MARKET, MARKET MECHANISM AND PRICE LEVELS IN ISLAMIC MICROECONOMICS PERSPECTIVE

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Abstract

This paper tries to discuss about Market, Market Mechanism and Price Levels in Islamic Microeconomics Perspective. In contrast to the conventional economy which frees the formation of price levels only on the market mechanism, determining the price level through market mechanisms in Islamic economics is based on the principles of justice in order to achieve mutual benefit (*al-Mashlahah*). Therefore, when inequality is detrimental to one party in a market, the role of the government in creating justice for both parties is a solution that is legitimate. This in microeconomic terminology is known as market intervention, which is carried out by the government as a step to stabilize the price level so that it does not harm one party in the market. Therefore, this study aimed to analyze the market and price levels in Islamic microeconomics with a philosophical approach. The methodology used in this study used qualitative research based on literature study. The result showed that there were some fundamental things that distinguished Islamic microeconomics from conventional in determining the price level in the Islamic market mechanism.

Keywords: Market, Market Mechanism, Price Levels, Islamic Microeconomics.

A. Introduction

Islamic economics is simply interpreted as a system that explains behavior and decision making in each unit of activity or economic activity based on moral rules and Islamic ethics (Amalia, 2013, p. 2). Referring to this understanding, the fundamental thing that distinguishes Islamic economic system from conventional ones is the existence of ethical values and sharia in the system (ethic and religious values). Through these values, the economic goals of Islam will always be in line with the objectives of the Islamic Shari'a itself, the creation of essential welfare (*al-Mashlahah*) in universe, for all human beings and the nature (Askari et al., 2015, p. 19-20). The implication of the concept of *al-Mashlahah* itself in Islamic Economics means that the Islamic Economics, the systems and principles in it all are universal, and also means it bring goodness and prosperity to universe, both the humans beings and the environment, both Muslim and non-Muslim, both Arab and non-Arab (Kholis, 2009, p. 270).

In order to create prosperity in the economic field, so the economic system which is built must also be built on the principles that deliver to the realization of that welfare. Therefore, in the Islamic economic system, noble values and noble ethics such as justice, honesty, openness and so on become the foundation and the spirit in Islamic economic activities.

In the economic system, both conventional and Islam, the market is a part of an economic system. This is because an economic activity can only work in the presence of a market. In the simple way, the market is where people buy and sell (Sutami, 2012, p. 128). However, the market can also be interpreted as a meeting between demand and supply (Karim, 2010, p. 6). The meeting point between demand and supply will determine the price level for a particular item or service in a market. This is what is known as the market mechanism. So, the market mechanism is closely related and influences the determination of the price levels. The relationship between the market mechanism and the price levels will run stable as long as there are no market disruptions or distortions in it (Hakim, 2017, p. 8). However, if there is market distortion, it is necessary to intervene in order to maintain price stability so that it does not harm one party in the market.

Considering the close relationship between the market and the market mechanism in determining the price levels, it is important to look more deeply at their relationship in the perspective of Islamic economics, especially through a microeconomic approach that can analyze more deeply from the production process, yields, etc. before continuing with aggregate analysis through macroeconomic approach.

In general, the economic theories are divided into two parts. They are Macroeconomics Theory and Microeconomics Theory. The first one, macroeconomic theory is often referred to as the aggregative economic theory, while the second one, microeconomic theory is also known as the price theory (Sudarman, n.d., p. 1.5). In the economics studies, the study of microeconomics gets more attention than the study of macroeconomics (Sims et al., 2018, p. 23-40).

The Microeconomic Theory or the so-called price theory comes from Greek, Mikros which means 'small' and Oikos Nomos which means 'household rules' (Basuki et al., n.d., p. 4). This means that Microeconomics speaks of a smaller economic scope than macroeconomics. If macroeconomics speaks within the scope of the State or between countries, then the microeconomics speaks within the scope of the household or company. Therefore, if we consider the discussion in microeconomic theory is a fragment of macroeconomic variables such as consumption, investment and savings. For example: Microeconomics explains the composition and allocation of total production, while macroeconomics explains the overall level of production (Aggregate).

