

Market Mechanisms and Market Distortions in the Perspective of Islamic Economics

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ABSTRACT

Previous studies on market mechanisms and market distortions according to Islamic economics in imperfect markets on Monopoly and Oligopoly markets were the subject of this study. This research uses descriptive qualitative methods; the authors use descriptive data such as words or a library survey of the research. The results show that the Islamic economy wants market mechanisms free of government intervention. According to Islamic economics, market mechanisms and pricing must be regulated to maintain market balance and economic justice, taking into account the interests of each party.



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INTRODUCTION

Basically, Islamic economics demands a market mechanism that is free from government intervention. A fair and just price, also known as a just price, is a price obtained based on the forces of supply and demand. The market, government, and individuals have the same relationship. However, in reality, a fair and violence-free market often does not occur. As a result, Islamic economics emphasizes that market mechanisms and pricing must be regulated to uphold market balance and economic justice by considering the interests of all parties involved in the market. Market distortion is a type of deviation that causes imbalance and injustice in the market, which must be regulated by the authorities through the implementation of intervention policies.

In Islamic economics, market distortion is defined as a disruption in the market mechanism. This can occur due to demand and supply factors, market structure problems, externality problems, and public goods problems. (Maharaja, 2022).

METHODS

This journal aims to analyze economic analysis that experiences market distortion in the current monopoly and oligopoly markets. The author analyzes from the perspective of Islamic economics. Market distortion, the deviant effects of market mechanisms, are explained in this journal. This journal uses a descriptive qualitative approach. Where the author uses descriptive data in the form of words or book reviews, this qualitative method is used by the author when collecting his data. In other words, the author analyzes previous data with updated data. The author of this study uses publications or literature reviews, also known as library research, to collect data.

FINDINGS AND DISCUSSION

1. Perfect Competition Market and Imperfect Market

The market is the center of the economy of the upper and lower classes. The market has all aspects of the economy, from production, distribution, and consumption. Basically, producers and consumers will be involved in activities carried out in the market. Each of them contributes significantly to the formation of market prices. (Hakim, 2017). According to capitalist (classical) economics, the market plays a very important role in the economic system. Capitalist economics requires a free market to solve economic problems such as production, consumption, and distribution. The capitalist motto "let it do and let it run, the world will take care of itself" is "let it do and let it run." (Wijaya et al., 2020).

Automatic market pressures and illegal actions of sellers, such as hoarding, are two components that differentiate supply and demand. Intensity is another factor that influences supply and demand. Ibn Khaldun (1332–1404) explained the mechanism of supply and demand in determining equilibrium prices. In more detail, he discussed the impact of competition among buyers in obtaining goods that are tailored to demand. Furthermore, he discussed the impact on the supply side of rising production costs due to taxes and other city levies. Ibn Khaldun also discussed how increases and decreases in supply affect prices. (Yusuf & Taymiyah, n.d.)

Abu Yusuf was a fuqaha who lived during the time of the caliph Harun Ar Rasyid from 731 to 789 H. He was the first person to specifically talk about economic policy, including observing how price changes affect production and sales. According to Abu Yusuf, the Islamic economic system must follow the principles of market mechanisms and provide optimal freedom for its actors, namely producers and consumers. (Sopiandi et al., 1978).

In Ihya' "Ulumuddin", Abdul Hamid Al-Ghazali, who lived from 1058 to 1111, he explains how markets developed. A market is a place where manufactured products are stored for exchange or sale to those who need them. Al Ghazali recognized the difficulties of the barter system, which required specialization and division of labor based on regional and local resources. In addition, he understood the importance of trade in adding value by providing time and space. Markets then emerged to facilitate exchange to meet these needs. (Yusuf & Taymiyah, n.d.)

According to capitalist (classical) economics, markets play a very important role in the economic system. Capitalist economics wants free markets to solve economic problems such as production, consumption, and distribution. The motto "Laissez faire et laissez le monde va de lui meme" – let it do its thing and let the world run itself – is very important. (Wijaya et al., 2020) Market can be defined as the relationship between demand and supply of goods and services. From the perspective of buyers and sellers, markets can be divided into two: perfect competition markets and imperfect competition markets. (Wijaya et al., 2020)

A perfectly competitive market is an industry where no single seller or buyer can influence the state of the market. For this type of market, the characteristics are as follows: (Wijaya et al., 2020) 1) firms are price takers, 2) each firm can easily enter or exit the market, 3) produces similar goods, 4) there are many firms in the market, 5) buyers have perfect knowledge about the market.

