

THE DISTORTION OF MARKET PRICES IN ISLAMIC
MICROECONOMIC

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Abstract

This paper aims to describe how market price distortions are seen in Islamic microeconomics. The method used in this research is a qualitative method. The data comes from documents in the form of books, journals, and other scientific writings. This paper contains several findings regarding some price distortions that can occur in the market such as supply-demand manipulation (bai' najasy, ikhtikar, and talaqqi rukban), tadlis or fraud, and taghrir or uncertainty.

Keywords: Price Distortions, Manipulation, Tadlis, and Taghrir.

1. INTRODUCTION

Market can be interpreted as a meeting place for sellers and buyers. In an economy, the ideal market is a perfectly competitive market, where prices are completely determined by supply and demand between sellers and buyers. However, the existence of a perfectly competitive market is often difficult for an economy to achieve. This condition causes the creation of a less competitive market. One form of less competitive market is monopoly, where there is no direct business competition. In a perfectly competitive market, equilibrium is established at the point where there is an agreement between the price and quantity supplied by sellers and those demanded by buyers. Both parties are in a mutually beneficial condition, and neither party is harmed in the activity.

The concept of Islamic economy also regulates how an ideal market competes. The agreement on price and quantity is highly considered by market regulators. This agreement in Islam is regulated so that it does not occur on the basis of coercion, fraud, or the error of the object of the transaction. Therefore, Islam guarantees the existence of a perfectly fair competition market, with perfect information, and the absence of *dzalim* or oppressed parties.

The ideal conditions according to the above explanation can actually experience distortion. Distortion is a disturbance in the market mechanism, so the market mechanism is interrupted and dropped out of its ideal condition. This disturbance occurs both from the side of the price agreement and from the unclear demand or supply. Islamic economics identifies three forms of market distortion caused by sellers in the market: 1.) Demand and Supply Engineering; 2.) Fraud (Tadlis); and 3.) Obscurity (*Taghrir*). Engineering supply (false supply) in fiqh muamalah is better known as *ikhtikar* and *tallaqi rukhban*, while engineering demand (false demand) is called *Bai' Najasyi*. There are four kinds of fraud (*tadlis*), namely: quantity fraud, quality fraud,

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price fraud, and delivery time fraud. Likewise ambiguity (*taghrir*), there are also four kinds: unclear quantity, unclear quality, unclear price, and unclear delivery time. Both *tadlis* and *taghrir* both occur due to imperfect information (asymmetric information).

2. LITERATURE STUDY

Market

Market is an economic element that can create benefit and welfare of human life. Market in business reality is a mechanism that can bring together sellers and buyers to conduct transactions of goods and services, either production or price determination (Nawawi, 2013). Market is a place where people gather with aim of exchanging ownership of goods or services for money. Market can also be interpreted as a place where people buy and sell which also means the power of supply and demand, a place for sellers who want to exchange goods or services for money, and buyers who want to exchange money for goods or services (Untung, 2012; Kadir, 2010).

Meanwhile, in the opinion of William J. Staunton, market is a place for people who have a desire to be satisfied, money to buy, and a willingness to spend it. From this definition, there are three important elements in the market: 1.) People with all their desires; 2.) Their purchasing power; 3.) Willingness to spend it (Siddiqi, 1991).

Trading is the most common activity in the market. Hence, the Qur'aan provides enlightenment on activities in the market with a number of signs and rules, with the aim of being able to uphold justice for the benefit of all parties, both individuals and groups. The Qur'aan also explains that people who trade will not lose their charisma when carrying out economic activities in the market (Nasution, 2006). In accordance with the instruction from Allah SWT in Qur'aan Surah Al-Furqaan verse 20:

وَمَا أَرْسَلْنَا قَبْلَكَ مِنَ الْمُرْسَلِينَ إِلَّا إِنَّهُمْ لَيَأْكُلُونَ الطَّعَامَ وَيَمْشُونَ فِي الْأَسْوَاقِ ۗ وَجَعَلْنَا بَعْضَكُمْ لِبَعْضٍ فِتْنَةً ۗ أَنْتَصِرُونَ ۗ وَكَانَ رَبُّكَ بَصِيرًا • ﴿25:20﴾

Means: “(O Muhammad), We never sent any Messengers before you but they ate food and walked about in the markets.²⁹ We made some of you a means to test each by the other³⁰ to see whether you remain patient.³¹ Your Lord is All-Seeing” (25:20).

