

## PROMOTING A MARKET COMPETITION: AN ISLAMIC PERSPECTIVE

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### *Abstrak*

*Tujuan dari tulisan ini adalah menganalisis ajaran agama Islam yang mendorong kompetisi pasar. Sangat penting untuk menganalisis ajaran ini sebab ajaran ini memberikan pendekatan yang berbeda dan lebih bagus daripada pendekatan yang konvensional dalam mendorong kompetisi pasar. Terdapat tiga ajaran Islam dalam mendorong kompetisi pasar. Pertama adalah memotivasi dan mendorong pedagang untuk selalu bersaing, kedua adalah menolak intervensi harga dan mekanisme pasar yang dilakukan pemerintah dan ketiga adalah melarang semua transaksi yang tidak fair. Semua ajaran itu akan mendorong kompetisi pasar. Pedagang sebagai pelaku utama persaingan benar-benar berniat untuk selalu bersaing secara adil. Mereka berniat seperti itu sebab memang dimotivasi dan didorong untuk melakukan persaingan seperti itu. Persaingan yang terjadi terasmenerus ini akan berdasarkan kompetensi pedagang dalam bersaing sebab mereka tidak dapat mengeksploitasi intervensi pemerintah. Demikian juga, mereka akan bersaing secara adil sebab segala bentuk ketidakadilan di pasar dilarang secara menyeluruh dan secepat mungkin. Ajaran Islam tentang persaingan pasar ini di satu sisi berbeda dan lebih bagus dari pendekatan konvensional dan menunjukkan bahwa pasar yang kompetitif bukanlah pasar yang imajinatif.*

**Kata Kunci:** Ajaran Islam, pasar dan kompetisi

### *Abstract*

*The objective of this paper is analyzing Islamic teaching to promote a market competition. It is important to analyze these Islamic teachings because the Islamic teachings provide a different approach and better than the conventional approach in promoting a market competition. There are three Islamic teachings in promoting a market competition. First is motivating and encouraging sellers to compete continuously, second is rejecting a state price and market mechanism intervention and the third is banning all of unfair transactions. All of the teachings will promote a market competition. Sellers as the main participants of competition intend to compete continuously and fairly. They will compete continuously each other because motivated and encouraged to do so. The continuous competition will depend on sellers' competency to compete, because they cannot exploit government intervention. Also, they will compete fairly because all of unfair transactions are banned comprehensively and immediately. These Islamic teachings to promote market competition, in one side, show that Islamic teachings different and better than the conventional approach in handling competition to be a continuous and fair competition, and in other side, show that competitive market is not an imagination one.*

**Keywords:** Islamic teachings, market, competition

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## 1. Background

It is well-known that the best market among all of the market types is the competitive market. That is because competitive market which cannot exploit a market power, provides fair market mechanism and does not cause market distortions. Many economists, however, assume that this best market is only an imagination market and never happens in the world. Siddiqi (1992: 165-160) for example, wrote that in recent time the competitive market called the pure or perfect competition market is no longer hold. Also, Wikipedia Encyclopedia wrote: *“Because the conditions for perfect competition are strict, there are few if any perfectly competitive markets.* Brue (2000: 340) wrote that competitive market is an abstract market which cannot describe national and international market.

They argue the difficulty to structure market freedom, product homogeneity and transparent information causes the competitive market never happens. More over, these difficulties rise „an opportunity“ of a power to control the market which causes the market falls down into an imperfect competition one. As a consequent of this thinking, the real market is the imperfect competition market, such as a monopoly market, an oligopoly market and a monopolistic competition market. All of these imperfect competition markets have a power to control the market that can cause the market mechanism being unfair and a market distortion happen. Ariyanto (2004) analyzed that banking industry which their power market increase because of merger, harmed their consumers by abusing their dominance position and conducting secret agreement among them. Sholehah (2008) analyzed that within communication industry, the impostor competition occurs, especially between two firms within the industry. Soetjitro (2008) analyzed many business activities that against to the Competition Law in Indonesia, such as unfair pricing, unfair price discrimination, unfair regional discriminating, boycotting and agreement on production. Prasetyo (2010) analyzed the steel industry in Indonesia. Steel is categorized as strategic goods and the dominant firm in the past was Krakatau Steel. The domination decreases and the market becomes tight oligopoly

market dominated by private firms and international firm. Even, Krakatau Steel will be privatized in the stock market or sold to Lakshmi Mittal, an Indian huge steel firm. This situation wonders many scholars of steel becoming private goods from public and strategic goods, and the price of steel increases continuously.

