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Ethical Dimensions of Market Mechanisms: A Comparative Study of Conventional and Islamic Economics

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Abstract
This article presents a comparative analysis of market mechanisms in conventional and Islamic economic frameworks, examining their underlying principles, regulatory structures, and ethical implications. Using a qualitative, doctrinal approach grounded in authoritative academic sources, the study explores how each system defines price formation, market behavior, and regulation. While conventional economics emphasizes supply-demand dynamics and market equilibrium under rational self-interest, Islamic economics embeds economic activity within a divine ethical framework, guided by values such as *ʿadl* (justice), *ḥisbah* (market supervision), and the prohibition of *ribā* (usury). The findings highlight that Islamic market mechanisms offer a value-oriented model that addresses the limitations of conventional markets—particularly in terms of inequality, moral hazard, and social responsibility. Through institutions like *zakāh*, *ḥisbah*, and ethical trade rules, Islamic economics advances a holistic model integrating economic efficiency with moral accountability. The study contributes to theoretical discourse by proposing a structured comparative framework and offers practical pathways for ethical market governance. Implications include the potential for Islamic market principles to inspire new regulatory models in both Muslim-majority and pluralistic economic contexts.

Keywords
Islamic market ethics; conventional economics; market mechanism; *ḥisbah*; economic justice

INTRODUCTION

The market mechanism stands as a cornerstone of economic theory and practice, dictating how resources are allocated, prices are determined, and economic activities are coordinated. In conventional economics, this mechanism is largely shaped by the principles of supply and demand, operating within a framework of rational individualism and utility maximization (Samuelson & Nordhaus, 2010, p. 27). Market equilibrium, where supply matches demand, is considered the ideal outcome, fostering efficiency and optimal allocation of resources. This model assumes minimal external

interference, allowing market forces to function independently unless confronted by market failures such as monopolies, externalities, or public goods (Stiglitz, 2000). However, the emphasis on profit maximization and limited attention to ethical considerations has drawn critiques from scholars advocating for more inclusive and value-driven economic systems (Sen, 1999, p. 70).

Islamic economics presents a distinct paradigm by integrating moral and spiritual values into the economic framework. The concept of the market in Islamic economics is not solely guided by material incentives but is intertwined with ethical injunctions derived from the Qur'an and Sunnah. Central to this perspective are the prohibitions against *ribā* (usury), *gharar* (excessive uncertainty), and fraudulent practices, alongside the emphasis on *ʿadl* (justice) and *iḥsān* (benevolence) in transactions (Chapra, 2000, p. 145).

Unlike its conventional counterpart, Islamic economics envisions the market as a moral space, supervised by *ḥisbah* institutions to ensure compliance with Shariah principles. This fundamental divergence shapes not only the mechanisms of price formation and competition but also the overall objective of economic activity—to achieve *falāḥ* (well-being in this world and the hereafter) (Kahf, 2003).

Despite growing academic interest in Islamic economics, comparative studies focusing specifically on the operation of the market mechanism remain limited. Most existing literature tends to either critique conventional models from a normative Islamic standpoint or explore Islamic market ethics in isolation (Siddiqi, 1981; Khan, 1994).

A deeper inquiry into the structural and operational similarities and differences between the two systems can reveal not only how markets function differently but also why these differences matter in shaping economic outcomes. Furthermore, the ongoing global financial crises have reignited debates around ethical capitalism, prompting scholars to revisit alternative frameworks such as Islamic economics (Zaman, 2005).

Empirically, there exists a gap in literature addressing how Islamic market principles can be operationalized in modern economies without compromising economic efficiency. While theoretical formulations are abundant, practical applications and integration into policy remain underexplored. There is also limited discussion on how conventional market assumptions hold up under the ethical scrutiny proposed by Islamic economics (Naqvi, 1994, p. 92). This study seeks to bridge this gap by offering a comparative analysis that is both theoretically grounded and normatively informed.

Accordingly, this research seeks to address three core questions: First, how does the market mechanism function in conventional economics compared to Islamic economics? Second, what are the ethical principles and institutional instruments that

define market regulation in Islamic economics? Third, how can Islamic market mechanisms contribute to resolving issues arising from the limitations of conventional market systems? These questions are significant in advancing both academic discourse and policy formulation, particularly in pluralistic and Muslim-majority contexts seeking ethical and efficient economic models.