Market is a backbone of the community's economy, either people in the lower class or people in the upper class. All elements related to economic matters are in the market, ranging from elements of production, distribution, or elements of consumption. Activities carried out in the market will basically involve producers and consumers. Each of them has a very important role in the market.

Prices

Price is defined as amount of money that describes an exchange value of a goods. Etymologically, price is defined as the comparative or exchange value for a commodity. Price is always associated with the amount of money that must be paid as a purchase value for goods and services (Chamid, 2010). Many economists put forward a definition of price. According to Syafei (2000), prices only occur in contracts, whether they are

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less, greater, or equal to the value of the goods. According to him, the price is used as an exchange of goods agreed upon by the two parties to the contract. Meanwhile, Kotler (2005) argues that price is one of the marketing innovations that generate income. Price is the easiest new element of marketing to adjust. Price also communicates a company's intended value position to the market about its products and brands.

From these price definitions, there are similarities, namely the price determines the value of an item or a service. While the elements of the marketing mix in question are price, product, promotion, and channel. Price is the sacrifice that consumers must pay to be able to enjoy a desired product. The price in buying and selling is the price that has been agreed upon by the two parties who make the transaction on the basis of being both willing and without coercion from the transacting party. In the modern economic system, the level of commodity prices depends on various factors, one of which is the type of market. Is it a perfect market, a free market, or a monopoly market? This relates to the economic system adopted by the state. Countries that adhere to capitalist understanding will open the widest possible market for competition. So in this case the price in the market will be greatly influenced by supply and demand. Meanwhile, a country that adheres to a socialist understanding of its economic system will show a form of market that is monopolized by the government because the government sets a reasonable price limit for certain commodities.

In Islamic jurisprudence, there are two different terms regarding the price of an item: *as-šaman* and *as-si'r*. *As-šaman* is a benchmark for the price of an item, while *as-si'r* is the actual price in the market. Fiqh scholars divide *as-si'r* into two types. First, prices that apply naturally, without government intervention. In this case, the merchant is free to sell the goods at a reasonable price, taking into account the profit. The government, at the price that applies naturally, should not intervene, because government intervention in this case can limit freedom and harm the rights of traders or producers. Second, the price of a commodity is determined by the government after considering the capital and reasonable profits for traders and producers as well as looking at the real economic situation and people's purchasing power. The determination of government prices in the government is called *at-tas'ir al-jabbari* (Utomo, 2003).

Ibn Qudamah, Ibn Taimiyah, and Ibn Qoyyim divide the form of pricing into two categories. First, price fixing that is unfair (*dzalim*) and price fixing that is fair ('*adl*). Unfair (*dzalim*) pricing is price fixing by the government that is inconsistent and illogical with the conditions of the market mechanism due to the limited supply of commodities and the pace of goods or services, while the demand is very high and without regard to the benefit of the traders. According to them, the price fixing that is allowed is when there is a significant and drastic price spike according to accurate evidence caused by the actions of speculators and traders. However, the price fixing must also be carried out within fair limits, taking into account production costs, distribution costs, transportation, capital, and profit margins for producers and traders (Anwar, 1997).

Market Mechanism

Market mechanism is the way where a market works, based on the existing market system. And the market system that we know today is a free market system that usually uses the principle of *laissez faire et laissez le monde va de lui meme* (Let him do it and let it run, the world will take care of itself). That is, let the economy run normally without any government intervention, later there will be an invisible hand that will bring the economy towards equilibrium (Karim, 2015).

In conventional economic theory, the market mechanism is a way to achieve economic goals, which is welfare of the society, where the welfare of society is defined as material welfare. But the quality of human life is essentially not only determined by the ability to suffice material welfare, but also to suffice non-material welfare. Islamic economics views that the market, state, and individual are in balance (*iqtishad*) there should be no distance between them, no one becomes dominant over the other. The market determines the price and method of production, there should be no disturbance that causes damage to the market balance. But in reality it is difficult to find a market that runs itself fairly. Market distortions still occur frequently, which can be detrimental to various parties.

