riba while the economic value of time is in accordance with sharia principles because in the process of its flow it uses based on time (dawn, 2021).

Money is not a commodity and cannot be valued or traded. It refers to money, which is in the public interest, and money should be used in the production sector (the concept of flow). The main difference between traditional monetary policy and Islamic monetary policy is interest rates, where Islam itself does not recognize interest rates. Since usury rates are prohibited, *riba* itself is not done to maintain the relationship between the recipient and the lender (Marzuki, 2021).

The lack of currency creation in the Islamic economy leads to economic instability and reduces economic growth. In Islamic economics, the money supply is considered latent given countries whose financial systems do not apply interest rates. But in the end, the factors that determine the amount of money circulating in a society include actual production factors, inflation, and the level of public confidence in the monetary system (mahmoud et al, 2019).

## **2. methodology**

### **2.1 data collection and collection**

In our study, we summarize the journals that we have collected with the study concept "Islamic Economic Systems and Comparison of Money Theory in Traditional Concepts and Islamic Economic Concepts". The method used in this research is qualitative descriptive using literature studies. Data is obtained from publications including scientific journals, books and websites where the issue is discussed in research. Data collection technology consists of literature reviews, records and reports relevant to the current problem. Literary science has a very important place in scientific research.

### **2.2 Thematic Analysis**

We started our research with currency comparisons in conventional and Shariah systems. So we see a system of studies related to the origin of the formation of money, so actually money is not the same as capital. Start with money as a public good, capital becomes personal goods, money as a concept of flow, and capital becomes money. To avoid inflation, there must be monetary policy. Based on our preliminary research, we have established four main themes for understanding the concept of Islamic market mechanisms, namely:

The role of money in the Islamic monetary economy

2. The concept of monetary policy

3. money as public goods and capital as personal goods

4. the concept of money in Islamic economics as a concept of flow

### 3. Results

The role of money in islamic monetary economy, the concept of monetary policy, money as public goods and capital as personal goods and the concept of money in Islamic economics as a flow concept

#### 3.1 Interpretation of the report

The results of the content analysis based on our theme are presented in table 1. There are 4 main themes that we identified in our study and we found the findings by doing different triangulations to test the results of previous analyses to improve the validity of our findings. We provide the results of the analyzed that have been triangulated in table 1. After that, we connect the flow of relationships between themes and we state them in the diagram in Table 1.

Table 1. content analysis

Theme	Content Analysis
The role of money in islamic monetary economy	Currency is used as a legitimate medium of exchange and has been used as an alternative to barter systems.
Concept of military policy	Used to regulate the amount of money in circulation in the community
Money as public good	Money is used by society without a monopoly.
The concept of money in Islamic economics as the flow of concept	Money flows in the real sector to get a profit in the form of returns

## 4. Discussion

### 4.1 The role of money in islamic monetary economics

The role of money as a valuable item has a function as a medium of exchange for obtaining goods. It can also be used to evaluate other items or objects and can be stored as well as used to pay down debts. This means that money has a role as: (1) Medium of exchange, (2) a means of storing value, (3) units of calculation, (4) the size of pending payments.

### 4.2. Concept of monetary policy

Monetary policy is the process of regulating the money supply for a specific purpose. Government monetary system policy is often carried out to regulate the amount of money in circulation with the aim of maintaining economic stability. Monetary policy also sets the standard for interest rates on loans as well as capitalization for banks and can also be considered a borrower of last resort. Basically monetary policy is divided into two, namely internal balance and external balance. Internal balance increases economic growth and stabilizes the price of money in circulation and equitable development. In an external balance, we consider the terms of payment of external obligations. At both points of balance, macroeconomics is formed in order to maintain financial stability and open employment opportunities, stable market prices and a balanced and harmonious foreign balance of payments. The concept of global monetary policy is divided into two, namely:

#### 4.2.1. Expansionary monetary policy

In Monetary Expansion policy, this policy can also be called flexible policy, a policy that the government uses to increase or increase the money supply. This policy is carried out to increase people's purchasing power in case of economic sluggishness. Governments often use this policy when there is an economic downturn and deflation (increase in the value of money). The reason for the economic recession and deflation is that due to rising unemployment rates, public demand for commodities is increasing. If this happens, the government will implement this policy to stabilize the economy so that the economy is maintained. For example, expansionary policies are often pursued to reduce unemployment because the availability of large amounts of money stimulates business activities

so that the labor market expands. Together with tax authorities, central banks control the exchange rate of the national currency (Rupiah) against foreign currencies. The purpose of expansionary monetary policy is to stabilize the economy so that the money supply is stable, that is, money in circulation is balanced with goods and services circulating in the community. If the party cuts interest rates to a low level, entrepreneurs, especially those who export goods, can increase the number of exports and expand their business.

Monetary contractive is when the government reduces the money supply to fight inflation. This policy is often referred to as restrictive monetary policy. To maintain financial stability. The policy of raising or lowering interest rates translates into public demand. The main purpose of this policy is to lower the inflation rate. The goal of restrictive monetary policy is to reduce the money supply in the economy. The goal can be achieved by raising interest rates, selling government bonds, and increasing the bank's minimum mandatory current account. Here are some examples of monetary policy applied in Indonesia: Bank Indonesia (BI) holds auctions for this bank certificate or it can be done by buying securities in the market to obtain capital. UBI can lower interest rates if economic conditions are in line with expectations. On the other hand, BI can raise interest rates if it wants to limit economic activities to reduce the flow of money. The conclusion that can be taken is that the greater the income of the community, the higher the demand for public money.

