



## Introduction to Islamic finance

### Question 1

Islam as a religion has rules and guidelines for worship but does not provide guidance on other aspects such as social and business dealings?

Yes

No

### Answer

No

### Question 2

Muslims deem which of the following to be sources of the Sharia?

- i. The Qur'an.
- ii. The Sunnah.
- iii. Discussion.

### Answer

The Qur'an (i) and The Sunnah (ii).  
The Discussion (iii) is not.

### Question 3

Which of the following business activities would not be permitted under the Sharia?

- i. Manufacturing tyres.
- ii. Running a pub.
- iii. A normal bank.
- iv. Running a normal supermarket.

### Answer

Manufacturing tyres (i) is permitted.  
Running a pub (ii) is not permitted.  
A bank (iii) is not permitted because transactions are based on interest which is not allowed.  
With a supermarket (iv), most of the items sold will probably be permissible but there may be non-permissible items, for example pork and alcohol. Scholars have set a threshold of 5% of total revenue being allowed from non-lawful sources.

**Question 4**

Can money be traded in its own right for a profit without any underlying asset or trade?

Yes                                      No

**Answer**

No, money should be used only as a medium of exchange.

**Question 5**

How can financiers make money in Islamic Finance?

- i. By sharing in the profit or loss of the asset or trade they are financing by becoming equity partners in the asset or trade.
- ii. By financing assets and then either selling them or leasing them out.
- iii. By charging interest on the money they have lent.

**Answer**

i and ii are permissible but iii is not permissible.

**Question 6**

Under Musharaka, if a loss is incurred, how is that shared between the partners?

- i. According to a pre agreed ratio between the partners.
- ii. In proportion to the capital contributed by the respective partners.

**Answer**

ii is correct.

**Question 7**

Under Mudaraba, do both parties put in capital?

Yes                                      No

**Answer**

No, only one partner puts in capital and the other the effort.

**Question 8**

Under Murabaha, does the purchaser know the underlying cost to the seller?

Yes

No

**Answer**

Yes, this technique is known as cost plus mark up, whereby the purchaser knows the cost to the seller and the mark-up he is making.

**Question 9**

Under Ijara, who has to take responsibility for the working order of the leased asset? For example, for a house ensuring that the structure is in good order, the heating and electrics are in working order?

- i. The owner/lessor.
- ii. The lessee.

**Answer**

The lessor (i).

**Question 10**

What are the two types of screen applied to shares to determine their Sharia compliance?

**Answer**

Industry screen and financial screens.

**Question 11**

What is the name given to the Islamic alternative to conventional Insurance?

**Answer**

Takaful