

ISLAMIC MANAGEMENT

Equity	Notes on Islamic Management
Assets	Taught by Shaykh Aadil Rajput Notes taken from Knowledge International University Total number of Sessions: 26 Version: 2.0 / Last updated Date: 8-June-2013 Concerns/suggestions to er.umarshariff@gmail.com

TABLE OF CONTENTS

COURSE OBJECTIVE.....	5
CHAPTER 1: INTRODUCTION	6
COURSE OVERVIEW	6
WHY DO WE STUDY MANAGEMENT?	6
ISLAMIC PERSPECTIVE.....	6
TYPES OF KNOWLEDGE	6
<i>Knowledge of Ibaadah</i>	6
<i>Knowledge of Mu'aamalat</i>	6
PREREQUISITES.....	6
WHAT IS MANAGEMENT?	7
CHALLENGES IN STUDYING MANAGEMENT IN ISLAM	7
WHAT MANAGEMENT ENTAILS?	7
METHODOLOGY	8
CHAPTER 2: ORGANIZATION AND CULTURE.....	9
DEFINITION	9
ORGANIZATION CULTURE AND VALUES.....	9
DESIGNING AN ORGANIZATION	10
<i>Three lenses for analyzing the organization</i>	10
<i>Components of Strategic Organizational design</i>	10
PATTERNS IN ORGANIZATIONAL DESIGN	10
<i>Elements</i>	10
<i>Structures</i>	11
Functional Organization Pattern.....	11
Geographical Organization pattern.....	11
Product pattern organization	11
Matrix Organization	11
Front-Back Organization.....	11
HOW TO ACHIEVE GOALS?	11
CHAPTER 3: LEADERSHIP	13
LEADERSHIP IN SIMPLE TERMS	13
GUIDING PRINCIPLES	13
<i>Vision</i>	13
<i>Mission</i>	13
DIFFERENCE BETWEEN LEADER AND MANAGER	13
JOB DESCRIPTION OF A LEADER	13
DEFINITION OF LEADERSHIP	13
CHARACTERISTICS OF A LEADER.....	13
QUALITIES OF A LEADERSHIP	14
HOW DO PEOPLE EMPOWER?.....	14
LEADERS SHOULD BUILD LEADERSHIP	14

THEORIES OF LEADERSHIP	14
<i>Trait Approach</i>	14
<i>Learning Theory</i>	14
<i>Islamic Theory</i>	15
SELECTION OF A LEADER	15
<i>Emergent Leader</i>	15
<i>Prescribed Leader</i>	15
<i>Task oriented/Autocratic Leader</i>	15
<i>Democratic Leader</i>	15
ISLAMIC CHARACTERISTICS OF LEADERSHIP	15
<i>Strength and Trust</i>	15
<i>Tawakkul</i>	15
<i>Communication</i>	15
<i>Role Model</i>	16
<i>Eagerness to learn</i>	16
<i>Fairness and Justice</i>	16
<i>Humbleness</i>	16
CHAPTER 4: MARKETING	17
4 P'S OF MARKETING.....	17
THE NEED AND WANT	17
<i>Consumer need</i>	17
THREE CONCEPTS OF MARKETING.....	17
<i>The production concept</i>	17
<i>The selling concept</i>	17
<i>The marketing concept</i>	17
SEGMENTATION, TARGETING AND POSITIONING	17
CONSUMER BEHAVIOR.....	18
<i>Psychological Model</i>	18
<i>Economic model of preference</i>	18
FACTORS AFFECTING COMPETITION.....	18
CHAPTER 5: STRATEGIC MANAGEMENT.....	19
STRATEGY.....	19
STRATEGIC MANAGEMENT.....	19
MICHAEL PORTER'S THEORY.....	19
<i>Competitive position</i>	19
<i>Industrial structure</i>	20
<i>Concept of Value Chain</i>	20
<i>How do we compete?</i>	20
RESOURCE BASED VALUE FRAMEWORK.....	20
DELTA MODEL	21
<i>Product Differentiation</i>	21