From Ibn Taimiyah's opinion above regarding market mechanisms in Islam, (Wijaya et al., 2020) It can be concluded that there are several characteristics, including: people must be free to enter and exit the market, sufficient information about the goods and market power is needed, so that there is no collusion between sellers and buyers, monopolistic elements must be removed from the market, when there is product counterfeiting, fraud, or fraud in marketing, homogeneity and standardization of products are highly recommended, and any deviation from honest economic freedom, such as false oaths, improper weighing, is condemned by Islamic teachings.

Table 1. Imperfect Market Competition Consists

No	Advantages of Perfect Competition Market	Disadvantages of Perfect Competition Market
1.	There is no competition in this market because the products sold are homogeneous or similar	There are no funds to conduct research or product development so that innovation is very minimal

2.	Sellers do not need to advertise for promotio	Buyers experience limitations in choosing goods or services because the products sold are the same and the quality is the same
3.	The price of goods and services sold is determined by all sellers and buyers simultaneously and generally the price tends to be stable	Workers tend to receive low wages or salaries
4.	Prices are based on bargaining transactions between sellers and buyers	here is often an imbalance in the distribution of income from each producer which results in a conflict of justice
5.	Sellers and buyers act freely in transactions.	
6.	Able to encourage efficiency in production	

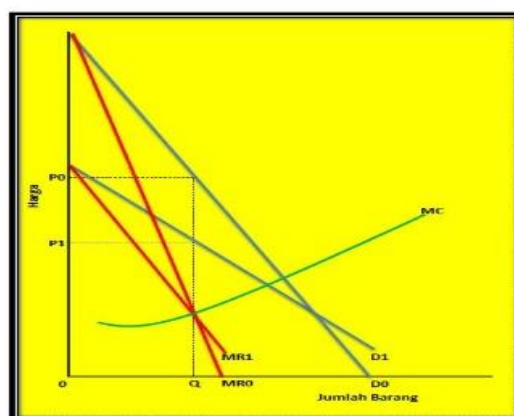
Source: secondary data processed, 2024

Meanwhile, imperfect market competition consists of monopoly market, oligopoly market, and monopolistic market. According to the anti-monopoly law, monopoly is control over the production, marketing, and use of certain goods and services by one business actor or one group of business actors. "Monopoly" comes from the Greek word "monos polein", which means "selling alone". Therefore, experts argue that a monopoly occurs when one company makes and sells products from the entire industry. (Wijaya et al., 2020). The monopoly market structure is a market structure that is contrary to the perfect competition market. Monopoly is a company that produces goods that do not have very close substitute goods or can be said to be a form of market where there is only one company. (Taufiqurrahman & Taufiqurrahman, n.d.).

a. Monopoly Market

Sadono Sukirno (1997) explains the characteristics of a monopoly market that are different from a perfect competition market, the characteristics are as follows: a) If buyers want the goods, they must buy from the company because they have no other choice, the monopoly determines the terms of sale completely. Because the monopoly market is a one-company industry, b) Substitute goods that are not owned by a company. Electricity is one example of a good that does not have a similar substitute, c) To enter the industry/market There is no possibility. There are several forms of barriers to entering the market There are several forms of barriers to entering the monopoly market, requiring sophisticated technology and large capital, and there are obstacles that can be in the form of laws, d) Monopoly companies are seen as price setters, so they can control prices, e. Advertising is not needed. (Taufiqurrahman & Taufiqurrahman, n.d.). Basically, monopoly is not prohibited in Islamic economics. Anyone can do business or try, regardless of whether he is a monopoly or there are other sellers. The important thing is not to violate Islamic values. (Amin et al., 2021)