LITERATURE REVIEW

The concept of the market mechanism has long been central to classical and neoclassical economic thought. Adam Smith's "invisible hand" metaphor highlights how individuals pursuing their self-interest inadvertently contribute to the welfare of society through market interactions (Smith, 1776/2007, p. 456). Neoclassical economists refined this idea by formalizing the demand and supply framework, where price signals guide the allocation of scarce resources in a competitive environment (Marshall, 1920, p. 89).

In this model, equilibrium is achieved when market-clearing prices balance consumer preferences with producer outputs. However, critics such as Keynes (1936) argued that unregulated markets can lead to persistent unemployment and underutilization of resources, suggesting a more active role for government intervention. Further critiques by institutional economists emphasized the importance of social, legal, and political contexts in shaping market outcomes (North, 1990, p. 36). These foundational perspectives establish the conventional framework of market mechanisms as efficient but ethically neutral systems.

In contrast, Islamic economics positions the market within a comprehensive ethical and legal framework based on Shariah. Markets in Islamic thought are seen as morally regulated institutions where transactions are bound by justice (*ʿadl*), mutual consent (*tarāḍin*), and the prohibition of harm (*ḍarar*) (Chapra, 2000, p. 98). The Qur'an encourages trade but condemns unethical practices such as hoarding, cheating, and usury (El-Gamal, 2006). Islamic scholars like Ibn Taymiyyah and al-Ghazali have emphasized the role of market supervision (*ḥisbah*) in ensuring fairness and social justice (Khan, 1994).

These foundational texts form the basis of Islamic market theory, distinguishing it from its conventional counterpart by embedding moral and communal considerations into market functioning. Several contemporary studies have attempted to reconstruct Islamic market theory in modern economic language, highlighting its distinctiveness and potential applications (Siddiqi, 1981; Kahf, 2003).

While both frameworks recognize the importance of markets in economic coordination, their underlying assumptions diverge significantly. Conventional economics relies on methodological individualism, utility maximization, and positivist empiricism, whereas Islamic economics is rooted in divine guidance, collective welfare (*maṣlaḥah*), and normative ethics (Naqvi, 1994, p. 22). Existing literature has outlined these differences but often lacks comparative studies that evaluate their practical implications. By synthesizing these perspectives, this research aims to contribute a more integrative and critical understanding of how market mechanisms operate under differing ideological paradigms.

Theoretical Framework

The theoretical foundation of this study rests upon the comparative evaluation of two distinct yet operationally overlapping economic paradigms: conventional neoclassical economics and Islamic economics. The neoclassical model is anchored in the theory of marginal utility and rational choice, where individuals are seen as self-interested agents maximizing their utility or profit under conditions of scarcity (Marshall, 1920, p. 103).

This theoretical lens presumes perfect information, competition, and mobility of resources, ultimately leading to equilibrium in goods and factor markets. Prices emerge from the interaction of supply and demand and are seen as efficient indicators of scarcity and preferences (Samuelson & Nordhaus, 2010, p. 54). These assumptions underpin the market mechanism's claim to efficiency and autonomy, making minimal room for ethical or institutional concerns except in cases of market failure.

In contrast, Islamic economics employs a moral economic theory grounded in Shariah principles, viewing economic behavior as an extension of spiritual obligation (Chapra, 2000, p. 12). Here, the concept of *homo Islamicus* replaces the neoclassical *homo economicus*, integrating moral accountability and social responsibility into economic decision-making. Agents are encouraged not only to seek personal benefit but also to uphold justice (ʿ*adl*) and avoid harm (*ḍarar*). Economic exchanges are permissible only if they meet criteria of mutual consent, transparency, and prohibition of *ribā* (Kahf, 2003). This shift from utilitarian rationalism to ethical idealism redefines the parameters of market behavior, allowing ethical injunctions to directly influence pricing, production, and consumption patterns.