When the word 'Microeconomics' is juxtaposed with 'Islam', then its understanding becomes economics which studies the behavior of producers and consumers and economic variables in a small scope such as companies and households based on Islamic values including: *at-Tauhid, al -'Adl, al-Nubuwah, al-Khilafah,* and *al-Ma'ad* (Yanti et al., 2009, p. 17).

In economics perpective, generally the economic sector is divided into three parts:

1. Primary Sector, the economic sector that serves to provide raw materials.
2. Secondary Sector, the economic sector which functions to manage raw materials into finished goods, and

3. Tertiary Sector, the economic sector that functions to distribute goods and services produced by the secondary sector (Indrawati et al., 2014, p. 1).

Referring to the above division, the distribution of goods and services is carried out on the market. Therefore, the market belongs to the tertiary economic sector. This is in line with the general understanding of the market, that it is the place that holds the produce and sells it to those in need. With this statement, it can be concluded that the market arises from a double coincidence that is difficult to meet. So to facilitate the exchange in meeting the needs, so the 'market' is created (Rahmi, 2015, p. 178).

With the existence of a market, briefly offers from the producer side and demand from the consumer side are facilitated. However, the meeting of demand and supply has not agreed on a number of agreements for the exchange of goods or services. The agreed number for each item and service is what is then known as 'price'.

In a market, the price and the amount of goods traded in it are determined by the demand and supply of the items. In short, the market price level is strongly influenced by the strength of demand and supply. Withdrawing demand and supply in determining prices is what is called the market mechanism. Market prices or equilibrium prices are price levels where the amount of goods offered by the seller is equal to the amount of goods demanded by buyers. This condition in economic terminology is known as the point of equilibrium (Hanani et al., 2011, p. 26). Determination of prices and the number of items traded in a state of balance can be done in three ways, such as: by using tables, graphs (curves) and mathematics.

In the previous explanation above, it’s stated that when we are going to buy an item or service in a market, the value of the agreement between the goods sold and the money that will be issued by the buyer is said to be the price in Indonesian terms. However, an explanation of prices in Indonesian literature, of course, will be different when we interpret it in English or Arabic. For example, we will be faced with the term Price (*What is the price of a product?*), Cost (*How much does it cost?*), Worth (*What is the worth of it?*) And Value (*What is its value for us?*). The four have different meanings from one another, which could be defined as prices in Indonesian literature.

Value is an ambiguous concept because it can be connoted into different meanings, classifications and theories. For example: the term 'market value' is often defined as the highest estimated price in the context of the value of money. While Worth, Cost and Price in relation to values are often defined in the same definition, as in some dictionaries. However, in its implementation there were significant differences. To more clearly see these differences, we can see in the chart made by Olajide in his article (Olajide et al., 2016, p. 53).

Figure 1.

The relation between *Price, Cost, Worth* and *Value*

Based on the chart it can be seen that prices in terms of price are part of the cost and worth. While prices in terms of price already contain the value in it. With this understanding, the price in terms of price in the market should already contain the value element in it.

B. METHOD

This research is a type of descriptive-explorative research and is categorized into a qualitative research approach based on literature or literature.Descriptive research used in this study is intended to provide a clear and deep picture of the relationship between markets and price levels in Islamic microeconomics. Descriptive research generally reveals the phenomenon and reality of the relationship between the market (market mechanism) and the price level based on the perspective of Islamic microeconomics.

The qualitative approach used in this study is more likely to reveal a lot of data and facts objectively so that the results of the expected research are more comprehensive and accountable. The literature study is used because the data used are more library data in the form of books, research results, articles and journals that are analyzed and elaborated to produce a comprehensive conclusion.

Philosophical studies are also carried out in order to analyze more deeply and sharply behind existing economic theories, so that philosophical studies are able to reveal the meaning, purpose and benefits of these economic theories.

