



جامعة السلطان الشريف علي الإسلامية
UNIVERSITI ISLAM SULTAN SHARIF ALI
SULTAN SHARIF ALI ISLAMIC UNIVERSITY

**Faculty of Islamic Economics and Finance
Semester I, 2020/2021 Academic Session**

Final Examination Question Paper

Course Code : BE1301

Course Name : Principles of Islamic Economics

**Course Level : Bachelor of Science in Islamic Finance,
Bachelor of Business Management,
Bachelor of Islamic Economics &
Minor in Islamic Economics.**

Time : 3 hours

Notes:

1. This examination paper consists of SEVEN questions.
2. The questions are divided into TWO sections; Section A and Section B.
3. Section A is COMPULSORY. Answer ALL FOUR questions.
4. Section B consists of THREE alternatives. Answer TWO questions only.
5. Only pure numerical calculators are allowed to be used in this examination.
6. Write your answers in the Answer Booklet provided.

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Section A: Answer ALL questions provided. (Total marks 40).

QUESTION 1: (10 Marks)

Use your calculator to answer the following mathematical problems. Please show your work math clearly:

- 1) Let's say that points $(x_2: 15, y_2: 8)$ and $(x_1: 10, y_1: 7)$ are on a straight line. Calculate the slope using the equation for a slope.
- 2) Say that Roslan, an attorney, charges \$400 per hour. He decides to close his office one afternoon to paint the office himself, thinking that he is saving money on the costs of hiring professional painters. However, the painting took him four hours, effectively costing him \$1,600 in lost wages. Let's say professional painters would have charged Roslan \$1,000 for the work. Calculate Roslan's opportunity cost.
- 3) Calculate the Marginal Physical Product (MPP) in the missing boxes in Table 1:

TABLE 1:

Variable Input (Labour)	Total Physical Product (TPP)	Marginal Physical Product (MPP)
10	49	-
12	58	(a)
14	63	2.5
16	64	(b)

- 4) Suppose that in 2006 a state government imposes an excise tax on the sale of domestic airline tickets of \$5.80 per airline ticket. According to data from the Transportation Department, in 2006, 656 million passengers travelled on domestic airline trips at an average price of \$389.08 per trip. What is the government tax revenue in 2006 from the excise tax?
- 5) Suppose the market for dishwashing liquid has the following firms and market shares: Cascade: 60%, Palmolive: 20%, Dawn: 10%, and Sparkle: 10%. Suppose in the year 2000, Dawn and Sparkle merge to form "Sparkling-Dawn." Calculate the latest Herfindahl Index?
- 6) The following is information regarding Country A economy: Total population: 600, employed: 270, unemployed: 70, not in the labour force: 110, and under age 18: 150. Given the data above:
 - (a) What is the labour force participation rate?
 - (b) What is the unemployment rate?

- 7) By using the data in Table 2 below, calculate the followings:
 (a) Gross Domestic Product (GDP)
 (b) Gross National Product (GNP)

TABLE 2:

Transfer Payments	\$54
Interest Income	\$150
Income Received from Abroad	\$700
Depreciation	\$36
Wages	\$67
Gross Private Investment	\$124
Business Profits	\$200
Indirect Business Taxes	\$74
Income Paid Abroad	\$200
Rental Income	\$75
Net Exports	\$18
Net Foreign Factor Income	\$12
Government Purchases	\$156
Household Consumption	\$304

- 8) Country B produces \$1 trillion worth of goods and \$3 trillion worth of services in 2018, and the assets used to produce those goods and services are depreciated by \$500 billion. Using the data above, calculate the Net National Products of Country B.
- 9) Table 3 shows quantities purchased and the prices of the only two goods citizens of Country C buy over three years. Using the given data, what is the Consumer Price Index (CPI) for 2018 using 2017 as a base year?

TABLE 3

Year	Quantity of bubble tea	Price of bubble tea	Quantity of kangaroo steaks	Price of kangaroo steaks
2017	10	\$4	5	\$8
2018	10	\$6	5	\$12
2019	10	\$5	5	\$10

- 10) Table 4 below shows the annual CPI of Country D from 2015 to 2019. Calculate the inflation rate in the missing boxes.