Picture 1. Absence of Supply Curve

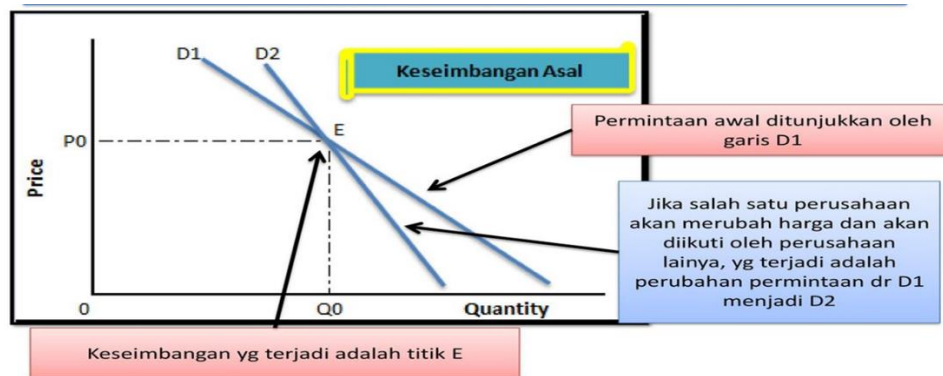


Source: webpage accessed on July 30, 2024

b. Oligopoli Market

Simply put, Nainggolan (2005:110) defines an oligopoly market as a market that controls the market so that the actions of one producer will affect the policies of other producers, both in determining prices, production capacity and product quality in which there are several producers/companies (2-10 producers). It is the middle ground between a monopoly market and a monopolistic market, perhaps that is what can be defined as an oligopoly market. (Taufiqurrahman & Taufiqurrahman, n.d.).

Picture 2. Kinked Demand Curve



Source: webpage accessed on July 30, 2024

2. Types of Market Distortion in Islamic Perspective

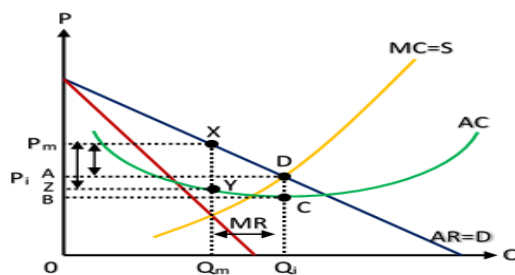
Market distortion is a type of deviation that causes imbalance in the market, which must be regulated by the authorities through the implementation of their intervention policies. Market players often carry out this market distortion to gain quick profits at the expense of other parties. (Vitadiar et al., 2023) On the one hand, market distortions can benefit one party, but can also harm the other party. Crime factors arise as a result of the meeting of supply and demand, such as natural disasters, weather, and others that can be prevented or avoided by humans. This can also cause market distortions, such as Demand Engineering and Supply Engineering, which include (Maharaja, 2022) including: 1) Ikhtikar, 2) Talaqqi Rukhban, 4) Bai' Najasy, 5) Tadlis, 6) Taghrir/Gharar and 7) Risywah.

a. Ikhtikar

In Islam, anyone can do business without having a monopoly or hoarding. On the other hand, ihtikar means hoarding goods for speculation, so as to gain a greater profit than normal profit, or selling only a few goods to get a higher price, so as to gain a greater profit than normal profit. (Hakim, 2017). The practice of ihtikar aims to build itself through the judgment of others. only oriented towards personal interests, while other people are starving, when many people need the goods, it becomes cheaper to buy when the price goes up. (Ridwan et al., 2021)

As the market distortion curve "Ihtikar" can be seen below:

Picture 3. Monopoly's Rent Seeking Behaviour



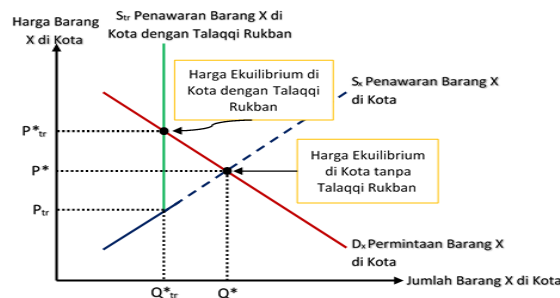
Source: webpage accessed on July 30, 2024

b. Talaqqi Rukhban

It is a trading activity by intercepting village traders who bring their harvest or merchandise on the road before entering their place of sale to sell their goods at the market. These village traders do not get information about the current market price conditions, so traders often feel at a loss. This is what causes injustice and fraud by city traders who do not provide information on the actual prices that occur in the market. (Maharaja, 2022). Traders can lose money because of this. The Talaqqi Rukhban buying and selling system prevents traders who want to sell their merchandise at the market but do not have accurate market price information. This is done because traders do not know the market price and do not have accurate price information. (Beli et al., n.d.)