Another theoretical pillar in conventional economics is general equilibrium theory, especially as formalized by Walras and later developed by Arrow and Debreu. This theory asserts that markets can coordinate decentralized decisions efficiently, achieving a Pareto optimal state (Arrow & Debreu, 1954). However, it remains agnostic

toward questions of fairness or equity, often assuming away distributional concerns. Critics from both institutionalist and Islamic traditions argue that such abstraction neglects the socio-ethical dimensions of real markets. In contrast, Islamic economics is framed around the concept of *maṣlaḥah* (public interest) and *niyyah* (intention), suggesting that economic actions must fulfill not only efficiency criteria but also moral and communal obligations (Naqvi, 1994, p. 77).

The institutional structure of market supervision in Islamic economics further distinguishes it theoretically. The institution of *ḥisbah*, historically tasked with monitoring markets and enforcing ethical conduct, provides a framework for moral regulation beyond state or private sector control (Khan, 1994). Unlike regulatory mechanisms in conventional economies that intervene post hoc to correct failures, *ḥisbah* aims to prevent harm proactively by aligning economic activity with divine commands. This model introduces a hybrid regulation system where moral norms are enforced through both communal oversight and state authority (Siddiqi, 1981).

Moreover, the concept of equilibrium in Islamic economics diverges from the purely mathematical conception in neoclassical theory. Equilibrium is understood not merely as a balance of forces but as a state of *ʿadl*—a morally acceptable condition of distributive and procedural justice (Chapra, 2000, p. 71). Market prices, therefore, must not only reflect demand and supply but also avoid exploitation and uphold fairness. This introduces a normative evaluation into the theoretical understanding of market outcomes, suggesting that an efficient market may still be unjust if it violates ethical standards.

Finally, the integration of spirituality in Islamic economic theory reorients the purpose of market interaction. Economic activity is seen as a form of worship (*ʿibādah*), wherein success is measured not just in material gains but in moral fulfillment and societal welfare (Kahf, 2003). This meta-theoretical distinction implies a different epistemological foundation—one that rejects value-neutrality and insists on the inseparability of economics from ethics and theology. Such a framework demands a reconsideration of conventional assumptions about individual behavior, market dynamics, and the goals of economic policy.

Previous Research

Early studies in the 1970s laid the groundwork for Islamic economics by critiquing conventional market structures and proposing Islamic alternatives. Siddiqi (1971) examined Islamic principles related to commerce, emphasizing justice, prohibition of *ribā*, and mutual consent in transactions. His work identified the lack of ethical considerations in neoclassical models and proposed an Islamic market regulated by

moral values and public supervision. This research is foundational, as it articulates the conceptual premises of Islamic economic markets and directly contrasts them with Western market liberalism.

In the 1980s, Khan (1984) expanded on the theoretical framework of Islamic economics by focusing on market efficiency and welfare distribution. His analysis incorporated both jurisprudential sources and economic reasoning to argue that Islamic markets, when governed by *ḥisbah*, could achieve socially desirable outcomes that elude conventional systems. Khan's integration of institutional analysis with Shariah principles added depth to the discourse, offering a model where moral oversight and efficiency co-exist.

Chapra (1992) contributed a more comprehensive critique of Western economic systems, asserting that conventional markets fail to deliver justice due to their reliance on self-interest and secular rationality. He proposed that Islamic economic models should not only prohibit unethical practices but also proactively promote social welfare. By examining how moral values influence behavior and institutions, Chapra's study reinforced the argument for Islamic market mechanisms as ethically superior alternatives.

Naqvi (1994) offered a philosophical and epistemological critique of mainstream economics, contending that its detachment from ethical norms makes it ill-suited for addressing issues of inequality and exploitation. He argued for the reintroduction of value-oriented economics grounded in Islamic teachings. His study contributed to the theoretical sophistication of Islamic economics by linking economic behavior with spirituality and social justice.

Kahf (2003) presented a synthesis of Islamic economics as a discipline, articulating its methodological, normative, and functional components. His analysis emphasized the integration of moral objectives in economic policy and practice, advocating for institutional structures like *zakāh* and *ḥisbah* to regulate market behavior. Kahf's work is pivotal for bridging theoretical constructs with actionable frameworks.

Zaman (2005) provided a more recent empirical critique of capitalist markets, linking the 2001 financial crises to structural flaws in the conventional system. He explored how Islamic finance and market regulations could offer stability and ethical guidance. His study highlights the potential application of Islamic market principles in modern economies, especially in periods of systemic failures.