Because of these, many competition regulations in the world try to limit and to reduce the power owned by imperfect competition market. It is expected that minimizing the power to control market leads to minimizing the unfairness and the distortion in the imperfect competition market. This expectation, however, implicitly means that the real market is the imperfect competition market and competitive market never happens.

Islamic teaching does not concern to all of these markets. Ikhtikar for example, which is usually translated as monopoly, is not understood as a behavior in the monopoly market, but understood as sellers activity to hold large stocks of goods and to create shortages and price increasing, whatever the type of markets present. Obviously, ikhtikar harms consumers. Because of this, Islamic teaching banned ikhtikar. Prophet Muhammad PBUH declared: *“He who doing ikhtikar is not but a wrongdoer”*.

Karim (2002: 154 - 155), however, had a different interpretation of ikhtikar. He interpreted ikhtikar as not a single seller or hold a stock. Even, he analyzed that a single seller and holding a stock are not banned by Islamic teaching. The meaning of ikhtikar which is banned by Islamic teaching according to him is earning profit above normal profit, called monopoly’s rent. In other word, the meaning of ikhtikar is monopolistic behavior in the monopoly market.

The best way to understand the two opposing opinions of ikhtikar is unifying both into one meaning. Ikhtikar can be monopolizing, holding a large stock and earning monopoly’s rent, while the place of doing ikhtikar usually is in monopoly market. Based on this meaning, his opinion can be understood as an acceptance of the market classification and market types, especially an acceptance of the monopoly market because he interpreted ikhtikar--which should be banned—as the monopolistic behavior to earn monopoly’s rent in the monopoly market.

Actually, not only him, but also other Islamic economists accept to the conventional market classification and types. In fact, many Islamic economists analyzed all of the markets classification and type. Even, some of them had critiqued the markets, but none of them rejects these market classification and types. Kahf (1992: 196-198) for example, while introduced free-co- operation as a market structure in the Islamic perspective, still accepted the competitive market. Samad (2003) is another example. He distinguished Islamic perspective of market from the conventional one, and classified Islamic market into Islamic perfect competition, monopoly and monopolistic competition market. His market classification however, shows that he accepted to the conventional market classification, because the basics for the classification are similar to the conventional classification, such as the number of sellers and buyers, the degree of substitution of goods and the easiness of entry and exit.

Although does not emphasize to market classification and types, Islamic teaching emphasizes to promote the market competition. This focus is rather different to the conventional approach. Islamic teaching concerns to the market competition promotion, but does not concern to the market classification, whereas the conventional approach concerns to the market classification, but does not concern to market competition promotion.

The reason behind this focus is the importance of the market competition. If the market competition can be promoted, the power to control market will decrease, and then market becomes a more competing market, whatever the number of sellers and buyer, the product homogeneity, the perfectness of the information or the possibility to entry and exit. Even, if only one seller in the market, the power to control market can be weakened by the market competition promotion. Assuming that Islamic teaching is better than the conventional approach to control market power, two questions emerge:

*“What are the Islamic teachings that promote market competition?”* and *“How do the Islamic teachings promote market competition?”* This paper tries to analyze Islamic teaching to promote market competition to answer the questions

## 2. Promoting A Market Competition

Islamic teaching establishes market competition in three teachings. First of all is encouraging and motivating sellers to compete, second is rejecting the state to intervene price and market, and third is banning all of the unfair transactions. All of the teachings will promote continuous and fair competition because the market is secured from other than sellers which are motivated to compete continuously and fairly. Below is the description of each teaching.

### 2.1. Motivating and Encouraging Sellers to Compete Continuously

Allah ta‘ala says in surah Al Baqarah 148 and Al Maidah 48: *“Then strive towards all that is good”*. The meaning of these verses is Allah ta‘ala motivates and encourages Muslims to compete and to vie towards all of good things. Business competition is one of good things, because caused sellers earn money used to fulfill their needs. Therefore, these verses are not only addressed to one whom doing worship or bringing charities or Islamic politicians, but also addressed to sellers and their competition.