<i>Total Customer Solution</i>	21
<i>System Lock in</i>	21
COMPARISON OF THREE MODELS	22
CUSTOMER SEGMENTATION	22
CHAPTER 6: FINANCIAL MANAGEMENT	23
WEALTH.....	23
FINANCIAL CONCEPTS	23
<i>Assets</i>	23
Long term Assets.....	23
Short term Assets or current assets.....	23
<i>Liabilities</i>	23
<i>Equity</i>	24
<i>Capital Market</i>	24
<i>Risk vs Return</i>	24
<i>Financial Intermediary</i>	24
<i>Resources</i>	24
Debt	24
Equity	24
SUPPLY VS. DEMAND CURVE.....	25
MONITORY POLICY	25
PRESENT VALUE OF MONEY OR TIME VALUE OF MONEY.....	25
<i>Net Present Value:</i>	25
<i>Required Rate of Return</i>	26

Course Objective

- To study management in the guidance of Qur'aan and Sunnah
- How Islaam addresses the topic?
- What should be methodology student should adopt to gain this knowledge?
- To study the knowledge of Management which Allaah gave to humans i.e., Muslims and non Muslims
- To provide side by side comparison of Management concepts that are implemented in the west

Chapter 1: Introduction

Course Overview

There may be different areas of Management like Finance, Economy and so on. However, most important part is to manage

Why do we study Management?

- It is an universal knowledge
- It affects us at personal level, social level, professional life, national level, international level and so on
- This field affects you implicitly but you do not realize it. For eg.: We have system of Salah. Right from the beginning, from childhood, we were doing the time management
- How to manage our relationship?
- How to manage our communication?

Islamic perspective

- (Qur'aan 47:24)
- We should continue to innovate in worldly things
- Story of Ibrahim breaking the idols
- Hadeeth of the Prophet where he told "You know worldly affairs better than me.."

Types of Knowledge

Knowledge of Ibaadah

- Tawqifeeyah (revealed)
- Allaah gave preference to Aadam over Angel through knowledge

Knowledge of Mu'aamalat

- Whatever knowledge we have is from Allah
- Sometimes people may have knowledge but not knowing how to apply that makes the knowledge fruitless

Prerequisites

- No explicit prerequisites
- It is highly recommended that you have studied Usool al Fiqh, Qawaaid al Fiqh, Maqaasid ash Sharee'ah

What is management?

- **Definition 1:** Management in all business and organizational activities is the act of getting people together to accomplish desired goals and objectives using available resources efficiently and effectively.
 - For example, Prophets took the message of Allah to people which is the desire goal (Qur'aan 74:1-5)
 - Use the resources efficiently and effectively: Hadeeth of five before five; Prophet told Use your free time before you become busy
 - Management comprises of planning, organizing, staffing, leading or directing, and controlling an organization (a group of one or more people or entities) or effort for the purpose of accomplishing a goal
- **Definition 2:** The organization and coordination of the activities of an enterprise in accordance with certain policies and in achievement of defined objectives
 - Countries/organization works based on policies
- **Islamic Definition:** "Application of Management Principles in the light of Quran and Sunnah"

Challenges in studying Management in Islam

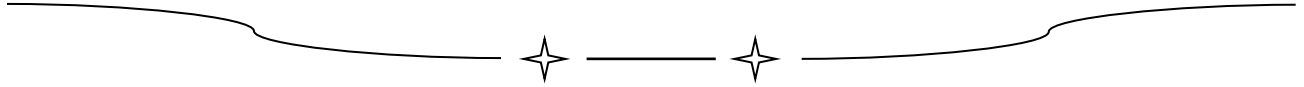
- Field of Management started in the 16th century when Muslims were already entered a state of decline
- Islamically, it started from the time of the Prophet. Umar continued it from Abu Bakr and developed number of Systems. However, it was not written down
- The management principles were embedded in other fields and applied in real situations

What management entails?

- Too many areas to list. Examples include
 - Organization and Culture
 - Planning
 - Economics
 - Finance
 - Marketing
 - Leadership and Ethics
 - Public Policy

Methodology

- Sunan Qawniyyah (Universal reality)
 - We have to speak the truth, stopping Thulm, Tawheed and so on
- Sunan Sharaee'yah (Reality based on Sharee'ah)
- We will look both the realities in the course of our study