As the Talaqqi Rukhban market distortion curve can be seen below:

Picture 4. Market Equilibrium with Talaqqi Rukhban



Source: webpage accessed on July 30, 2024

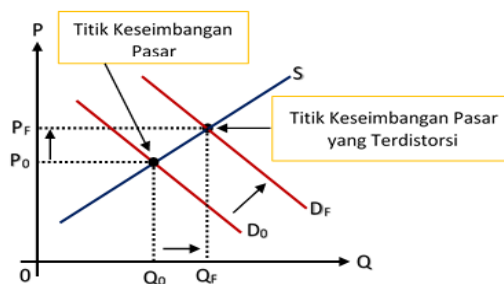
c. Bai' Najasy

In the najasy business, someone pretends to bid on goods being traded with the aim of increasing the price of the goods so that other people are willing to buy at a higher price. "Don't make offers of goods without the intention of buying," said a hadith from HR. Tirmizi. In the secondary market, Bai' Najasy operates in the form of Cornering-Cornering, which means operating in groups or investors who create share prices that are not real or false. This activity is carried out with the aim of raising share prices with the aim that investors can sell them. Not only that, they will take big profits if the stock goes down. Apart from that, there is also a wash sale, which is an unlawful trading activity where investors buy and sell shares through two different brokers. They didn't do anything. They deliberately carry out fake transactions to deceive the market. Investors are deceived by these false actions. According to Qardhawi in Islamic economics, Bai' Najasy is prohibited. (Maharaja, 2022).

Bay Najasy is buying and selling carried out by praising goods or raising the price of merchandise excessively, without the intention of selling or buying the goods, only to trick other people into buying at the increased price. (Syukriyyah et al., n.d.)

As Bai' Najasy's market distortion curve can be seen below:

Picture 5. Bai' Najasy (False Demand)



Source: webpage accessed on July 30, 2024

d. Tadlis

This concept includes acts of fraud that are considered haram in Islam because they involve principles that are prohibited by the religion. As a result, sellers must be careful when selling goods to buyers. (Ridwan et al., 2021) Tadlis occurs when one party does not know the true situation, so the party who knows the information takes advantage of the situation to gain an advantage by deceiving the party who does not know. This condition is caused by incomplete information. Quality, quantity, price, and time of delivery are all factors that can cause a discrepancy. There is dishonesty between the parties to the transaction that causes this tadlis. (Maharaja, 2022)

e. Taghrir/Gharar

Gharar means consequences, disasters, dangers, risks, and uncertainties. Gharar in Islam means doing something carelessly, without seeing or realizing the possible consequences, and without considering the consequences and resolving them yourself. A sale and purchase that contains uncertainty or ambiguity is called gharar. (Maharaja, 2022)

In gharar, the goods sold are unclear, and payment is ambiguous because there is no information about when payment should be made. (Ridwan et al., 2021) The interest rate set is a type of gharar that exchanges obligations between one party and another, and can be seen from the interest system charged on every banking transaction, both loans and deposits. (Syukriyyah et al., n.d.)

f. Riswah

According to the Indonesian Ulema Council (MUI), bribery or risywah is defined as a gift given by one person to another person (an official) with the intention of passing off an act that is invalid (not lawful according to sharia) or invalidating an act that is lawful. (Pujiyanto, 2015) Risywah is something (gift) given to someone to cancel something that is right (true) or justify something that is false. According to Ali bin Muhammad asSayyid as-Sarif al-Jurjani, Risywah is something given to someone so that the person who is given it gives punishment in a false way or so that he does injustice. However, Ibn Abidin Rohimahulloh said that risywah is when someone gives something to a judge or another party so that they decide something that benefits him or so that they can fulfill their desires. (Maharaja, 2022)

3. Internal and External Factors: Causes of Market Distortion

The market determines prices and production, so there is no disturbance that disturbs the market balance. However, in reality, it is difficult to find a market that can operate fairly. In such a situation, it is called market distortion. This often happens and can harm the main actors or roles of the market. Talking about the market mechanism above, it should be remembered that the Islamic economic system has values consisting of norms and rules taken from the Qur'an and Hadith. (Maharaja, 2022).

Market players often do this market distortion to gain quick profits at the expense of others. This causes imbalance and injustice in the market. Good for one party but bad for the other party. Conditions can change due to some market injustice practices. (Hakim, 2017) If the economy runs naturally without government intervention, there is an invisible hand that will bring the economy to equilibrium. If the government intervenes too much, the market will be distorted, which will cause inefficiency and imbalance (non-equilibrium). (Wijaya et al., 2020).