Collectively, these studies provide critical insights into the theoretical and practical dimensions of market mechanisms in both economic systems. However, they often treat the Islamic market model in isolation or as a critique of capitalism without offering a structured comparison. A noticeable gap exists in the literature concerning

side-by-side functional analysis of market operations, price formation, and regulatory ethics in the two paradigms. This study seeks to fill that gap by asking: How do Islamic market mechanisms operate compared to their conventional counterparts, and what are their implications for efficiency, equity, and ethical conduct?

RESEARCH METHODS

Type of Data; this study employs qualitative data comprising doctrinal texts, classical economic treatises, and analytical commentaries. The nature of the data is primarily conceptual and interpretive, allowing for the examination of economic theories, ethical principles, and institutional mechanisms from both conventional and Islamic perspectives. The emphasis is on textual and discursive sources rather than numerical datasets, as the goal is to understand the underlying frameworks and philosophies guiding market behavior in both systems (Creswell, 2007, p. 38).

Data Source; data were sourced from international academic books, peer-reviewed journals, and institutional publications published no later than 2012. Sources include foundational texts in neoclassical economics such as Marshall (1920), Keynes (1936), and contemporary analyses by Samuelson and Nordhaus (2010). For Islamic economics, primary references include works by Chapra (2000), Kahf (2003), Naqvi (1994), and Siddiqi (1981). Additionally, international policy documents and Islamic jurisprudence compilations have been consulted to capture regulatory models and ethical norms relevant to market behavior (El-Gamal, 2006).

Data Collection Technique; The technique applied is document analysis, which involves systematic review and interpretation of the selected texts to identify key themes, theoretical constructs, and comparative insights. This method is suitable for philosophical and normative inquiries that aim to explore how abstract concepts such as justice, efficiency, and market regulation are articulated within different economic paradigms (Bowen, 2009). The texts were reviewed for conceptual clarity, relevance to market theory, and applicability to contemporary economic concerns.

Data Analysis Technique; thematic analysis was employed to examine the data. This approach involved coding the texts for recurring themes such as price determination, market regulation, ethical obligations, and institutional roles. The data were then organized into comparative categories aligning with the study's objectives: operational mechanisms, regulatory principles, and normative outcomes. Interpretive analysis was also applied to contextualize classical Islamic economic thought within modern theoretical frameworks, bridging traditional jurisprudence with contemporary economic discourse (Miles & Huberman, 1994, p. 56).

Conclusion Drawing; findings were synthesized through a narrative integration of the themes identified in the analysis. Each research question was addressed by triangulating insights from both conventional and Islamic sources to highlight areas of convergence and divergence. Conclusions were drawn by evaluating how each system responds to key economic challenges such as market failure, price distortion, and moral hazard. The interpretive nature of this approach allows for deeper understanding of how market mechanisms function not only as economic tools but also as reflections of broader ethical and ideological commitments (Yin, 2003, p. 67).

RESULTS AND DISCUSSION

The exploration of market mechanisms through the lenses of both conventional and Islamic economics reveals foundational differences that are deeply rooted in their respective philosophical and normative commitments. Drawing upon the theoretical frameworks established earlier, conventional economics emphasizes the autonomy of market forces, asserting that self-regulated interactions between supply and demand ensure optimal outcomes. In contrast, Islamic economics introduces an ethical structure that imposes moral boundaries on market behavior, seeking not only efficiency but also justice (*ʿadl*) and collective welfare (*maṣlaḥah*) (Naqvi, 1994, p. 112; Chapra, 2000, p. 99).

This study’s comparative approach offers more than just a juxtaposition of systems—it initiates a dialogue between their guiding assumptions and institutional designs. While conventional economics prioritizes technical precision and mathematical modeling, Islamic economics advances a multidimensional understanding of economic transactions as ethical and communal acts. The literature supports this claim, demonstrating that markets in Islamic thought are intended to serve human dignity and spiritual integrity as much as they serve economic coordination (Kahf, 2003; Siddiqi, 1981).