Islamic teaching motivates and encourages their intentions to compete, to strive and to vie continuously in the market because this competition is a good activity in two terms. First, competition is held in order to earn money used to fulfill their needs. This is supporting sellers to compete continuously. Without competition, they cannot earn money and fulfill their needs. Second, competition does not end up to a rivalry and hostility because those are not including to good things mentioned by the verses. This is supporting sellers not to worry and to stop their competition. Indeed, the characteristics of an Islamic competition are to obtain good things and not end up to a rivalry. Because of these competition characteristics, sellers intend to compete continuously. Figure 1 below, shows the characteristics of Islamic teaching to motivate and to encourage competition and its effect.

ISLAMIC TEACHINGS			EFFECT
MOTIVATING AND ENCOURAGING SELLERS TO COMPETE			SELLERS INTENTION TO CONTINUOUSLY COMPETE
COMPETITION IN ORDER TO FULFILLED NEEDS	+	NEVER ENDS UP TO RIVALRY	

**Figure 1: The Characteristic of Islamic Teaching to Motivate and Encourage Competition and Its Effect**

## 2.2. Rejecting the Government Intervention

The prophet PBUH declared: *“The seller and the buyer, the one who provides and who fixes the prices are nobody but the God. I don’t wish to die whilst people having demands of live and property from me”*. The meaning of this hadith is market should be secured from others than sellers and buyers, especially government. Their intervention causes the market operation does not depend on the market mechanism and mutual good will (*taraadhin*) between sellers and buyers, but depend on government or other than sellers and buyers interests. Even, they can control the market and finally, exploit other sellers and or buyers. This is a sin. In the hereafter living, sellers or buyers will have a demand to whom intervening market and exploiting them.

Government has a big probability to intervene the market because of its bigger political and law authority and military power behind its authority than sellers and buyers sovereignty in the market. Its complex political and or financial problems cause government interests to enter and therefore, to intervene market that harm sellers and or buyers interests. Therefore, to secure market, government intervention should be rejected. The spirit to against government intervention comes from hadith above that rejecting government intervention to the market.

It does not mean that government does not care and give an attention to market, sellers and buyers. Government cares to the market, sellers and buyers. Government rejection to intervene market, like shown by prophet PBUH, is an example of government care and attention to market, sellers and buyers. Banning unfair transactions is other government cares and attention. This is including the role of wilayatul

hisbah or wilayatul muhtasib in inspecting the market. Section 3 below describes the role of government in banning unfair transactions and the role of wilayatul hisbah or wilayatul muhtasib.

Some Islamic economists however, argue a government intervention. Referring to opinion proposed by Ibn Taimiyah, they argue that government should intervene market. Islahi, (1992: 159) for example, wrote that Ibn Taimiyah was a strong supporter of price control. Also, Islahi (1997:111–117) analyzed that Ibn Taimiyah proposed a wage control and many reasons for price control like scarcity situation or goods of society basic needs. Al Habsy (2011:3) is another example. He agreed to Siddiqi opinion that Ibn Taimiyah justified state intervention. Munir (2008) expected that government intervention can protect weak sellers from unfair competition done by strong sellers. Also, he wrote that government intervention can be done by both central government and local government.

The meaning of all of these opinions is not the Islamic teaching declared by The Prophet PBUH false. On the contrary, all of these opinions are in line to the Islamic teaching of the rejection of government intervention declared by The Prophet PBUH. There are three reasons:

- a. The opinions explain something that is different to hadith. The opinions, especially Ibn Taimiyah opinion is about government and wilayatul hisbah cares and attention to unfair transactions in market, but misunderstood by recent Islamic economist as the market and price intervention. If the correct opinion is government cares and attention to the unfair transactions in the market via wilayatul muhtasib, then this is different to what was declared by hadith about the rejection of government interven-

tion. The Ibn Taimiyah opinion is about unfair transaction in the market and the role of wilayatul hisbah, whereas the hadith declared rejection to market intervention. Therefore, rejection to market intervention is an Islamic teaching.

