

# REFOCUSING THE FUNDAMENTAL PRINCIPLES IN TEACHING ISLAMIC MACROECONOMICS

4<sup>th</sup> Workshop on Islamic Economics  
Curriculum: Teaching of Macroeconomics  
from the Islamic Perspectives from Southeast  
Asian Universities

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# Preliminaries



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- To provide students with a self-contained opportunity to attain a deeper understanding and working knowledge.
- Purpose: to apply basic economic concepts years later, in situations relevant to their lives and different from those encountered in the classroom.

# Economic Literacy



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- The first economics course should conform to the standards before targeting other goals (advanced level).

# Economic Literacy: NCEE Standards

## **Standard 1: Productive resources are limited.**

scarcity; choice; goods; services; wants; opportunity cost; consumers; productive resources; natural resources; human resources; capital resources; human capital; entrepreneurs; producers

## **Standard 2: Effective decision making requires comparing the additional costs of alternatives with the additional benefits.**

decision making; marginal analysis; cost; benefit; profit maximization

## **Standard 3: Different methods can be used to allocate goods and services.**

economic systems; market economy; command economy; traditional economy; What?How? For Whom?

## **Standard 4: People respond predictably to positive and negative incentives.**

incentives; choice

## **Standard 5: Voluntary exchange occurs only when all participating parties expect to gain.**

exchange; barter; voluntary exchange; barriers to trade; imports; exports



# Economic Literacy: NCEE Standards

**Standard 6: When individuals, regions, and nations specialize in what they can produce at the lowest cost and then trade with others, both production and consumption increase.**

**Standard 7: Markets exist when buyers and sellers interact. This interaction determines market prices and thereby allocates scarce goods and services.**

**Standard 8: Prices send signals and provide incentives to buyers and sellers. When supply or demand changes, market prices adjust, affecting incentives.**

**Standard 9: Competition among sellers lowers costs and prices, and encourages producers to produce more of what consumers are willing and able to buy. Competition among buyers increases prices and allocates goods and services to those people who are willing and able to pay the most for them.**

**Standard 10: Institutions evolve in market economies to help individuals and groups accomplish their goals. Banks, labor unions, corporations, legal systems, and not-for-profit organizations are examples of important institutions.**

# Economic Literacy: NCEE Standards

**Standard 11: Money makes it easier to trade, borrow, save, invest, and compare the value of goods and services.**

**Standard 12: Interest rates, adjusted for inflation, rise and fall to balance the amount saved with the amount borrowed, which affects the allocation of scarce resources between present and future uses.**

**Standard 13: Income for most people is determined by the market value of the productive resources they sell. What workers earn depends, primarily, on the market value of what they produce and how productive they are.**

**Standard 14: Entrepreneurs are people who take the risks of organizing productive resources to make goods and services. Profit is an important incentive that leads entrepreneurs to accept the risks of business failure.**

**Standard 15: Investment in factories, machinery, new technology, and in the health, education, and training of people can raise future standards of living.**

# Economic Literacy: NCEE Standards

**Standard 16: There is an economic role for government in a market economy whenever the benefits of a government policy outweigh its costs.**

**Standard 17: Costs of government policies sometimes exceed benefits.**

**Standard 18: A nation's overall levels of income, employment, and prices are determined by the interaction of spending and production decisions made by all households, firms, government agencies, and others in the economy.**

**Standard 19: Unemployment imposes costs on individuals and nations. Unexpected inflation imposes costs on many people and benefits some others because it arbitrarily redistributes purchasing power.**

**Standard 20: Federal government budgetary policy and the Federal Reserve System's monetary policy influence the overall levels of employment, output, and prices.**

# Content and Delivery



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- Colander – ‘Content’ issues of teaching.
  - ▣ What role does the content serve?
  - ▣ Should the content be changed?
  - ▣ “Too much focus on teaching methods rather than on content is pushing us in the direction that makes it easier for other economists to dismiss research on economics education.” - Colander

# Overview of the Course

- Course name: Principles of Macroeconomics
- 3 credit hours; 3 contact hours per week; 14 weeks per semester; a total of 42 contact hours
- Enrolled by all 1<sup>st</sup> year students in the faculty before specializing in their respective bachelor degree (Accounting, Business, Finance or Economics)
- 7 to 8 sections per semester with 4-5 instructors

# Course Objectives:

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- To introduce the **basic concepts in international trade and finance** as well as the concepts of macroeconomics in **Islamic perspective.**

# Learning Outcomes:



Upon completion of this course, students should be able to:

- Identify and realize the importance of understanding basic macroeconomic concepts.
- Evaluate the macroeconomics conditions and identify probable cause of macroeconomic disequilibrium.
- Recognize the appropriate macroeconomics policies and its alternative solutions.
- Analyze the probable problems and issues faced by open economy which engaged in international trade.