This inquiry also contributes original perspectives by questioning the neutrality of conventional market models and evaluating the operational viability of Islamic ethical standards in a pluralistic economic environment. For instance, the concept of *ḥisbah*, though rooted in Islamic tradition, introduces a universalizable notion of ethical oversight in economic governance that can inform contemporary regulatory frameworks (Khan, 1994). Furthermore, the integration of spirituality and economics challenges the widespread dichotomy between the public and private spheres in capitalist systems, advocating a holistic paradigm where values and markets are inseparable.

By addressing these tensions and opportunities, this study helps clarify the implications of adopting Islamic market principles in both Muslim-majority and multicultural societies. It opens the possibility for reimagining market structures that are responsive not only to economic indicators but also to ethical imperatives and communal well-being. Thus, this discussion sets the stage for a thematic examination of each research question and the practical relevance of theoretical distinctions identified earlier.

Structural Dynamics of Market Mechanisms in Conventional and Islamic Economics

The first research question addresses how the market mechanism functions differently in conventional and Islamic economics. In conventional economic theory, the market is conceptualized as an impersonal arena where buyers and sellers interact based on preferences and resource endowments, leading to equilibrium prices (Samuelson & Nordhaus, 2010, p. 49). The invisible hand, as theorized by Smith (1776/2007, p. 521), assumes that individual pursuit of self-interest naturally aligns with societal welfare. This results in minimal regulatory intervention, except in cases of externalities or public goods (Stiglitz, 2000).

In Islamic economics, however, the market is a morally governed institution where economic agents are not just self-interested actors but morally accountable individuals operating under divine guidance. Market activity is considered a form of *ʿibādah* (worship), and its functioning must align with the principles of justice (*ʿadl*), benevolence (*iḥsān*), and the avoidance of harm (*ḍarar*) (Chapra, 2000, p. 37). Unlike the purely efficiency-oriented model of conventional theory, Islamic economics embeds market behavior within a broader ethical framework derived from Shariah (Kahf, 2003).

Another structural divergence lies in the concept of price determination. In conventional economics, prices are determined through the intersection of supply and demand in competitive markets, reflecting marginal cost and utility. This mechanism is assumed to be self-correcting in the long run (Marshall, 1920, p. 67). In Islamic economics, while supply and demand also play a role, prices must be fair and not exploitative. The Prophet Muhammad (peace be upon him) rejected price-fixing unless market manipulation or injustice was detected, emphasizing ethical boundaries over mechanical equilibrium (Siddiqi, 1981).

Institutionally, the *ḥisbah* system represents a unique Islamic regulatory model that oversees market transactions to prevent unethical behavior, including fraud, monopolies, and hoarding (Khan, 1994). Unlike secular regulatory bodies that often

respond to market failures post-facto, the *ḥisbah* acts preemptively to align market conduct with ethical norms. This shifts the regulatory paradigm from reactive to preventive, demonstrating a proactive approach to ensuring fairness.

Furthermore, Islamic market theory incorporates a more holistic view of scarcity and resource allocation. Resources are considered trusts from God, and their use must be aligned with communal welfare and intergenerational justice (Naqvi, 1994, p. 77). This contrasts with conventional economics, which treats resources as commodities to be allocated based on willingness and ability to pay. The result is a significant philosophical divergence in how value, scarcity, and exchange are understood and operationalized.

Thus, the market mechanism in Islamic economics does not reject the fundamentals of trade and pricing but reinterprets them through the lens of ethical accountability and divine purpose. This interpretation provides a functional yet morally grounded alternative to the value-neutral mechanisms of conventional theory.

Ethical Regulation and Institutional Oversight in Market Mechanisms

The second research question investigates the ethical principles and institutional mechanisms that define market regulation in Islamic economics. Unlike the conventional system, where ethical considerations are external to market logic and typically addressed through state intervention or corporate social responsibility, Islamic economics places ethics at the very core of market functioning. This foundational difference is evident in the role of *ḥisbah*, the Islamic institution responsible for market supervision, ensuring compliance with Islamic commercial jurisprudence (*fiqh al-muʿāmalāt*) (Khan, 1994).

In conventional economics, ethical lapses are managed through antitrust laws, consumer protection agencies, and regulatory commissions that intervene after unethical practices have occurred. These mechanisms operate within a secular, legalistic framework and often focus on economic efficiency rather than moral rectitude (Stiglitz, 2000). In contrast, Islamic economics mandates ethical conduct through divine command, integrating religious accountability into everyday transactions. The principles of *tarāḍin* (mutual consent), *tawāzun* (balance), and *ʿadl* (justice) are not optional; they are essential for the legitimacy of market exchanges (Chapra, 2000, p. 49).