- b. The opinions explain an exception to the hadith. The Ibnu Taimiyah opinion, which continued by recent scholars, give an exception and special conditions to the hadith. Government intervention is rejected except the specific conditions to intervene, like unfair transactions and a scarcity, occur. If the meaning of the opinions gives an exception to the rejection of government intervention, than the rejection of government intervention as declared by the Prophet is correct. Therefore, rejection to market intervention is an Islamic teaching.
- c. The opinions explain something that contradicts to the hadith, but what should be adopted is the hadith, and opinions should be rejected. That is because, the method used to compare between different Islamic teachings, is choosing the primer source than the secondary source. The opinions are supporting price and market intervention, whereas the hadith declared intervention rejection. If this is the case, the hadith should be accepted because declared by Prophet PBUH which is a primer source of teaching, and the opinions should be rejected because a secondary source of teaching. Therefore, rejection to market intervention is an Islamic teaching.

Without government intervention, market is operated by sellers and buyers. Their interactions determine equilibrium price and number of quantity of goods. Including to the interactions is competition among sellers. They compete in order

to obtain buyers" interest. They cannot exploit government competency, because government intervention is rejected. The competition among sellers is based on theirs competency to compete which comes from their selves. According to Hasan et.al (2008), the competency comes from their five Islamic P"s; Islamic product/process, price, promotion, place and people. Therefore, market is benefited from government intervention securing. Competition within the market will be based on the inner competency to compete of the sellers. Another benefit is the sellers encouraged to develop their competency to compete in order to win the competition against their competitor. Figure 2 below shows the effect of the government intervention rejection.

**2.3. Banning All of Unfair Transactions**

The Islamic banning to unfair transactions is very comprehensive. The fact of the comprehensive of The Islamic Banning can be seen from Hasan (2012) that analyzed the recent competition law and policy implemented in United Stated, United Kingdom, European countries, Malaysia and other countries around the world. He analyzed that al of the competition laws and policies can be comprehended in the Islamic principles, namely masalah, sad al-dharai, su isti"mal Al Haq, maqasid Shariah, legal maxim and tawheedic approach.

Many examples of Islamic Banning support the comprehensiveness. One of the examples is iktikar banning which is explained above. Other example of banning is bai"u an-najasy banning. A Seller colludes to other to exploit the consumers. The other acts as the seller"s consumer and demands a high price in order to influence the true consumers to demand at his demand and high price. This is called bai"u an-najasy. The Prophet prohibits it. The prophet PBUH declared: *"do not outbid one another (With a view to raising the*

ISLAMIC TEACHINGS			EFFECT
REJECTING THE GOVERNMENT INTERVENTION			SELLERS' INNER DEVELOPED COMPETENCY TO COMPETE
CANNOT EXPLOIT GOVERNMENT	+	SELLER DEVELOP INNER COMPETENCY TO COMPETE	

**Figure 2: Government Intervention Rejection and Sellers' Inner Competency to Compete**

ISLAMIC TEACHINGS			EFFECT
BANNING ALL OF UNFAIR TRANSACTIONS			FAIR MARKET
BLOCKING UNFAIR TRANSACTIONS	+	BLOCKING IMMEDIATELY UNFAIR TRANSACTIONS BY WILAYATUL HISBAH	

Figure 3: The Characteristics of Islamic Teaching to Ban Unfair Transactions and its Effect

teaching ban false, deceptive, misleading and manipulative promotion and advertisement. Besides can be used to protect consumers, this banning can be used to ban black campaign, promotion or advertisement usually done by defeated from competition sellers to their competitors.

Islamic banning for unfair transactions are not only addressed to unfair competition among sellers, but also addressed to ban the unfair interaction between sellers and buyers. The prophet PBUH ever inspected the market and banned an unfair seller who tried to cheat his consumers. The Prophet said: *“One who cheats is not of us”*. The inspection was also done in Mecca. He appointed Said bin Said bin Ash to be a Mecca market inspector. The Islamic leader after The Prophet continued the market inspection by founded wilayatul muhtasib or wilayatul hisbah. According to Solikhin (2005), wilayatul muhtasib or wilayatul hisbah is a part of the legal institution in the Islamic state. Legal institution consists of Wilayatul Mazhalim, Wilayatul Qadha

from any unfair transactions. The blocking from unfair transactions is an accurate and quick blocking. An accurate blocking comes from the comprehensiveness of the banning and a quick blocking comes from the role of market inspector under wilayatul muhtasib or wilayatul hisbah, who always ready and continuously inspects market and bans unfair sellers. As a consequent, market becomes a fair market. Nobody of the market participants disadvantaged. **Figure 3** shows the characteristics of the Islamic teaching of banning unfair transactions and its effect.

