

ISLAM, ACCOUNTING AND FINANCE
CHALLENGES AND OPPORTUNITIES
IN THE NEW DECADE

Norhayati Mohd Alwi | Sherliza Puat Nelson



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ACCOUNTING AND FINANCE:
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IN THE NEW DECADE**

**Editors:
Norhayati Mohd Alwi
Sherliza Puat Nelson**



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CHAPTER 5

GLOBAL FINANCIAL CRISES: AN EXPLORATORY CONCEPTUAL SURVEY OF SELECTED LITERATURES FROM AN ISLAMIC PERSPECTIVE

Dzuljastri Abdul Razak
Mustafa Omar Mohammed

1. Introduction

The world has been experiencing increasingly frequent financial crises, for example, the crises in Mexico (1994), the East Asian financial crisis (1997), Brazil (1998), and the recent global financial crisis (2008), among others. The latter is referred to as the worst crisis since the Great Depression (Smolo and Mirakhor, 2010). It caused major economic upheavals. Millions of jobs were lost and trillions of dollars in market value evaporated. The crisis was primarily triggered by the collapse of the sub-prime mortgage market (Mirakhor and Krichene, 2009). In 2006, lenders provided \$640 billion in subprime loans derived from doubtful borrowers often referred as NINJA (no income, no job) motivated by bankers' greed to maximize profit (Abdul Razak, 2011)

Several reasons have been attributed to the causes of financial crises. They include excessive leverage (Friedman and Friedman, 2008) inadequate regulatory framework, and lack of market prudence and discipline (Mirakhor and Kirichene, 2009), absence of sophisticated, reliable and innovative hedging and risk management instruments (Weitzner and Darroch, 2009) and flaws in the fractional reserve system (Meera and Larbani, 2009)

Recently, especially after the 2008 global financial crisis, the focus of the causes of these crises is shifting to ethics. There is increasing awareness that the unethical behaviors such as lack of transparency and disclosure, earnings management and greed of companies and investors are the main culprit to the crises. There is quite a volume of literature that has discussed these unethical behaviors from purely the mainstream conventional perspective. On the other hand, there are few studies that have tried to analyze these behaviors from *Shariah* perspective. These studies have discussed the issues at a macro philosophical normative level such as for instance attributing the crises to *riba*, *maysir* and *gharar*. The third category of literature is works from Muslim scholars that have critically evaluated the mainstream ethical studies from an "Islamic Looking Glass". The present study has gone against these trends. Instead, it has focused on the areas of commonality.