Chapter 2: Organization and Culture

Definition

- **Organization:** A group of people who come together for a specific purpose
 - Angels are organized which is manifested in their roles and responsibilities
 - Mankind were organized into Shuvuban wa Qabaailah
 - “O mankind, indeed We have created you from male and female and made you peoples and tribes that you may know one another. Indeed, the most noble of you in the sight of Allah is the most righteous of you. Indeed, Allah is Knowing and Acquainted.”(Qur’aan 49:13)
- **Organizational Culture:** The core values of the group of people who belong to a particular organization
 - Eg.: We follow culture of Ibrahim and his family in the Hajj
- We have to look at Islamic culture and Islamic values

Organization culture and values

<ul style="list-style-type: none"> • Tawhid (Qur’aan 6:162, 163) • Unity of Purpose (Qur’aan 51:56) 	<ul style="list-style-type: none"> • Justice
<ul style="list-style-type: none"> • Belief in the hereafter → Reward and Punishment 	<ul style="list-style-type: none"> • Dignity, Respect and Privacy
<ul style="list-style-type: none"> • Independence from everyone except Allaah → Noble behavior and traits • We will speak truth because we fear Allaah 	<ul style="list-style-type: none"> • Trust
<ul style="list-style-type: none"> • Responsibility and Accountability • Prophet said “Whoever interacts with people and bears the problem patiently is better than one who isolates himself from people” 	<ul style="list-style-type: none"> • Dialogue <ul style="list-style-type: none"> • People would come to Prophet they would harsh to him yet he will be kind and have dialogue • Prophet knew that their harshness is not personal rather it is from their fitrah and to attack the risalah • (Qur’aan 16:125) • Prophet said, Allaah hated useless talk and wasting money • Islam is the religion of caring and sharing.
<ul style="list-style-type: none"> • Participation 	<ul style="list-style-type: none"> • Effective use of resources
	<ul style="list-style-type: none"> • Caring and Sharing • Prophet said Muslim Ummah is like one body
<ul style="list-style-type: none"> • Learning/Innovation <ul style="list-style-type: none"> • Allaah gives wisdom to whomsoever He wills. Whoever is given is given a great bounty 	

- | |
|---|
| <ul style="list-style-type: none">• Prophet adapted the idea of Salman al Farsi during battle of Trench |
|---|

Designing an Organization

Three lenses for analyzing the organization

- What is the strategic goal?
- What are the political contexts involved?
- What is the culture?

Components of Strategic Organizational design

- Configuring the formal elements of an organization
 - Structures
 - Processes
 - Relationship
 - Systems
- To achieve formal goals
- In specific environment
- Size of the organization
 - If it is small, it may not have many units and vice versa
- Communication
 - How can we disseminate information across the organization?
- Position of the Organization
 - Amazon was the first one to sell books online. Many companies mimicked the same but they were not successful like Amazon. It is through revamping their goals, process and so on

Patterns in Organizational design

Elements

- **What** is the strategy?
- **Why** does it exist?
- **Who** is part of it?

- **How** to achieve the goals?

Structures

Functional Organization Pattern

- Under CEO, we divide organization into different functions
- You will get an in depth knowledge in that area you are working with
- Decision making will be difficult as it lies with the people at the top

Geographical Organization pattern

- Like Airlines operating in different parts of the world

Product pattern organization

- They divide their organization based on different products like Acura, Honda.
- You will be focused on one particular product/geography
- Reaction time for complaints is quick
- There will be lot of duplication in this model. Marketing group of Acura will be doing the same thing like marketing group of Honda

Matrix Organization

- Merging the above mentioned organizations
- It is taking functional organization and merging it with product pattern
- Left side, all the products will be listed. In the columns, functions will be listed
- It is an extremely complex organization to run
- It will lead to dual reporting structure which is very frustrating for employee

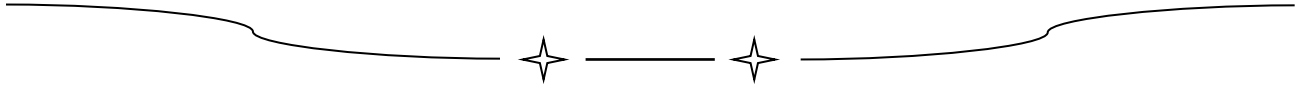
Front-Back Organization

- Eg. University. Teachers will be in forefront and people who support it like admin staffs will be in back end
- Very clear delineation so that people can focus on what their doing
- Communication between front and back end is a challenge

How to achieve goals?