The effects of promoting market competition are a fair market for competition established and the power to exploit consumers is reduced. Each of the Islamic teaching to promote market competition causes a different effect. If all of the different effects coming from promoting market competition support sellers, then the fair and competitive market established. Regardless the type of the market, sellers is supported to reduce maximally their using of power to control market. **Figure 4** shows the relationship among Islamic

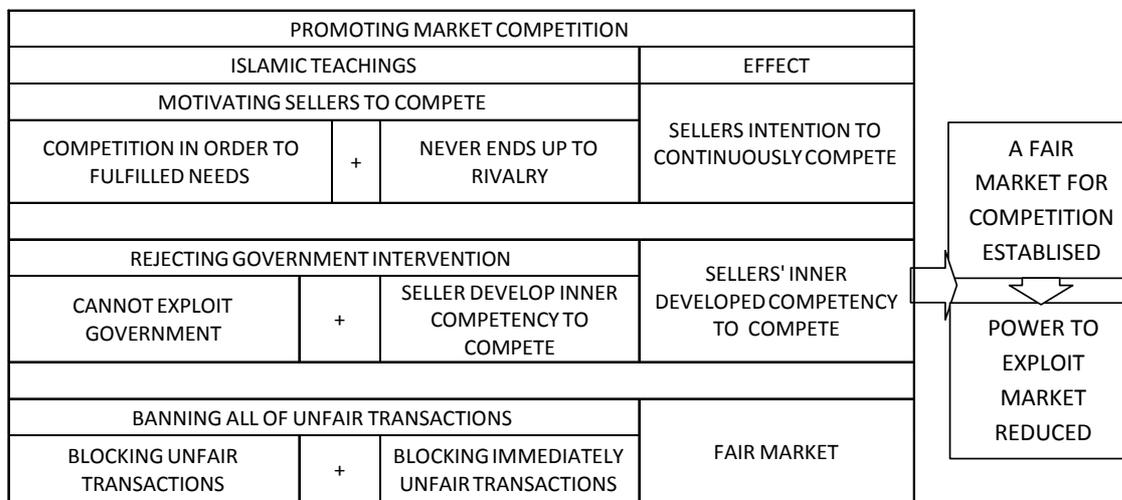


Figure 4: Islamic Teachings on Promoting Market Competition and Competitive Market Establishment

teaching to promote market competition and the establishment of fair and competitive market that can reduce the power to exploit consumers.

### **3. DISCUSSION**

The Islamic perspective on market competition is different to the conventional one. The Islamic perspective focuses on promoting competition in the market, while the conventional perspective focuses on reducing market power. The differences occur because of the different assumption. The Islamic perspective assumes a good competition atmosphere, whereas the conventional perspective assumes pure competition market as an imagination market.

The Islamic perspective is better than the conventional one. Focusing on promoting competition in the market, will establish competitive market and reduce market power, while focusing on market power reduction may not establish competitive market and may not promote competition in market. Therefore, the correct perspective of promoting market competition is the Islamic perspective.

The Islamic teaching to promote market competition consists of motivating and encouraging sellers to compete, rejecting government intervention to intervene market and banning unfair transactions. These teachings are better to the conventional perspective. The motivating teaching protects competition changing to rivalry, whereas the conventional perspective does not care to the changing. Even, "*survival of the fittest*" happens. Shiferaw (2012) wrote that surviving firm is ensured by its market power. Because of this, large firms in Ethiopia and other countries in the world are more survive than small firms.

Also, the effect of rejecting the government intervention proposed by Islamic teaching is different to the effect of government intervention proposed by conventional perspective. As a consequent of the rejection, sellers cannot exploit government and should develop competency to compete from their selves, whereas the conventional perspective gives to sellers „an opportunity“ to compete in from of exploiting government. As a consequent of government interventions, market distorted and the

competition fall down. Yu et al. (2005) analyzed this situation in the china Stock Market. The financial information in the market there distorts because of the frequent government intervention Chand (2009) analyzed how government intervention caused wheat market in India distorted. The wheat stocks often volatiles. Small farmers are disadvantages from this situation.