The scholars in ancient times actually discussed a lot about Islamic market mechanisms, including:

a. Abu Yusuf

Abu Yusuf was recorded as the earliest cleric who began to mention market mechanisms and at that time Abu Yusuf denied the public's understanding of the prevailing market mechanism, because in reality that understanding did not always occur. "*Sometimes food is plentiful but still expensive and sometimes food is very little but cheap*" Abu Yusuf also denies that there is an inverse relationship between supply and price, which in fact does not always depend on demand but also on the strength of supply (Karim, 2015).

b. Al-Ghazali

Imam Ghazali explicitly links all economic activities with the morals contained in the Qur'an and Hadith (based on the principle of Islamic faith). In relation to market mechanisms, Al-Ghazali in *Ihya 'Ulumuddin*, has also discussed in detail about trade and markets. whose price always moves according to the forces of supply and demand. According to him, the market is part of the natural order. Al-Ghazali did not explain about supply and demand in modern terms, but in his writings he explained about the shape of the supply and demand curves. Al-Ghazali's thoughts on the law of supply and demand, for his time, were quite advanced and surprising. He seemed to understand very well about the concept of demand elasticity. Imam al-Ghazali, like other Muslim scientists while discussing prices, always associated it with profits, but he has not linked the prices of goods with income and costs. For al-Ghazali, profit is a compensation for the difficulty of the trip, business risks, and threats to the safety of the merchant (Karim, 2015).

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c. Ibn Taimiyah

In a broader view, Ibn Taimiyah put the concept of market mechanisms in his book "*Al-Hisbah fil Islam*". He said that in a free (healthy) market, prices are influenced and considered by the forces of supply and demand. Ibn Taimiyah said that the rise and fall of prices is not always caused by the arbitrary actions of the seller. This could be due to a decrease in supply due to inefficiency or waste of production, a decrease in the number of imports of goods demanded, or also due to market pressures. Therefore, if the demand for goods increases, while supply decreases, the price of goods will increase. In other hand, if demand decreases, while supply increases, the price will fall. A change in supply is described as an increase or decrease in quantity of goods offered, while a change in demand is determined by consumer tastes and income. The change of demand for goods was caused by several factors, namely the size of supply, the number of people who wanted the goods, tastes, the price of the goods themselves, and the prices of other related goods (Karim, 2015).

d. Ibn Khaldun

Ibn Khaldun, in his monumental book *Al-Muqoddimah*, he divides goods into two categories, namely basic goods and luxury goods. If a city develops and the population increases, the prices of basic goods will decrease while the prices of luxury goods will increase. This is due to the increasing supply of food and other basic goods because these goods are very important and needed by everyone so that their procurement will be prioritized. Meanwhile, the price of luxury goods will increase in line with the increase in lifestyle which results in an increase in demand for these luxury goods (Karim, 2015).

3. RESEARCH METHODOLOGY

This paper uses a descriptive qualitative method with a library research approach. Qualitative research methods are research that produces findings that cannot be obtained through a statistical procedures or another quantitative procedures. In addition, qualitative research is also a research method that is able to produce descriptive data from the observed object (Sidiq & Choiri, 2019; Nugrahani, 2014). The library research approach is a series of research activities related to the methods of collecting library data, reading and taking notes, and processing research materials. This approach is a research that utilizes library resources to obtain research data (Zed, 2004).