First, there are parties who intentionally engineer Demand and Supply Engineering, perhaps *ikhtikar* or *bai' najasy*. Second, there is *tadhliis* (unknown by one party) and *taghrir* (unknown by both parties). If this happens, the government must intervene to improve conditions or eliminate the causes of market failure. (Hakim, 2017). This condition causes prices to be in a state of imbalance, where the meeting of supply and demand occurs due to crime factors rather than natural factors that cannot be avoided by humans, such as natural disasters and weather. Caused by criminal acts of a person or group of people in the market that cause market distortion, some actions are unnatural.

If there are indications of market distortion, the government must intervene in the issue of certain commodity prices. However, if otherwise, the government is expected to act as a supervisor and initiator of economic development, one of the instruments is the market. To deal with market distortion, the government can create healthy competition and make various policies to ensure that

the market remains stable.(Vitadiar et al., 2023) The method of controlling and overcoming the impact of this distortion must be in accordance with its source, according to Islamic economic theory. If the cause is a change in the original demand and original supply, market intervention is used to complete the control stage. Conversely, if the cause is a distortion of the original demand and original supply, control is carried out through the elimination of the distortion, which includes price intervention to return prices to their pre-distortion conditions..(Vitadiar et al., 2023)

In the contemporary context, the development of information technology has revolutionized many sectors of life, including education and trade. As explained by Rahman (2024), "The development of information and communication technology has significantly changed the landscape of education, expanding the scope of learning and providing more effective tools for imparting knowledge." The same is true in the economic sector, where digitization has enabled new and more complex forms of market distortion that are difficult to monitor, such as digital hoarding and algorithmic speculation (Rahman, 2024).

Automatic market pressures and illegal seller actions, such as hoarding, are two components that differentiate supply and demand. Other factors that affect supply and demand include the intensity and magnitude of demand, the scarcity or abundance of goods, the state of trust, and lower cash payments. The demand for goods changes frequently. The quantity supplied, the number of people who want it, and the strength and magnitude of the need depend on these changes..(Yusuf & Taymiah, n.d.)

To realize an ideal market, two components must be present. First, the price of the commodity must be competitive so that everyone can buy it. Second, there is no monopoly, oligopoly, or cartel in a particular commodity that can cause market distortion. In other words, the existence of several traders in a particular commodity is not prohibited as long as they do not take a greater profit than the normal profit or price of the commodity.(Vitadiar et al., 2023)

CONCLUSION

This journal aims to analyze the economic analysis that experiences market distortion of securities in the secondary market today. The author analyzes from the perspective of Islamic economics. Market distortion, the deviant effect of market mechanisms, is explained in this journal. This journal uses a descriptive qualitative approach. In cases where the author uses descriptive data in the form of words or literature reviews (library research). The author uses this qualitative approach to define market distortion in Islamic economics as a disruption to the way market mechanisms function. Market supply and demand factors, market structure problems, externality problems, and public goods problems cause this problem. The author finds a case of monopoly, which is a market distortion caused by the market structure market.

However, externality and public goods problems, namely distortion of supply and demand, continue. Because of market distortion, efforts to optimize economic activities fail. In Islamic economics, market distortion is centered on the moral values of producers and consumers, who act as sellers and buyers. Therefore, market distortion must be in accordance with the values contained in the Qur'an and Hadith. Market distortion in Islam is divided into six types: Ikhtikar, Talaqqi Rukhban, Ba'i Najasyi, Tadlis, Taghrir, and Risyawah. However, what happens in Indonesia is market monopoly and the application of complicated data collection methods.

So, it is easy to understand that Islamic law can change according to the times. There is no mechanism of mutual oppression in the interaction between supply and demand, which is based on the courage of each party. Basically, Islam highly values the market trading mechanism. According to the Islamic economic view, the market mechanism must be free, fair, and just, and no party should interfere with it.

A fair and just price, also known as a fair price, is a price obtained based on the forces of supply and demand. The market, government, and individuals have the same relationship. However, in reality, a fair and violence-free market often does not occur. As a result, Islamic economics emphasizes that market mechanisms and pricing must be regulated to uphold market balance and economic justice by considering the interests of all parties involved in the market.

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