C. RESULT AND DISCUSSION

In conventional economics, the main purpose of the market is solely aimed at efforts to maximize profits as much as possible or in economic terms known as maximizing profit (Kumar, n.d., p. 41). This condition forces economic actors to carry out strategies and tactics to be able to compete and survive in the market. In that context, companies as the main market players usually take three steps in order to maximize profits, namely increasing the price of each unit of goods sold (increasing per unit of revenue), reducing production costs (decreasing unit costs) or merging these two steps (mix of both). At this point, it does not differ between the objectives of conventional economics and Islamic economics. However, the differences will arise when maximizing profit becomes the sole purpose only, which emphasizes unilateral profits and uses methods that are contrary to the noble values of the Shari'a. For example: when a company tries to take steps to increase per unit of revenue, the conventional economy is prone to actions that harm one party on the market. It is possible for companies to take steps to increase prices that are detrimental to consumers by distorting market mechanisms, including: hoarding, called *ihtikar* (Muslim, 2012, p. 69), fake buying and selling, called *Bay 'al-Najsy* (Putri, 2010, p. 5), etc. in order to realize this profit maximization.

At that point then the Islamic economic perspective becomes an offer that complements and refines the concepts offered in conventional economics. This is because in Islamic economic systems emphasize the broader concept of benefits in economic activities including market mechanisms, based on maslahat activities and based on justice for all parties. Simply put, the principles of justice, avoiding prohibited activities and benefit considerations characterize Islamic economic concepts, including in the market and in determining the level of prices in them. In the context of the Islamic market mechanism sharia principles are reflected in the form of values. Therefore, the Islamic economic system in the market is intended not only for Muslims, but applies to all market participants and their environment.

Referring to the explanation and scope, then in the value-based Islamic microeconomics, the type of market is not only divided into perfect competition, monopoly markets, oligopoly and monopolistic markets. However, in the type of market economy sharia is also distinguished from the types of products traded, namely the market for illicit goods and the market for halal goods. If in a conventional economy, this tends to have no affirmation, then in the Islamic economic market all goods that are traded must be legal goods from all aspects.

In Islam, the market mechanism is highly valued by the Prophet Muhammad and becomes something that is *sunnatullah* (Sukamto, 2012, p. 19). At the beginning of the development of Islam, the market was an economic foundation that played an important role. This is evidenced by several facts where the Prophet Muhammad in his childhood to adolescence was a reliable economic actor. He is an expert and economic actor who puts the Islamic economic system that is universal and is able to respond and adapt to the economic system before and after it. The response and adaptation of Islamic economics to the previous economy (pre-Islam) is evidenced by the adaptation of the economic system such as: mudharabah, musyarakah, murabahah and others. Whereas the economic system of the period after it is proven by being able to perfect the economic systems that exist at this time, such as: capitalism, socialism and liberalism. In the context of the market mechanism in market pricing, the role of the Prophet was shown as a market supervisor (*muhtasib*), in order to ensure that the market runs and takes place fairly for market participants.

In a condition, the Prophet once refused to intervene in the market or make a price policy during the process of the increase occurred suddenly and occurred due to the factors of pure market demand and supply, which were not triggered by other factors that were beyond the normal limits. The principle is that market intervention in Islam can only be done if there is a change in the price level that is influenced by things that are out of the ordinary, such as the occurrence of market distortions and so on. This is because referring to the Prophet's hadith, the market mechanism in Islam is a natural system. At this point, a glimpse of the Islamic market mechanism is the same as the market mechanism in conventional economics. It's just that if we examine more deeply, in conventional economics market prices are merely left to the market mechanism without any market intervention under any conditions or in conventional economic terms known as 'let the market decide' (Ballou, 2001, p. 1). It is at this point that the basic difference between Islamic and conventional economics lies. If in a conventional economics, the market is freed freely in determining the price level in the market. In contrast, in Islamic economics, the market intervention is permissible and even recommended to be carried out during the intervention if the changes in market prices are triggered by the actions of market actors who are not in accordance with Sharia values, which aim to prevent those who are disadvantaged. This in Islamic economics is called the realization of benefit. The action of intervention is done because in Islam the market is a collective power which is the provision of Allah SWT. Violations of market prices, for example pricing in inappropriate ways and reasons is an injustice that will be accounted for before Allah SWT. Conversely, market participants who conduct transactions at fair prices are likened to people who strive in the way of Allah SWT.