#### **4.2.2. Monetary Policy Objectives**

Bank Indonesia aims to achieve and maintain the stability of the rupiah value. This goal, as stated in Law No. 3 of 2000 article 7 concerning Bank Indonesia. What is meant by the stability of the value of the rupiah, among others, is the stability of the price of goods and services which is reflected in inflation. To achieve this goal, since 2005, Bank Indonesia has implemented a monetary policy framework with inflation as the main objective of monetary policy (Inflation Targeting Framework)



by implementing an exchange rate system, floating exchange rate. Bank Indonesia can also implement kartal money control methods based on Sharia principles. In summary, the objectives of monetary policy include:

<sup>1</sup> Economic stability is a condition for economic growth to take place in a controlled and sustainable manner. This means that the growth of goods / services and cash flow is balanced.

Employment opportunities will increase as production increases. Increased production generally brings improvements for many employees in terms of wages and work safety. Increased wages and security in the workplace will improve the standard of living of employees and ultimately well-being can be achieved.

Price stability is represented by the stability of commodity prices over time. A stable price leads people to believe that the purchase at the current price is equal to the price in the future, or that the purchasing power of money is the same over time.

The balance of payments can be considered balanced if the total value of exports is equal to the value of imports. To achieve a balanced balance of payments, the government usually implements monetary policy. One example is devaluation.

Keeping prices stable due to large money supply, Increasing employment opportunities, Improving trade balance position and balance of payments, if the country devalues the rupiah to foreign currency.

#### <sup>3</sup> 4.2.3 Monetary Policy Instruments

Monetary policy is an economic policy aimed at regulating the rate of growth and circulation of money in a country. The main macroeconomic variables adjusted for monetary policy are inflation and unemployment. Monetary policy can set targets for inflation rates, interest rates, and currency values. The Central Bank is a key player in the implementation of direct and indirect monetary policy. Examples of direct monetary policy are printing new money, freezing the balance sheet of

private/state businesses, overhauling the banking system, taking over banking/credit jobs, and more. Monetary policy can be done by applying monetary policy tools with the aim of regulating the amount of money in circulation to maintain price stability, a direct and indirect tool. Some of these key instruments include:

Basic discount (discount rate)

The discount base is the interest rate set by the government for commercial banks to borrow money from the central bank. When commercial banks face conditions that force them to borrow money from the central bank, the government can use this opportunity to regulate the money supply.

Open Market Operations

Open Market Operations (OPT) is one of the indirect monetary policy tools that is very important because it is very flexible compared to other tools. Options are exercised by the government to control the amount of circulation by selling (selling open to the market) or buying (buying open market) from government securities.

Mandatory Backup Ratio (Backup Requirements Level)

When reserves are at least reduced, the Bank has more money that can be distributed in the community through loans. Conversely, if the government wants to reduce the excellent amount, the government can increase the minimum amount of banking reserves to banks with less money to distribute.

Ethical Avoidance

Central banks can introduce monetary policy tools in the form of ethical appeals to control the amount of money in circulation in a variety of ways. The central bank may urge commercial banks to lower or raise interest rates on loans.

#### 4.3 Money as Public Goods

The characteristic of Public Goods is that it can be used by the public without blocking the use of others. It's like using a highway that anyone can use. As Public Goods, money is more widely used by the rich. This is not because of bank deposits, but is used to buy assets such as houses, cars, stocks, etc. This money should be used for productive activities as it will provide enormous profit opportunities. Therefore, the higher the production rate, the greater the opportunity to be able to benefit from the Public Goods (Karim, 2010: 89).

Islamic economics has clearly distinguished between money and capital. In Islam, money is public goods, and therefore hoarding money (or being left unproductive) means reducing the money supply. The implication is that the exchange process in the economy is hampered. In addition, the buildup of money / property can also encourage humans to tend to the nature of not good such as greedy, greedy and lazy charity (zakat, infak and sadaqah).

The conclusion about the public good and stock concept and the public good and flow concept is that Islamic economics sees money only as an understanding of goods and public flows. From the public good and flow concept, this means that money belongs to the public and can be circulated to others. Money doesn't just depend on one person. Money is no longer kept under pillows, houses, piggy banks, etc.

From the perspective of Islamic economics, money is a public goods and flow concept, meaning that the money in circulation belongs to the general public and also flows to the general public. In an Islamic economy, money must flow like running water, because money should not be accumulated at all times. If the position of money in the stock concept will eat away at the economic flow of society.

#### **4.4. the concept of money in Islamic economy as the flow of concept**

The faster the turnover of money, the better. Like getting in and out of the water. When water flows, it is called money, and when water settles, it is called capital. The container where it settles is private goods, while water is public goods. Money is like water when it flows, water (money) will be clean and healthy for the economy. Conversely, if you leave the water in one place (money storage), the water will get dirty. (Karim, 2010: 88).

So money in the concept of flow concept is money flowing which if rotated in the economy of the real sector it will produce a return. This concept is related to the concept of public good where money cannot be mastered or monopolized.

## 5. conclusion

The role of money as a valuable item has a function as a medium of exchange for obtaining goods. It can also be used to evaluate other items or objects and can be stored as well as used to pay debts. <sup>1</sup> Monetary policy is the process of regulating the money supply for the purpose of stabilizing the economy. Money is said to be public good which means that the money is owned by the community without the intervention of others and money as a flow concept related to public good is funds that flow in the community in the real sector to get benefits back.

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