

## Perfect Competition Market In Islamic Economic Perspective

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**Abstract:** *Markets are important entities in economic activity. The market is a place to meet buyers and sellers. The market is a place to meet demand and supply. Adam Smith said that the companies interacting in the market seemed to have an invisible hand. IbnuTaimiyah said that Islamic markets are like perfect competition markets. For this reason, this study aims to determine the characteristics of a perfectly competitive market, find out how the market structure is in Islam, and to find out how Islam views the perfect competition market and to compare conventional concepts and Islamic concepts related to perfect competition markets. This research uses qualitative research methods. Data collection techniques used are literature and internet research. The results of this study are the invisible hand can be seen when the market structure is a perfectly competitive market. The characteristics found in the Islamic market have rules on how demand and supply affect each other. Monopolistics are banned and many make markets banned. The conclusion from the research shows that the structure and characteristics of a perfectly competitive market is an Islamic market. Ibn Taimiyah said that Islamic markets are like perfect competition markets.*

**Keyword:** *Market, Perfect Competition, Islamic Market*

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### Introduction

Islam is a universal religion, regulating all aspects of human life, both worship and muamalah. In Islam it is regulated how the behavior of consumers and producers in carrying out their economic activities. Their interactions in the market are regulated so there will be no market power that benefits one party. In the Islamic market structure, there is indeed freedom in economics, but it is still limited by rules without ignoring the principles of responsibility and justice. This historical fact actually shows that Islam is a comprehensive system of life, which regulates all aspects, both social, economic, and political as well as spiritual life. As His words:

"... and We send down to you the Book (the Qur'an) to explain everything ..." (Surat an-Nahl: 89).

Islamic economics is a God-based economy. This system starts from God, aims at God, and uses means that cannot be separated from the Shari'a of God. The creation of a perfectly competitive market is everyone's dream, because then justice between producers and consumers will be created. Adam Smith in his book *An Inquiry into The Nature and Causes of the Wealth of Nations* states that all households and companies interacting in the market, as if guided by a power or an invisible hand, so that market interaction can lead to the desired results.

This theory will succeed when in a market there is no market power (market power / monopolist), namely the ability of one economic actor (or a small group of actors) to influence the prices prevailing in the market. This shows the importance of creating a perfect competitive market,

where both producers and consumers act as price takers. Long before that, Islam had a prototype of how the ideal market, where there is no tyranny, no control by one economic actor and so on.

Some of the objectives of writing this article are: a) To find out the characteristics of a perfectly competitive market, b) Knowing how the market structure is in Islam, and c) To find out how Islam views the perfect competition market. In addition to the above objectives, the author also wants to compare conventional concepts and Islamic concepts in a perfectly competitive market.

The problems that the author will discuss further in this article are: a) What is a perfect competition market and its characteristics, b) How is a perfect competition in Islam, and c) Which concept is better between conventional and Islam in a perfectly competitive market. This paper uses a qualitative method. The author conducted a review of several related literature, which the authors then compared with the theories that I got from some literature.

### **Literature Review**

A market is a group of buyers and sellers of goods and services. Buyers as a group determine the demand for a product, and sellers as another group determine the supply of the product. Business activities carried out in the market will basically involve two main subjects, namely producers and consumers. Both of these subjects each have a very large role in shaping the price of goods on the market.

Meanwhile the market mechanism is a mechanism to carry out economic activities in order to make adjustments to the shocks that arise. Market mechanisms tend to adjust the amount of goods demanded (demand) and the number of goods offered (supply) to enable the use of an orderly source for meeting needs. In this case, the market mechanism is managed freely without many interventions by certain powers so that the market runs as it is natural and there is balance and order.

### **Characteristics of a Perfect Competition Market**

According to Gregory Mankiw in his book defines the perfect competition market as follows: "Perfect competitive market is a market where there are a lot of buyers and sellers so that each influence on market prices can be ignored because it is so small". a perfectly competitive market must meet the following assumptions:

1. Homogeneous Products

What is meant by a homogeneous product is a product that is able to provide satisfaction (utility) to consumers without the need to know who the producers are. Consumers do not buy brand goods but the usefulness of goods. Therefore all companies are considered capable of producing goods and services with the same quality and characteristics.

2. Perfect Knowledge

Economic actors (consumers and producers) have perfect knowledge about the prices of products and inputs sold. Therefore, consumers will not experience the different selling price treatment from one company to another.

3. Small Relatively Output of the Small Company

All companies in the industry (market) are considered to be producing efficiently (the lowest average cost), both in the short and long term. Nevertheless the amount of output of

each individual company is considered relatively small compared to the total output of all companies in the industry.

4. The Company Receives a Price Taker The consequence of the third assumption is that the company sells its products based on the price set by the market (price taker). Because individually the company is unable to influence market prices. What the company can do is adjust the amount of output to achieve maximum profit.
5. Free Entry and Exit Free entry or exit means there are no special costs that make it difficult for companies to enter or exit a market.