Another thing that is most important in the process of pricing in an Islamic market mechanism is the existence of a price agreement based on the value of liking, or in terms of Islamic microeconomics known as the principle '*Antaraddin Minkum*' (Mutual Goodwill). With this principle, it is expected that market mechanisms can provide benefits to market participants. From a philosophical standpoint, these values and principles encourage market players (both producers and consumers) to obtain the expected value of benefits for the price incurred. For example: Manufacturers who sell products with good quality and satisfying, then they will get a price value that is appropriate for the quality of the goods they produce. Conversely, consumers also get satisfaction and benefit values for the goods obtained, so that the price spent is balanced with the value of benefits and satisfaction obtained. In short, with it producers will compete to produce quality products and provide satisfaction and value for their consumers. At this point, producers will focus more on strengthening production factors that can improve the quality of the products produced, rather than focusing on pricing. Because in Islam, price is an impact (outcome) on the quality of the product (output) produced. The better the quality of the product produced, the more it will have an impact on the price level that the producer gets.

Seeing its development since the era of the Prophet, friends and afterwards related to the supervisor of market mechanism activities. In the era of the Prophet, he himself controlled the market mechanism and intervened if there were things that were out of the ordinary regarding the determination of the price level. History records that as an expert and economic practitioner in his day, the Prophet knew that there were many acts of merchants at that time who tried to get more profit in an unfair and unhealthy way, so as to harm consumers. Under these conditions, the Prophet functions as a state authority in stabilizing prices by intervening in the market.

Following up so that these incidents did not occur in other Muslim areas, then institutions began to be formed which were given the authority to be able to minimize and even eliminate market fraud and distortion practices that disrupted the market mechanism. This institution was later known as *al-Hisbah* (Abdullah, 2015, p. 31). In the era of the Prophet, this institution was originally called the *Wilayat Hisbah*. Furthermore, the institution that functions as a market supervisor then continues its role and function in the era of friends of Abu Bakr al-Siddiq, Umar bin Khattab, Uthman ibn Affan and ‘Ali bin Abi Talib (*Khulafaur Rashidin*). However, the naming of *Wilayat Hisbah* was subsequently changed to the *Hisbah* in the era of this friend, which continued until the Umayyad and Abbasid periods. If during the time of the Prophet and Abu Bakr there was no delegation of duties as the authority carrying out the Hisbah, then in the era of Caliph Umar Ibn Khattab, he began delegating his role as the authority who ran the Hisbah to Said bin Yazid, Abdullah Bin Utbah and Umm al-Syifa. In the era of 'Umar also, the division of judicial authority was clearly separated by the existence of *Wilayat al-Aqdha, Wilayat al-Mazalim and Wilayat Hisbah* (Mazkur, n.d., p. 148). Along with the times, changes in place and time, the role of the *Hisbah* institution has also expanded, from just market supervisors to the legitimacy of taking legal action against market destroyers. In Indonesia, the role of the goods and services market supervisory authority is then given to the Ministry of Trade, while the financial market is given to the Financial Services Authority (*OJK*). The two institutions were created in order to realize the same goal as *Wilayat Hisbah* and *Hisbah*, that’s to realize fair market conditions so as to create an agreed price point that brings goodness to all parties.

D. Conclusion

Based on the discussion above, we know that in Islamic microeconomics changes in price levels in markets are not solely given to the strength of demand and supply alone, where there are many opportunities for market players to be able to commit fraud that can affect price levels as in conventional economics. In Islamic economics, market intervention for the purpose of stabilizing prices in the market becomes an advantage, and even necessity when prices in the market change due to factors that are out of the ordinary.

Another thing that distinguishes Islamic economics in the context of determining the price level in the market is the spirit or value underlying the power of demand and supply in the market. Producers in terms of bidding power are encouraged to be able to create quality products and provide benefits and satisfaction to their customers. Conversely, consumers are also given the appropriate rights for the price they incur for a product they buy. This is what then the Islamic economics embodies justice for all parties in the market.

Islamic economics also does not provide space for market players to carry out market distortion actions to influence the level of prices in the market by implementing supervisory and enforcement institutions related to economic activities, such as: *Wilayat Hisbah, Hisbah*, to the Ministry of Trade and the Financial Services Authority in the current context in order to realize justice for all market participants, who in the end can realize prosperity in a broader context.

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