Furthermore, Islamic markets are designed to prohibit transactions that involve *gharar* (excessive uncertainty), *maysir* (gambling), and *ribā* (usury), which are seen as inherently exploitative and destabilizing. These prohibitions serve a dual function: they

protect individuals from harm and ensure that market outcomes do not undermine social cohesion (El-Gamal, 2006). Conventional economics, by contrast, tolerates risk and interest as necessary tools for incentivizing economic activity, rarely interrogating their moral implications (Samuelson & Nordhaus, 2010, p. 109).

Institutionally, the *ḥisbah* operates at the intersection of community, market, and state. Historically implemented during the Islamic Golden Age, this institution was tasked with inspecting weights and measures, preventing monopolistic behaviors, and ensuring ethical trade practices (Siddiqi, 1981). Unlike modern state regulators, the *muḥtasib* (market inspector) was accountable not only to the ruler but also to divine expectations, reinforcing a higher standard of ethical oversight. Such a model introduces a unique framework for market governance that blends religious duty with administrative function.

Additionally, Islamic regulatory ethics emphasize intention (*niyyah*) and accountability to God, dimensions that are largely absent in conventional regulatory systems. This creates an internal moral compass among market participants, fostering trust and reducing the need for excessive external control (Naqvi, 1994, p. 101). When internalized, such norms can lead to more stable and cooperative market environments, challenging the conventional assumption that regulation must always be external and coercive.

The implications for modern economies are significant. Islamic regulatory principles offer a proactive model for ethical governance that could inspire new institutional designs, particularly in Muslim-majority countries. Moreover, as global markets grapple with ethical failures—ranging from financial fraud to environmental degradation—the Islamic approach offers a framework where moral integrity and economic efficiency are not mutually exclusive but mutually reinforcing (Kahf, 2003).

Therefore, the institutional mechanisms in Islamic economics redefine the meaning of regulation, transforming it from a reactive policy tool to a comprehensive ethical system embedded in the market's very fabric.

Addressing Limitations of Conventional Markets Through Islamic Mechanisms

The third research question explores how Islamic market mechanisms can contribute to resolving issues arising from the limitations of conventional market systems. One of the most prominent critiques of conventional markets is their inability to internalize ethical considerations, often resulting in externalities, inequality, and crises such as the 2008 financial meltdown. These failures have exposed the weaknesses of purely self-regulating markets and the insufficiency of reactive policy interventions (Zaman, 2005).

Islamic economics offers a corrective framework by embedding ethics within the structure of economic activity rather than treating it as an external constraint.

For instance, the prohibition of *ribā* in Islamic economics eliminates the exploitative interest-based debt relationships that often contribute to economic instability and social inequality. By encouraging equity-based financing such as *mushārakah* and *muḍārabah*, the Islamic financial system promotes risk-sharing, which aligns the interests of capital providers and entrepreneurs (Chapra, 2000, p. 112). This contrasts sharply with the debt-based structures in conventional finance that incentivize short-term profit and moral hazard.

Another limitation of conventional market systems is their tolerance of monopolistic behavior and speculative activities that distort market prices and exacerbate inequality. In Islamic economics, these are countered through the active role of *ḥisbah*, which prevents hoarding, price manipulation, and artificial scarcity (Khan, 1994). Such preventive oversight reduces the incidence of market failures before they materialize, offering a more sustainable model of governance compared to the ex-post regulation typical of capitalist economies.

Moreover, conventional markets often commodify essential services—such as healthcare, education, and housing—resulting in access disparities. Islamic economics addresses this issue through instruments like *zakāh*, *waqf*, and *ṣadaqah*, which ensure redistribution of wealth and provision of public goods outside the commercial market framework (Siddiqi, 1981). These mechanisms provide a social safety net that complements the market without depending solely on state intervention or taxation.