TABLE 4:

Year	CPI	Inflation Rate
2015	160.5	-
2016	163.0	1.56
2017	166.2	(a)
2018	172.1	3.55
2019	177.6	(b)

QUESTION 2: (10 Marks)

Read the following questions carefully and choose the letter that best describes the answer:

- 1) Which of the following is NOT TRUE about the principles and guidelines of Islamic Economy:
 - (a) All that exists in the universe belongs to Allah the Almighty.
 - (b) The Islamic concept of man is twofold; man is God's creation and Man is God's *Khalifah*.
 - (c) The very purpose of life is to surrender this freedom to the will of Allah and to pass lifetime in His obedience.
 - (d) Piety encompasses God consciousness, fear of His anger and displeasure, sense of accountability, self-control, and pious attitude.

- 2) The Islamic economic system is guided and defined by the ideal philosophical foundations which include:
 - (a) Tawheed, *'Ibadah, Khilafah & Amanah*.
 - (b) *Al-'Adl wa al-Ihsan*.
 - (c) None of the above.
 - (d) Both (a) & (b).

- 3) Microeconomics tries to answer the following key questions, EXCEPT:
 - (a) What to produce? How to produce? For whom we produce?
 - (b) What price shall we pay? What resources are scarce?
 - (c) What market shall we have?
 - (d) Both (b) & (c).

- 4) Factors that cause a change in supply are:
 - (a) Price of complements, consumer income, future expectation, population size, & change in taste.
 - (b) Input prices & change in technologies.
 - (c) Nature conditions & government regulations.
 - (d) Both (b) & (c).

- 5) Consumer behaviour influenced by various factors, among others:
 - (a) Marketing factors, situational & psychological factors.
 - (b) Personal, social & cultural factors.
 - (c) All of the above EXCEPT (b).
 - (d) All of the above.

- 6) Some people with diabetes absolutely need to take insulin on a regular basis to survive. Pharmaceutical companies that make insulin could find a lot of other ways to make some money. If a state government imposes a tax on insulin producers of \$10 per cubic centimetre of insulin, payable every month to the State Treasury, who will bear most of the burden of the tax?
 - (a) Insulin producers.
 - (b) People with diabetes.
 - (c) Both insulin producers and people with diabetes.
 - (d) None will bear the burden of the tax.

- 7) What is the term for money granted by the government to assist an industry or business so that the price of their products or services may remain low?
 - (a) Taxes.
 - (b) Budgets.
 - (c) Subsidies.
 - (d) Grants.

- 8) Which of the following statements is NOT TRUE about the uses of National Income:
 - (a) It is use to compare the standard of living of people in different countries.
 - (b) It is use to measure the economic performance of a nation.
 - (c) It is use to identify the important sectors that contribute towards economic growth.
 - (d) It is use to estimate rent, wages, interest and profits.

- 9) What is the formula for calculating the CPI?
 - (a) $\text{Current year price} / \text{base year price} - 100 \times 100$.
 - (b) $\text{Base year price} / \text{current year price} \times 100 - 100$.
 - (c) $\text{Current year price} / \text{base year price} \times 100 - 100$.
 - (d) $\text{Base year price} / \text{current year price} - 100 \times 100$.

- 10) All of the followings are true about Progressive Tax, EXCEPT:
 - (a) The tax rate goes on increasing with income.
 - (b) The higher the income, the higher the percentage of tax.
 - (c) It has less impact on high-income earners.
 - (d) It can be charged to obtain the revenue to help the poor.

QUESTION 3: (10 Marks)

Determine which of the following statements is True (T) or False (F):

- 1) Islam derives its ruling from four primary sources, i.e. the Book of Allāh (*al-Kitāb*), the Precedence of Holy Prophet (*al-Sunnāh*), the analogical reasoning (*al-Qiyās*), and the consensus Islamic scholars (*al-Ijmā'*), and collectively called *al-Nuṣūṣ*.
- 2) Acquisition of wealth is an inevitable matter for human being. Therefore, Islam allows individual ownership and allows man to achieve, strive for, or dispose of as he wishes.
- 3) A negative slope represents a relationship in which an increase in the value of one variable is associated with an increase in the value of the other variable.
- 4) A change in quantity demanded is caused by a change in the quantity of the good in question and other things being equal.
- 5) A change in the production of one resource ripples out throughout the world economy; changing the consumption pattern, production decisions, incentives, and choices of many different goods.
- 6) Taxes increase both demand and supply, and drive market equilibrium to a price that is lower than without the tax and a quantity that is higher than without the tax.
- 7) When there is unemployment, it means that resource is not being used.
- 8) CPI is a measure of changes in product prices over a specific time period, for goods and services that consumers normally purchase.
- 9) A national budget is a document containing a preliminary approval plan of public budget and expenditure in a year.
- 10) The 1st International Conference on Islamic Finance was held at Makah on 21st to 26th February 1976.