# Course Contents

## □ **Macroeconomic Overview**

- ▣ Scarcity; Production Possibilities Curve; Growth
- ▣ The Market System AND Circular Flow of Incomes
- ▣ Islamic Economic System

## □ **Measurement of Domestic Output and National Income**

- ▣ Concept of Gross Domestic Product (GDP)
- ▣ The Expenditure & Income Approaches
- ▣ Nominal GDP versus Real GDP
- ▣ Price Level & the GDP Deflator
- ▣ Limitations of GDP Measure

# Course Contents (cont'd)

- **Business Cycles, Economic Growth and Instability**
  - ▣ The Business Cycles
  - ▣ Unemployment; Inflation
  - ▣ Redistribution effects of Inflation
- **Basic Macroeconomic Relationships**
  - ▣ Income-Consumption, Income-Saving Relationships
  - ▣ Interest Rate-Investment Relationships
  - ▣ Shifts of Investment Demand Curve
  - ▣ Multiplier Effect

# Course Contents (cont'd)

- **The Aggregate Expenditures Model**
  - ▣ Consumption & Investment Schedules
  - ▣ Equilibrium GDP
  - ▣ Changes in Equilibrium GDP and the Multiplier
- **Aggregate Demand & Aggregate Supply**
  - ▣ Aggregate Demand; Aggregate Supply;
  - ▣ Equilibrium in the AD-AS Model
  - ▣ Changes in Equilibrium

# Course Contents (cont'd)

## □ **Fiscal Policy**

- ▣ Government Budget
- ▣ Automatic & Discretionary Fiscal Policy
- ▣ Built-in Stability
- ▣ Public Debt

## □ **Money, Banking and Financial Institutions, Money Creation**

- ▣ Functions & Measures of Money
- ▣ Federal Reserves and the Banking System
- ▣ How Commercial Banks Create Money
- ▣ Islamic Banking: Introduction



# Course Contents (cont'd)

## □ **Monetary Policy & Stabilization**

- ▣ Money Supply, Money Demand, & Interest Rates;
- ▣ Central Bank & Tools of Monetary Policy
- ▣ Monetary Policy

## □ **International Economics**

- ▣ The Law of Comparative Advantage
- ▣ Gains from Trade
- ▣ Arguments for Protectionism

# Course Contents (cont'd)

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- **Balance of Payments and Exchange Rates**
  - ▣ International financial transactions
  - ▣ The Balance of Payments
  - ▣ Fixed Exchange Rates
  - ▣ Flexible Exchange Rates

# Teaching Approaches & Strategies



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  - ▣ Scarcity, economic system, money & banking
- Inquiry approach - Inspire students to be active learners
  - ▣ Group discussions
  - ▣ Assignments

# Teaching Approaches & Strategies

## Integrated approach:

- Examining the mainstream economic concepts and assumptions from the Islamic perspective
- Introducing relevant Islamic concepts and values as an alternative
- Discussing the potential implications of the Islamic concepts and values on
  - ▣ the behavior of economic agents
  - ▣ The overall economic system

# Teaching Approaches & Strategies

- The typical approach in introducing Islamic Economics is through the conceptual and philosophical approach – eg.: scarcity
- Sometimes, we use of diagram(s) to complement the conceptual understanding
- Q: Which economic (diagram-oriented) model do we usually introduced first in the Islamic (macro)economics course?