4. DISCUSSION

Demand-Supply Engineering

Price distortion will lead to the failure to achieve an efficient and optimal market mechanism. One form of price distortion is market engineering. There are two models of market engineering that cause price distortions: demand and supply engineering.

a. *Bai' Najasyi*

Bai' Najasyi is a forbidden transaction, because in this transaction the seller asks other people to praise the goods he sells or bid at a high price, so that the original prospective buyer is attracted to the goods at the high price level, and then a false demand is created (Karim, 2015). In addition, another form of *Bai 'Najasyi* is creating a goods scarcity issue. Example of this case was during the 1997 monetary crisis, where rice and food were rumored to be in short of supply, so the prices increased. However, not long after, BULOG informed that the rice stock in the warehouse was still sufficient. The Prophet PBUH in a hadith prohibits the practice of *Bai 'Najasyi*: "*Let no one sell on the sale of his brother, do not do najasyi and do not become middlemen in the city to sell goods from the village*" (Narrated by Bukhari and Muslim).

b. *Ikhtikar*

From Said bin al-Musayyab, from Ma'mar bin Abdullah al-Adawi, that the Prophet Muhammad said: "*It is not someone who does ikhtikar unless he is a sinner*" (Narrated by Muslim, Ahmad, and Abu Dawud). *Ikhtikar* is actually different from the term monopoly or hoarding. Karim (2015) explains that in Islam, people are free to do business whether he is a sole seller (monopoly, because there are no other sellers) or there are other sellers in the market, as well as keeping stock of goods for inventory, it is legal. While *ikhtikar* is taking profits above the normal profits (*dzalim*), deliberately selling less stock of goods for very high prices. The economic term is monopoly's rent-seeking. *Ikhtikar* causes market prices to be distorted, so this practice is prohibited in Islam.

c. *Talaqqi Rukban*

Talaqqi rukban occurs where traders in the city market (who have complete information about the prices in the city market) intentionally buy goods from farmers or producers in the village (who do not have a complete information about the prices in the city market) in order to get cheaper prices. The Prophet Muhammad PBUH forbade this. From Anas RA said: "*The Messenger of Allah PBUH forbade the townspeople from selling the goods of the village people who had just arrived before arriving at the market, even though the person was his own brother*" (Narrated by Bukhari and Muslim). Karim (2015) explains that the essence of this prohibition is that the actions taken by city traders are unfair because they do not inform the actual city market prices. Looking for goods at low prices is not wrong, but if in a buying and selling transaction one party knows the market information perfectly while the other party does not, then there is injustice here.

Fraud (Tadlis)

The ideal condition in the market is when the seller and the buyer have the same information about the goods to be traded. If one of the parties in the sale and purchase transaction does not have the same information as the other party, it means that one of the parties has been harmed and a *tadlis* occurs. The Qur'an clearly prohibits transactions that contain elements of fraud in any form against other parties. One of them is contained in QS. Al-An'am verse 152 which means: "*And complete the measure and the scales with justice. We do not carry a burden on a person but only his ability.*"

a. Quantity Fraud

This *tadlis* occurs when a trader sells goods in small quantities at the agreed price level where the quantity should be more. For example, buying and selling oranges with an agreement of Rp10,000,- for 1 kilograms of oranges, but after purchasing it turns out that the orange scales did not reach 1 kilograms. This classic practice of manipulating scales and measurements has been going on for a long time, therefore, in Islam it is known that there are institutions in the market whose function is to supervise this fraud.

b. Quality Fraud

This *tadlis* occurs when the seller intentionally hides defects or poor quality of the goods transacted with the buyer. For example, a used laptop seller sells his laptop at a price range of IDR 4,000,000 for a laptop with equivalent qualifications, but he doesn't explain about the condition and performance of his used laptops, which apparently range from 75% to 90% condition. Here the buyer is not able to distinguish the condition of each laptop and the seller does not provide an explanation about the condition of the used laptop he sells, so that in the end the buyer is persecuted and there is a *tadlis* of quality.

c. Price Fraud

Ghaban by Karim (2015) is described as buying and selling at a price higher than the market price due to buyer ignorance. An example is when a traveler has just arrived in a city, then he orders a taxi to go somewhere. The market fare for a taxi with such a distance is Rp. 20.000,-. The taxi driver offered a fee of Rp. 40.000,- but after haggling, an agreement price of Rp. 30.000,- was reached. Well, even though both parties are willing to deal, this is prohibited because the traveler is willing to be deceived.

d. Time Fraud

This *tadlis* occurs when the seller knows that he will not be able to complete or deliver the goods according to what is requested by the buyer, but he still agrees on the delivery time according to the buyer's request. This *tadlis* does not directly affect the price or quantity, but in a transaction, time is very important, so this is considered a fraud.