- Unitary means one reporting structure
- Dual means having two reporting structure

- In an matrix organization, you need an integration manager to integrate all the information that has to be passed to the employee



Chapter 3: Leadership

Leadership in simple terms

- Understanding the vision, directing and enabling others to cooperating in achieving that vision

Guiding Principles

- Eg.: We believe in respect for our employees

Vision

- What we strive for?

Mission

- Why such particular organization exist

Difference between Leader and Manager

- Leader is the one who inspires other people whereas manager's task is more operational.
- Leader helps the manager to complete the operations

Job Description of a Leader

- To bring people together to accomplish certain goal
- To inspire people
- Good leaders surrounds himself with Winners
- To take people to greater heights
- Working with people to explain what/why to be accomplished (Communication skill)
- Empower others

Definition of Leadership

- "Leadership that pulls together people with diverse talents, backgrounds, experiences and interests, encourages them to step up to responsibility and continued achievement, and treats them as full scale partners and contributors.
- Leadership is not about memorising techniques or devising the perfect game plan. It is about really paying attention to people – really believing them, really caring about them, really involving them." (Peters & Austin, 1985)

Characteristics of a Leader

- Ability
- Knowledge
- Experience
- Personality

Qualities of a Leadership

- Action speaks louder than words
- “Enable direction and structure by the group
- A clear vision
- Charisma
- Enable motivation and enthusiasm
- Make a difference
- People-oriented skills
- Skilful communicator
- Build character
- Empathy” (McConnell, 2000)
- “Vision and passion
- Strong communicating skills
- Role model
- Have integrity and honesty
- Be organised” (Trenberth and Collins, 1994)

How do people empower?

- Good leader should make people empowered
- “A good leader inspires people to have confidence in their leader.
- A great leader inspires people to have confidence in themselves”

Leaders should build leadership

- Prophet built Abu Bakr, Umar and many companions
- Leader should set precedent which will be followed by followers sub consciously
- Culture starts adopting behavior of the Leader

Theories of Leadership

Trait Approach

- Leaders are always born
- West normally disagrees with this idea
- They believe Leaders are born into an environment

Learning Theory

- Social Environment decides whether a person is going to become a leader
- Rigorous re-enforcement

Islamic Theory

- Allah says whoever is given a wisdom is given more
- Allaah says we have opened faham for Sulaiman
- If you have a leadership capacity, you have to understand it is what Allaah gave to you
- Islamic position is both the concepts are possible

Selection of a Leader

Emergent Leader

- Person comes from people themselves

Prescribed Leader

- People comes from outside
- Eg.: Prophet is both emergent and prescribed leader. He was one among the Quraysh but he is a prophet to the humanity

Task oriented/Autocratic Leader

- Person who takes decision for the people have little input from them
- It is required when there is no time to take input but have to make quick decisions

Democratic Leader

- He takes care of input of all people
- Eg.: Prophet accepted the advice of Salam al Farsi in Battle of Trench
- Eg.: Sulaiman took the input of Hud Hud
- Prophet played both kind of leadership

Islamic Characteristics of Leadership

Strength and Trust

- “...Strong and can be trusted”
- It can be physical strength like Taalut was made a king because of it
- It can be strength of character

Tawakkul

- Strong resolve
- Eg.: Prophet was giving promise of jewels of Caesar will be given to Suraqah ibn malik when he was chasing him in danger in the desert during Hijrah

Communication

- “Invite to the way of your Lord with wisdom and good instruction, and argue with them in a way that is best. Indeed, your Lord is most knowing of who has strayed from His way, and He is most knowing of who is [rightly] guided.” (Qur’aan 16:125)

Role Model

- “There has certainly been for you in the Messenger of Allah an excellent pattern for anyone whose hope is in Allah and the Last Day and [who] remembers Allah often” (Qur’aan 33:21)

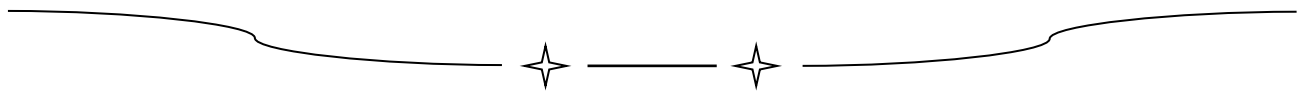
Eagerness to learn

- Musa wanted to learn from Khidr

Fairness and Justice

Humbleness

- Prophet said “Whoever is humble to Allaah, Allah will get him to rise in the eyes of people”