The emphasis on *maṣlaḥah* (public interest) in Islamic economics offers a normative tool for evaluating economic policies and market outcomes. Unlike the Pareto criterion in conventional economics—which measures efficiency without regard for equity—*maṣlaḥah* requires that economic activities promote collective welfare and avoid social harm (Naqvi, 1994, p. 134). This principle redefines the objective of market performance from technical efficiency to holistic well-being.

In addition, Islamic economics introduces a value-based alternative to the utility-maximization model of human behavior. The concept of *homo Islamicus* acknowledges material needs but frames them within a moral and spiritual context. This reshaping of economic rationality challenges the behavioral assumptions of conventional theory and opens the door to models of cooperation, altruism, and ethical entrepreneurship (Kahf, 2003).

Finally, in a global context where economic inequality and environmental degradation have reached critical levels, the Islamic market mechanism provides a theoretical and practical path forward. Its embedded ethical controls, emphasis on distributive justice,

and institutional diversity present a viable framework for creating resilient and morally grounded economies. These insights position Islamic economics not merely as a critique but as a constructive alternative to the dominant paradigm.

Core Findings and Pathways Forward

This study has addressed three core research questions by systematically comparing the market mechanisms of conventional and Islamic economic systems. The first question, concerning structural dynamics, reveals that while both systems rely on the interaction of supply and demand, they diverge in foundational assumptions: conventional economics pursues efficiency through rational self-interest, whereas Islamic economics integrates moral responsibility and divine accountability into market conduct. This conceptual difference reframes the market not merely as an arena for exchange but as a moral institution tasked with achieving *ʿadl* and *falāḥ* (Chapra, 2000, p. 56; Naqvi, 1994, p. 92).

The second research question focused on ethical regulation and institutional oversight. Findings show that Islamic economics embeds ethics within market regulation through instruments such as *ḥisbah*, *zakāh*, and prohibitions against *ribā* and *gharar*. These institutions and principles ensure proactive regulation based on ethical norms, unlike the reactive, often fragmented regulatory systems in conventional economics (Khan, 1994; Siddiqi, 1981). This model demonstrates that regulation need not compromise efficiency when aligned with communal well-being and spiritual values.

The third question examined the potential of Islamic mechanisms to resolve limitations in conventional systems. Here, the study uncovered that Islamic economics addresses structural issues like moral hazard, inequality, and speculative instability through risk-sharing contracts, wealth redistribution, and value-driven market governance (Kahf, 2003). These mechanisms serve as both theoretical critiques and practical tools that can be adapted for modern economies seeking ethical alternatives to market liberalism.

Theoretically, this research contributes a comparative framework that bridges neoclassical and Islamic paradigms, challenging the assumption that markets are ethically neutral. By integrating *maṣlaḥah*, *niyyah*, and *ḥisbah* into the discussion, the study offers a model where ethics, law, and economics coalesce. Practically, the findings suggest pathways for institutional innovation in Muslim-majority and pluralistic societies alike, such as embedding ethical audits in market regulation or adopting risk-sharing finance models. These recommendations align with the global shift toward responsible capitalism and inclusive governance, indicating that Islamic economics holds relevance beyond religious contexts.

CONCLUSION

This research has demonstrated that the market mechanism operates under fundamentally different paradigms in conventional and Islamic economics. In conventional theory, markets are driven by supply and demand dynamics aimed at achieving equilibrium and efficiency, with limited emphasis on moral considerations. Conversely, Islamic economics embeds ethics within its market framework, viewing economic behavior as an extension of spiritual responsibility governed by divine injunctions. The analysis confirms that Islamic economics offers not only a critique of conventional assumptions but also a constructive, ethically grounded alternative.

The study's comparative approach has clarified how Islamic regulatory mechanisms such as *ḥisbah*, *zakāh*, and the prohibition of *ribā* serve to ensure justice and social welfare while maintaining economic functionality. The theoretical alignment between Islamic values and institutional design provides a model that integrates ethical regulation into the core of market processes. These findings contribute to the broader discourse on ethical economics, demonstrating that values and markets need not be at odds.

In light of these findings, this study recommends that policymakers, especially in Muslim-majority countries, incorporate Islamic ethical principles into economic governance through institutional reforms and ethical market supervision. Furthermore, future research should explore the practical implementation of these models in diverse economic contexts, examining their adaptability, effectiveness, and social impact.

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