Uncertainty (Taghrir)

In terms of *fiqh muamalah*, *taghrir* means doing something blindly without sufficient knowledge, or taking one's own risk from an act that contains risks without knowing exactly what the consequences will be, or entering the arena of risk without thinking about the consequences. Meanwhile, according to Ibn Taimiyah, *gharar* occurs when a person does not know what is stored for himself at the end of a buying and selling activity. Just like *tadlis*, *taghrir* also occurs due to imperfect information, but the difference is that the imperfection of information on *taghrir* is faced by the two transaction actors. *Taghrir* is generally described in terms of the various probabilities

(levels of probability) of a transaction. So it is possible for a transaction to produce events A, B, or C, each of this transaction has a varying probability, and if the probabilities of the three are added up, the result is equal to one ($A+B+C=1$).

a. Quantity Uncertainty

An example that is included in the quantity *taghrir* is the practice of bonding. For example, a farmer agrees to sell his harvest (quality A rice) to a middleman at a price of Rp. 2,000,000, - even though at the time of the agreement the farmer's rice fields cannot be harvested. This means that the sale and purchase agreement is carried out without specifying the quantity sold, even though the price has been set. So there is a quality *taghrir*.

b. Quality Uncertainty

An example of a quality *taghrir* is buying a calf that is still in its mother's womb. The agreement between the farmer and the buyer is an agreement on the price level which is not accompanied by an agreement on the condition of the calf, whether it will be born normal, born with defects, or stillborn. So there are three possible advantages. For example, breeders and buyers agree on a price of Rp. 1.000.000,-. If the market for healthy young cattle is Rp. 2,000,000, - then the buyer makes a profit of Rp. 1,000,000. Then if the cow is defective, then the meat is only valued at Rp. 500,000, - and the buyer loses Rp. 500,000, -. Meanwhile, if the calf is stillborn, then the buyer loses IDR 1,000,000.

c. Price Uncertainty

This *taghrir* occurs when there is an agreement on several prices in one transaction. For example, if in a sale and purchase transaction the price is determined at Rp. 10,000,000, - if paid in cash and the price is Rp. 50,000,000, - if it is paid in installments up to 1 year, then the seller and buyer agree. The question is what is the price of the item if it can be paid off tomorrow? What is the price of the item if it can be paid off in the third month? And what is the price of the item if it can be paid off 2 days before the end of the 5th month?. In this case, although the quantity and quality of the goods are clear, there is no certainty of price. Neither the seller nor the buyer know how long this transaction will take to settle.

d. Time Uncertainty

An illustration of this model *taghrir*, for example, is when A loses his watch. B wanted A's watch which happened to be a limited edition. Finally A and B make a deal. A sells his limited edition watch to B at a price of Rp. 1,000,000, - even though the original price of the watch is Rp. 5,000,000, - and the delivery time is when A's watch is found. This means that this transaction has an element of unclear delivery time, even though the quantity of goods is clear, the quality is also clear, and the price is clear, but this transaction does not result in an equilibrium and is a forbidden *taghrir* that distorts the market. The profit that B may receive if the watch is found is Rp. 4,000,000, - while B's loss if the goods are not found is Rp. 1,000,000, -.

5. CONCLUSION

There are several economic practices that can distort prices. In general, they are: 1.) Demand and Supply Engineering, 2.) Fraud (*Tadlis*), and 3.) Uncertainty (*Taghrir*). Engineering supply (false supply) in fiqh muamalah is better known as ikhtikar and tallaqi rukhban, while engineering demand (false demand) is called Bai' Najasyi. There are four kinds of fraud (*tadlis*), namely: quantity fraud, quality fraud, price fraud, and delivery time fraud. Likewise ambiguity (*taghrir*), there are also four kinds: unclear quantity, unclear quality, unclear price, and unclear delivery time. Both *tadlis* and *taghrir* both occur as a result of imperfect information (asymmetric information). Practices that can distort markets and prices must be eliminated from the economy so that the economy can run optimally and produce equitable welfare for the community.

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