QUESTION 4: (10 Marks)

Fill in the gaps with the most correct answers from the Table 5 provided. You may use the answers given not more than twice:

TABLE 5

judge	wants	standard	decrease	inelastic
work	harmful	absolute	elastic	lower
increase	graph	concentrated	cultivate	declared
scarce	cost	model	needs	substitute

- 1) CPI is used to monitor changes in the _____ of living over time.
- 2) The condition of possession of the barren land – in Islam – is to _____ upon it.
- 3) If supply is more _____ than demand, buyers pay more of the tax.
- 4) Higher taxes are imposed on _____ goods to make them expensive.
- 5) If given $\% \Delta P$ impact is large than $\% \Delta QD$, the demand is said to be _____.
- 6) Inflation means a general _____ in prices and fall in the purchasing value of money.
- 7) The final results of performance and attitudes during the worldly life will be _____ on that Day of Judgement and man shall get either the reward or punishment for his deeds.

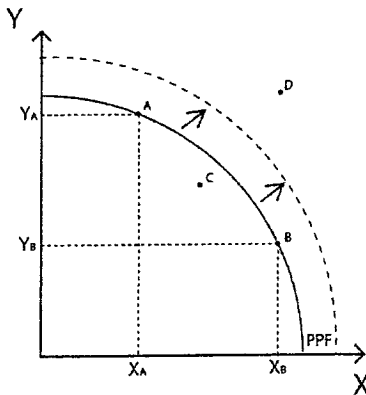
- 8) In Islam, ownership is not _____. Resources are *amanah* whose actual owner is Allah *Subhanahu wa Ta'ala*.
- 9) _____ is a synonym for theory in economics, often applied to theories that are stated in graphical or mathematical form.
- 10) Markets also solve the great economic problem, i.e. to arrange limited resources to satisfy many _____ as possible.

Section B: Answer TWO questions only out of THREE alternatives. (Total marks 20)

QUESTION 5: (10 Marks)

Read the graphs below and give short answers to the questions that follow:

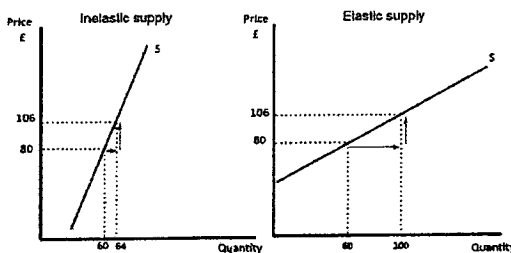
- 1) **Graph 1: Production Possibilities Frontier (PPF):**



- a) What do these points represent?
 - (i) Point A & B.
 - (ii) Point C.
- b) What is the main factor that leads the PPF curve to shift outward?
- c) What does an outward shift of PPF mean?

(½ mark each = 2 marks)

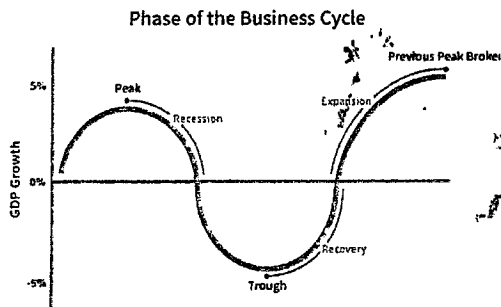
- 2) **Graph 2: Elasticity of Supply (ES):**



- a) What does positive slope line represent?
- b) How do economists measure ES?
- c) What does it mean if the ES is greater than 1?
- d) What does it mean if the ES is less than 1?

(½ mark each = 2 marks)

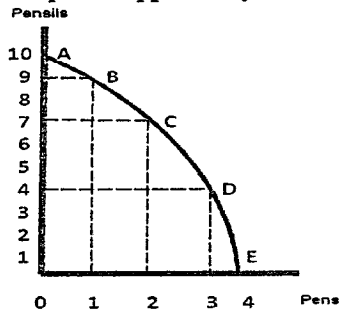
3) **Graph 3: Business Cycle:**



- What is another term for Recession?
- What is another term for Trough?
- What does it mean when the economy moves from the Trough to the Peak?
- What is the GDP status when the Business Cycle reached the Peak?