Chapter 4: Marketing

4 P's of Marketing

- Product
- Price
- Promotion
- Place

The Need and want

- Is the product absolutely needed? This is more of essential
- Is the product desired for? This is more of luxury

Consumer need

- Tawheed is the need of every humans
- Prophet said "Every child born in Deenul Fitrah..."
- It is almost impossible to predict precisely how consumer is going to behave
- However, targeted marketing is always effective
 - Prophet answering in different ways for the same question based upon the questionnaire
- Sometimes people do not understand their own needs. Job of marketing is to make people realize their needs
 - What products are common today, those were unheard of 15 years ago?
 - Ipad, smart phones, ebooks and so on

Three concepts of marketing

The production concept

- Consumers will buy goods that are widely available and inexpensive; focus is on improving efficiency in production & distribution

The selling concept

- Consumers will not buy enough of your product if you leave them alone; focus on advertising & contact with potential customers

The marketing concept

- Consumers will buy your products if you identify their needs & satisfy those needs better than competitors

Segmentation, Targeting and Positioning

- We identify the need of the consumer → We identify what he is looking for → We position ourselves
- Segmentation: grouping consumers by some criteria
 - Segment should be large enough

- Is the segment identifiable?
- Targeting: choosing which group(s) to sell to
 - What kind of segment we should target?
- Positioning: select the marketing mix most appropriate for the target segment(s)
 - It can be about product attributes, uses, price and so on

Consumer Behavior

Psychological Model

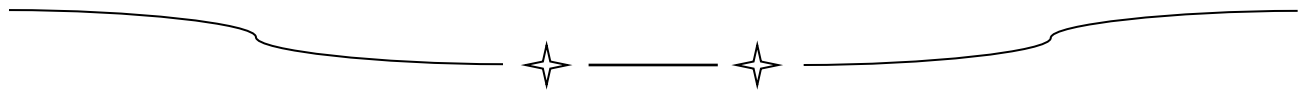
- How the consumer is going to conceive the product?
- How do you pose certain product to them?
- Eg.: If person is buying something worth of \$15 and same thing is offered for \$10 a mile away, 68% drove to buy it
- Contrast Principle: Particular product is advertised for \$17 and similar product advertised for \$18 with another product next to it for \$79. People bought \$18 than they bought \$17

Economic model of preference

- They consider economic aspect of the product
- They also want more for less

Factors affecting Competition

- Concept of Substitutes
 - Western concept is based on Ribaa
- Our competition
- Potential Entrances
- Consumers
- Suppliers



Chapter 5: Strategic Management

Strategy

- Given a particular entity like person/organization, we have set certain goals and objectives for that entity. So, we should have plan on how we can achieve them
- Important aspects are:
 - Goals – Long term/Short term
 - Roadmap – Realistic or not?
 - Resources – What is available?
 - Own strength and limitation

Strategic Management

- How do we manage our resources to achieve the goal?
- To acquire a competitive advantage
- Theories
 - Michael Porter's theory
 - Resource based view of the firm
 - Delta Model
- To extract distinctive competitive advantage

Michael Porter's Theory

- Porter's five forces include - three forces from 'horizontal' competition: the threat of substitute products or services, the threat of established rivals, and the threat of new entrants; and two forces from 'vertical' competition: the bargaining power of suppliers and the bargaining power of customers



Competitive position

- Marketing is very important aspect of implementation of strategy
- There are certain industry has too many substitutes. You have to be careful about Pricing

- What are the factors help people succeed in that particular industry?
- Who is your customer base?

Industrial structure

- Given the industry, given the product, how do you quantify one of the forces?
- How do people enter the industry? What is the barrier of entry?
- Consider supplier, buyers

Concept of Value Chain

- A value chain is a chain of activities that a firm operating in a specific industry performs in order to deliver a valuable product or service for the market.
- How can we measure the values? (Student get knowledge as value out of university)
- What is the utility consumer is getting out of it?
- What are the inputs? (Infrastructure, demand, regulation)
- Processes? (Channels you are going to use)

How do we compete?