In addition, the Islamic perspective of banning unfair transactions is different from the conventional one. In Islamic perspective, the blocking of unfair transactions is accurate because of the comprehensiveness of the banning, and quick because is handling by market inspector under wilayatul muhtasib or wilayatul hisbah legal institution. Khan (2011) analyzed the efficiency and effectiveness of market inspector in protecting unfair transactions in market. The efficiency and effectiveness of market inspector come from the authority to prevent unfair transaction in short span of time.

The effect of the Islamic teachings to promote market competition is very clear. Sellers intend to compete continuously in the fair market based on their inner competencies. This is different to the conventional perspective. Sellers are not ready to continuously compete. Also, competition among sellers is easy to be broken because some sellers use unfair transactions such as use the government intervention to compete their competitors. This is can be known from entry to and exit from market which happens. While according to conventional perspective entry to and exit from imperfect competition market is difficult, Islamic teaching show how easy to entry to and exit from competitive market. Islamic teaching about Uthman bin Affan for example, imply how easy to entry to and exit from market. When arrived to Medina, he refused properties and land offered and chose to trade in market. A week trading in market he owned a valuable property. One of many lesson learned from this teaching is easy to entry to market. Another teaching about Uthman bin Affan imply how easy to exit from market. He donated all of owned imported properties ready to be sold in the market to support military journey to Tabuk District against Roman armed force. At that time, all of local traders were more intend to buy importer properties owned by Uthman than owned by his

competitors. But Uthman chose to donate all of them. Therefore, at that time, it was easy to exit from market.

As a consequent of the promotion to market competition, market alters to competitive and fair market. This is not because of the competitive market characteristics fulfillment, but because of the promotion to market competition. Although classified as an imperfect competition market for example, sellers within them act fairly and competitively. They do not use their power to control market. Conventional perspective however, analyses that sellers conduct according to their market. The more imperfect the market, the greater the power to control market employed. They are not influenced by market competition promotion.

There are some similarities if any between Islamic competitive market teaching and capitalism and or socialism perspectives. Many scholars try to analyze the similarity. Kahf (1992: 147) for example, wrote that the success of the communist revolution in the past, led him to propose Islamic free co-operation market system which is a mix market system between some capitalism perspectives of market which likely to be similar to Islamic teaching and some socialism perspectives of market which likely to be similar to Islamic teaching. Dost (2009) is another example. He analyzed that Islamic market is capitalism market or free market. He argued that trading practice done in early Islam time and opinions proposed by some scholars such as Abu Hanifah, Abu Yusuf, Al Mawardi and Ibnu Khaldun imply to capitalism market. Regardless of the conclusions, the important thing is the selection method used. Capitalism, socialism or mix market can be categorized Islamic market only if in line to the Islamic teaching mentioned in the primary and secondary sources or pictured in the history of early Islam.

The Islamic teaching to analyze the market however, is not too useful if used to analyze capitalism, socialism or mix market. The Islamic teaching cannot describe the markets perfectly because some of Islamic teachings contradict to the markets. The Islamic teaching of competition for example is different to the planned economy offered by socialism. Also, the Islamic teaching of private, common and state properties is different

to the private property offered by capitalism. In addition, the Islamic teaching of refusing government intervention is different to the mix market which is a mixing market between capitalism and socialism market.

### Conclusion

Islamic teachings promote market competition in three teachings. First is motivating and encouraging sellers to compete. Sellers, intend to compete, to strive and to vie continuously because they understand that this competition is a good activity in two terms. First, competition is held in order to earn money used to fulfill their needs. Second, competition does not end up to a rivalry and hostility. This is supporting sellers not to worry and to stop their competition.

Second is rejecting government intervention. Without government intervention, market is operated by sellers and buyers. Including to the market operation/mechanism is competition among sellers. The competition among sellers is so fair. Sellers win their competition against their competitors, because their competition competencies are better to gain buyers' interest than their competitors, not because of government intervention.

Third is banning all of market unfair transactions. All of the banning blocks market participants from any unfair transactions. The blocking from unfair transactions is an accurate and quick blocking. As a consequent, nobody of the market participant will be disadvantaged.

These Islamic teachings to promote market competition causing competitive market occur. Regardless the type of market, power to control market can be reduced maximally.

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