(½ mark each = 2 marks)

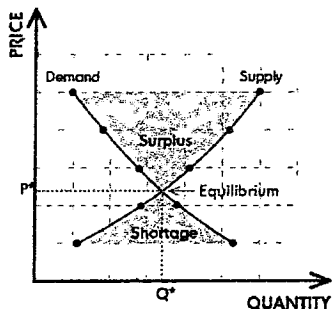
4) **Graph 4: Opportunity Cost & Choices:**



- What is the idea behind the opportunity cost?
- What does point A represent?
- What does point E represent?
- What do points B, C & D represent?

(½ mark each = 2 marks)

5) **Graph 5: Equilibrium, Surplus & Shortage:**



- What happen if a market is not at equilibrium?
- How does surplus occur in a market?
- What causes shortage in a market?
- Why do surpluses drive prices down while shortages drive prices up?

(½ mark each = 2 marks)

QUESTION 6: (10 Marks)

Answer all the following questions in brief:

- Islam divides the human basic needs into three (3) stages within the framework of *Maqasid al-Shari'ah*, namely *Daruriyyat*, *Hajiyyat*, and *Tahsiniyyat*. Highlight the differences between *Hajiyyat* and *Tahsiniyyat*.

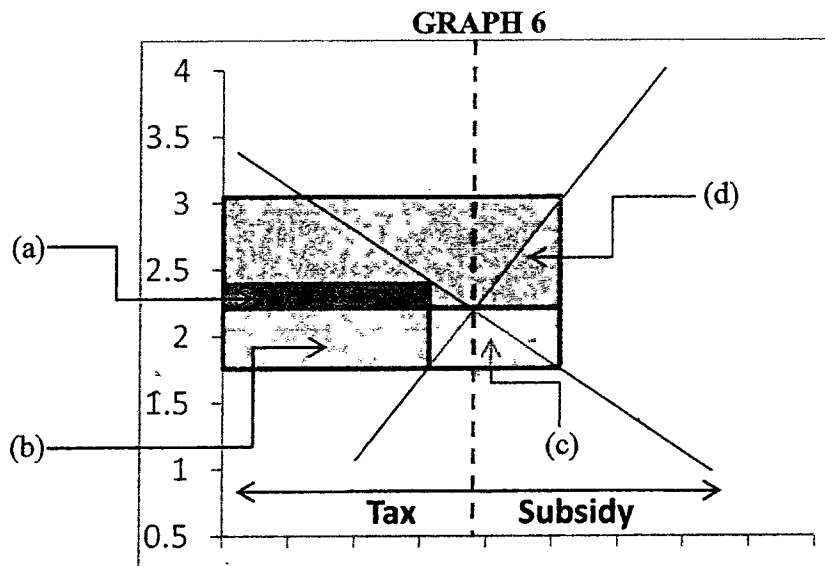
(2 Marks)

- 2) What is deadweight loss in economics? Why is it not good for the government to impose tax on good which has elastic of demand?
(2 Marks)
- 3) "Oligopolistic interdependence may result in collusion". Explain this statement in your own words of not more than 5 lines.
(2 Marks)
- 4) Personal Income (PI) is also known as "before tax-income". What does this mean? Why is it useful to economists?
(2 Marks)
- 5) Explain in brief the difference between government operating expenditure and government development expenditure?
(2 Marks)

QUESTION 7: (10 Marks)

Answer all questions:

- 1) Key in the missing entries about tax and subsidy to complete the graph below:



(2 Marks)

- 2) Suppose that Arif has a lease on its building and equipment. During the period of the lease, Arif's capital is its fixed factor of production. Arif's variable factors of production include things such as labour, cloth, and electricity. In the analysis that follows, we shall simplify by assuming that labour is Arif's only variable factor of production.

TABLE 6:

Variable Factor of Production	Total Physical Product (Unit per Day)	Marginal Physical Product (Units per Labours)
0	0.0	-
1	1.0	1.0
2	3.0	2.0
3	7.0	4.0
4	9.0	2.0
5	10.0	1.0
6	10.7	0.7
7	11.0	0.3
8	10.5	-0.5

Using the given data in Table 6, draw a graph representing both TPP and MPP.

(8 Marks)

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