- We are going to compete based on price or consumer perceives that they do not have
- Eg.: There are pens inexpensive and pens that are expensive as well
- You should have both price and differentiation
- Earlier concept is to sell one product to many customer
- New concept is to sell as many as products to one customer. It has reached what is known as an end-to-end solution or Total customer Solution. This is because once customer is satisfied with one of your products, it is easier for you to sell other products
- Refer: http://en.wikipedia.org/wiki/Porter_five_forces_analysis

Resource based Value framework

- It starts with inside and goes outside as opposed to Michael Porter's theory
- It starts with available resources
- What are the tangible and intangible assets organizations has?
- What are the capabilities of an organization?
- How do you differentiate yourself from the competition?
- Are you maximizing the use of Resources?
- Do you have unique competency?
- Appropriability and sustainability
- Opportunism and Timing
- Refer: http://en.wikipedia.org/wiki/Resource-based_view

Delta Model

- Developed by Professor Hax at MIT
- He mentions three distinct options
 - Product differentiation
 - Total Customer Solution
 - System lock in

Product Differentiation

- Look at your consumer and optimize your product for them
- Make your product as cost effective possible or differentiation
- Eg.: South West Airlines cut down all perks, all classes, food choices, to make their price cost effective. They looked at Railway traffic and chartered flights in direction where there are more customers

Total Customer Solution

- Horizontal breadth
- Redefine the customer experience
- Keep the customer as heart of the strategy

System Lock in

- Once you are an early mover, you establish a dominant position
- Eg.: Yahoo were an early movers and established a dominant position before even Google started. Google provided sustainable search engine and taken almost all customers from Yahoo
- Eg.: Ebay, Amazon - Barriers of entry are extremely high when customers come in

- Winning formula is having overall network as scope. You are dependent on your supplier, sometimes your competitor

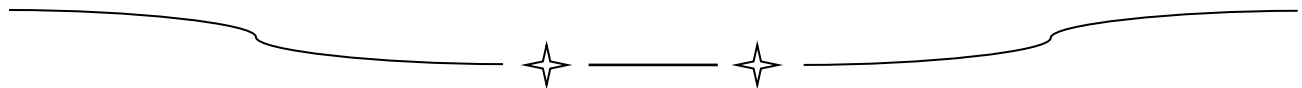
- Refer:
 - http://www.valuebasedmanagement.net/methods_hax_wilde_delta_model.html
 - <http://vectorstudy.com/management-theories/delta-model>

Comparison of Three Models

S.No	Item of comparison	Michael Porter	Resource based	Delta Model
1	Operational Effectiveness	Activities that you are performing	How you are putting down your resources to perform some activities	How you are using your network effectively?
2	Role of Business	Industry and business	Corporation	Extended Enterprise
3	Competitive Advantage	Low cost and competitive Advantage	How effectively use your resources	Best product, TCS, System Lock in
4	Basic unit	Activities	Core product	Focus on customer and how flexible your processes are

Customer Segmentation

- Customer should be treated at higher level and they should not be commoditized by Marketing personnel
- We have to get to the level of Customer who will use all our products
- Channel of Communication
 - How you are going to communicate with your customer?
 - How do you integrate Customer in your processes?
 - How many channels we can use?
 - What is the value we can add to the customer?
- Attitude, behavior, degree of self sufficiency are some of the key aspects of customer
- How do you define the customer experience?
- For each customer, you take a different value position
- Eg.: In 2000, People in US will buy cars manufactured from US instead of from Japan. Then Japanese (Toyota) started manufacturing their cars from US which changed the mindset of people



Chapter 6: Financial Management

Wealth

- One of the premise of Economics is resources are limited
- Prophet said: "Feet of slave of Allaah will not move until he was asked about how he spent his wealth..."
- Dealing with wealth and self-sufficient is not a bad thing in Islam. As long as our income are halal and we spend in halal way, there is not issue
- Managing Finance is important of everyone irrespective of he is Muslim or not
- The way non Muslims deal with Finance is different from how Muslims deal with
- Why we are studying this?
 - Islamic Finance got lot of attention but 3% of transaction in this world is through this model
 - So, we are forced to adapt to non Islamic Finance model

Financial concepts

- How do we invest?
 - What kind of investments are halal and what of them are haram?
 - Riba is not allowed but it is a substitute used by Western Finance
- How do we safeguard the value of money available to us?