### **Market in Islam**

In Islam, Muslims are encouraged to do anything as long as it is still in the corridor of sharia, meaning that as long as the effort does not violate the provisions in the will of Allah SWT. Likewise in the case of carrying out economic activities, everything can be done as long as it does not violate these rules. One of the economic activities can be seen in the market, where the seller and buyer meet to make transactions for goods or services, both in the form of production and price determination. Buying and selling transactions are permissible in Islam as long as it does not contain usury and things that can harm either party, as Allah SWT has faith in the QS. Al-Baqarah verse 275:

"That is because they say that buying and selling is the same as usury. Even though Allah has justified the buying and selling and forbidding usury. "

The market mechanism built in Islam is based on Islamic teaching norms related to economic activities. Market mechanism is not a perfect or standard thing so it is possible to fail in achieving economic goals. This is where intervention is needed so that the market mechanism runs in accordance with the interests of the Islamic economy.

In Islamic teachings, the market is placed in a position proportionally different from the extreme views of capitalism and socialism. The market is not the only major distribution mechanism in the economy but only one of the various mechanisms taught by Islamic law.

Perfect Competition Market in Islam. The Islamic market mechanism according to Ibn Taymiyyah must have the following criteria:

1. People must be free to enter and exit the market. Forcing residents to sell goods without any obligation to sell them is an unfair act and injustice is prohibited.
2. An adequate level of information about market forces and merchandise is necessary.
3. Monopolistic elements must be removed from the market so that all forms of collusion between groups of sellers and buyers are not permitted.
4. Homogeneity and product standardization are highly recommended when product counterfeiting occurs, fraud and cheating in presenting the items.
5. Any deviation from honest economic freedom, such as perjury, improper weighing, is condemned by Islamic teachings.

From Ibn Taymiyah's opinion above about the market mechanism in Islam, we can see that these mechanisms lead to the characteristics of a perfectly competitive market. That means that the market in Islam is what in conventional theory is called the perfect competition market, where the assumptions mentioned by conventional economists are (found) in the Islamic market.

One example of perfect competition in the Islamic market is what happened during the caliph Umar bin Khattab RA. At that time Umar was walking on the date market, when that Umar found one of the traders who sold below the price in the market. Umar gave two options to the seller, the first to raise the price to the same price on the market or out of this market.

The above story can be concluded that in a perfectly competitive market the price offered is the same as the price offered by all traders in the market if the merchandise is not differentiated (different).

### **Adam Smith vs Ibn Taymiyyah**

The concept of market mechanisms offered by capitalism in its development has given rise to market monopolies. Where the authorities or investors control the price according to their needs. Thus, the prices formed in the market are not the result of supply and demand in the market, but the provisions of the investors. Contrary to the capitalist system, in socialism the existing market mechanism is very much influenced by the steps taken by the government. The two conventional systems will have an impact on the lack of perfect competition, even leading to unfair competition. Yet in his book "Wealth of Nations" Adam Smith states that there is an invisible hand that will guide market participants so that market interaction can lead to the desired results.

If we apply this Adam Smith theory in conventional economies (capitalist and socialist), then market objectives cannot be achieved because in the capitalist system there will be market power that will bring the market to monopolistic competition and in the socialist system there will be government control over prices so that supply and demand unable to adjust to it naturally. This results in paralysis of the invisible hand strength in coordinating market players in shaping the economy.

In contrast to the above, perfect competition is very much in accordance with the theories put forward by Ibn Taymiyah which states that in the Islamic market there is freedom of economic freedom but there is also government intervention within the boundaries and circumstances that are needed. Perfect competition is very possible when the economic system used is the Islamic system. The theories put forward by Adam Smith can be realized when the market at hand is a perfectly competitive market. So, when the system used is a system of capitalism and socialism, a perfectly competitive market will be difficult to occur.

### ***Method***

This research method is qualitative which intends to understand phenomena about what is experienced by research subjects such as behavior, perception, motivation, actions, etc. holistically, and by means of descriptions in the form of words and language, in a special natural context and with utilize various natural methods related to perfect competition in the perspective of Islamic economics.

## **Result**

A perfectly competitive market is a market consisting of many sellers and buyers in which the seller accepts the market price because the output produced is relatively small and the goods traded are not differentiated (homogeneous). The characteristics of a perfectly competitive market are: a) The product sold must be homogeneous, b) between the seller and the buyer there is no asymmetric information, c) the firm's output is smaller than the market's output, d) the company acts as a price taker, and e) Freedom of entry and exit from the market.

A perfectly competitive market structure is a market structure that is closer to the Islamic market structure. Proof of closeness is: a) People must be free to enter and exit markets, b) An adequate level of information about market forces and merchandise is necessary, c) Monopolistic elements must be removed from the market, d) Homogeneity and product standardization is highly recommended when product counterfeiting occurs, fraud and fraud in presenting these items, and e) Any deviation from honest economic freedom, such as perjury, improper weighing, criticized by Islamic teachings.

The mechanism described by Ibnu Taimiyah is the same as the characteristics of a perfectly competitive market. Which means that the Islamic market is the perfect competition market that everyone wants. Because in it there is no market power and assumptions in a perfectly competitive market it is very possible if Islamic rules are applied in that market.

Looking at the reality that is happening right now, the assumptions of the perfect competition market are very rarely found, even though the perfect competition market is an ideal market, where consumers and producers are not discriminated against. One way that the authors suggest that these assumptions can be created is by applying Islamic rules.

Islam has governed how interactions in the market. Islam prohibits hoarding, monopoly, usury and others which are the beginning of the creation of a market mechanism that approaches the perfectly competitive market. We should now use the Islamic system because Islam has exemplified how the market should move as happened during the caliph Umar bin Khattab and the system succeeded in creating a perfect competitive market.