Assets

- Assets are something we own
- Anything tangible or intangible that is capable of being owned or controlled to produce value and that is held to have positive economic value is considered an asset. Simply stated, assets represent value of ownership that can be converted into cash (although cash itself is also considered an asset)

Long term Assets

Short term Assets or current assets

- Liquid assets: Can be converted into cash quickly
- Stocks
- Certificates
- Inventory: Raw material of human Capital
- Fixed: Buildings, etc
- In Tangible: Knowledge of the firm, patent, trademark, etc
- Refer: <http://en.wikipedia.org/wiki/Assets>

Liabilities

- Obligations
- Long term debt
 - Due after a while
 - Mortgages

- Short term Debt
- Refer: <http://en.wikipedia.org/wiki/Liabilities>

Equity

- Equity is something we have a share
- Equity is capital of a corporation
- Equity represents the remaining interest in assets of a company, spread among individual shareholders of common or preferred stock
- Equity = Asset - Liability
- Refer: http://en.wikipedia.org/wiki/Ownership_equity

Capital Market

- Capital markets are financial markets for the buying and selling of long-term debt- or equity-backed securities.
- These markets channel the wealth of savers to those who can put it to long-term productive use, such as companies or governments making long-term investments.

Risk vs Return

- If Risk is high, return will be high as well
- If Risk is low, return will be low as well

Financial Intermediary

- Those help buying and selling
- Financial intermediation consists of “channeling funds between surplus and deficit agents”. A financial intermediary is a financial institution that connects surplus and deficit agents. The classic example of a financial intermediary is a bank that consolidates bank deposits and uses the funds to transform them into bank loans
- Refer: http://en.wikipedia.org/wiki/Financial_intermediary

Resources

- Something owned by Individual/Organization
- Sometime It may not be sufficient so it led to following two

Debt

- Person will not invest but he will lend you the money
- Person who lends the money has first right to assets if the borrowed cannot return
- Debt is halal in Islaam

Equity

- To seek investors who are willing to invest for future return
- Certain investors are Risk Averse (guaranteed return) which Islam prohibits
- Certain investors are Risk prone
- Investors invest by buying stocks

Supply vs. Demand Curve

- For everything you supply, there is a demand i.e., called as Equilibrium
- It deals with commodities
- Islam sees currency as something that produce value and non Muslims value currency as commodity that should give a return
- Non Muslims say savings can happen only with interest

Monitory Policy

- How does a country, Central bank controls money that exists?
- Austrian Economic differ from Central bank economics
- In Interest, they look at rate of return so they charge interest over period of time

Present value of Money or Time Value of Money

- How do we calculate price of particular commodity?
- US government is running a deficit. To cover it, they will come to you as investor paying you interest rate (Coupons) over a period of years
- US treasury is considered as safest bond. People invest for retirement benefits. People move on to debt to safeguard their money
- Today's value of money received in 't' years is cash flow to be received discounted by $(1 + R)^t$
 - Present value = Future Value/ $(1+R)^t$ where 'R' is the rate of interest and 't' is number of year
 - Future Value = Present value $(1 + R)^t$
- Refer: http://en.wikipedia.org/wiki/Time_value_of_money

Net Present Value:

- The value of present sum of money, in contrast to some future value it will have when it has been invested at compound interest
- time series of cash flows, both incoming and outgoing, is defined as the sum of the present values (PVs) of the individual cash flows of the same entity.
- NPV can be described as the “difference amount” between the sums of discounted: cash inflows and cash outflows. It compares the present value of money today to the present value of money in the future, taking inflation and returns into account

$$NPV(i, N) = \sum_{t=0}^N \frac{R_t}{(1 + i)^t}$$

- where
- t - the time of the cash flow
- i - the discount rate (the rate of return that could be earned on an investment in the financial markets with similar risk.); the opportunity cost of capital

- R_t - the net cash flow i.e. cash inflow – cash outflow, at time t .
- Refer: http://en.wikipedia.org/wiki/Net_present_value

Required Rate of Return

- In finance, rate of return (ROR), also known as return on investment (ROI), rate of profit or sometimes just return, is the ratio of money gained or lost (whether realized or unrealized) on an investment relative to the amount of money invested. The amount of money gained or lost may be referred to as interest, profit/loss, gain/loss, or net income/loss. The money invested may be referred to as the asset, capital, principal, or the cost basis of the investment. ROI is usually expressed as a percentage.
- Refer: http://en.wikipedia.org/wiki/Rate_of_return