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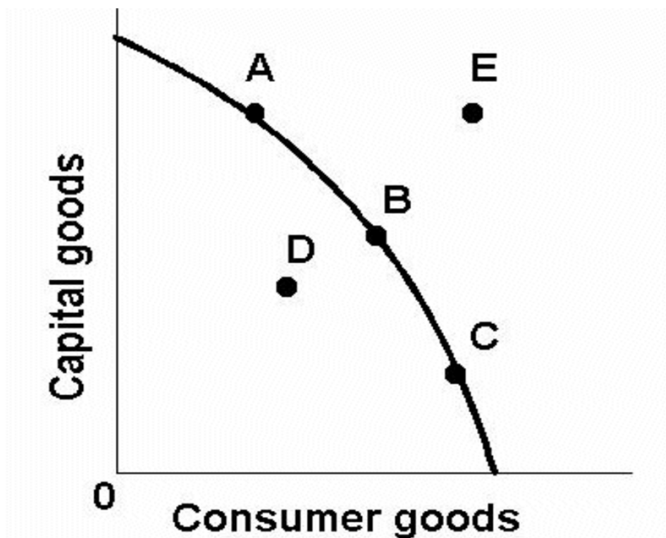
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# Illustration

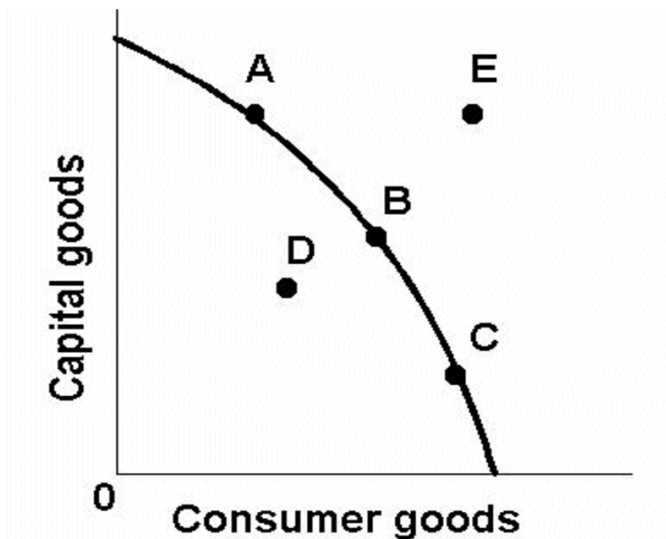
□ Why PPC?

## Production Possibilities



# Illustration

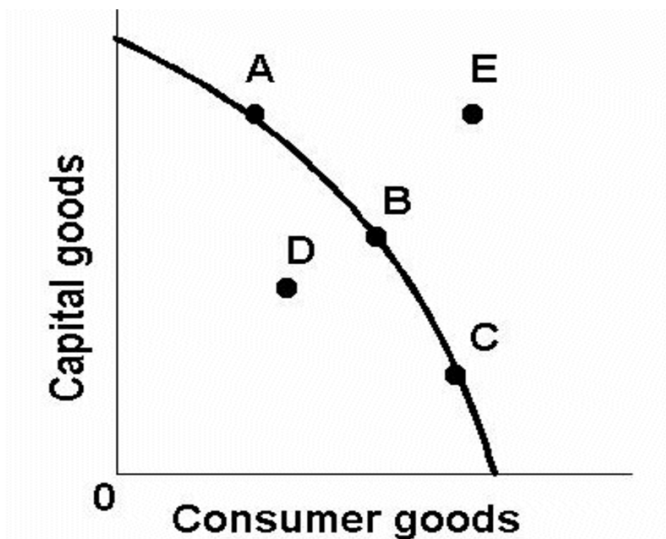
## Production Possibilities



- Why PPC?
- Relevant to the scarcity and opportunity cost concepts

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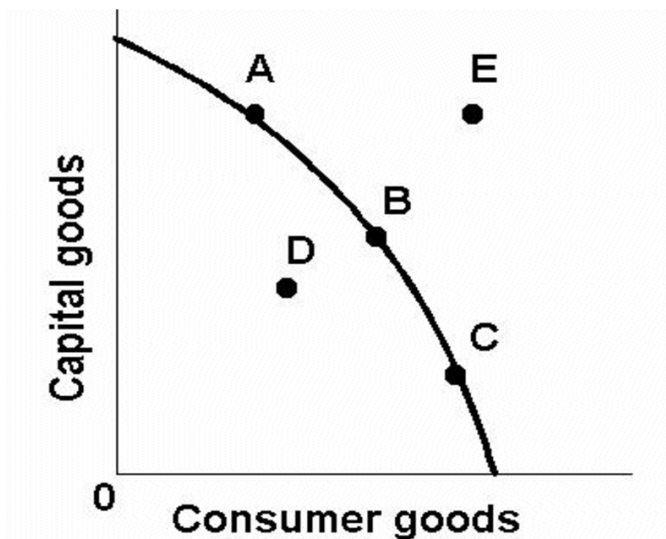
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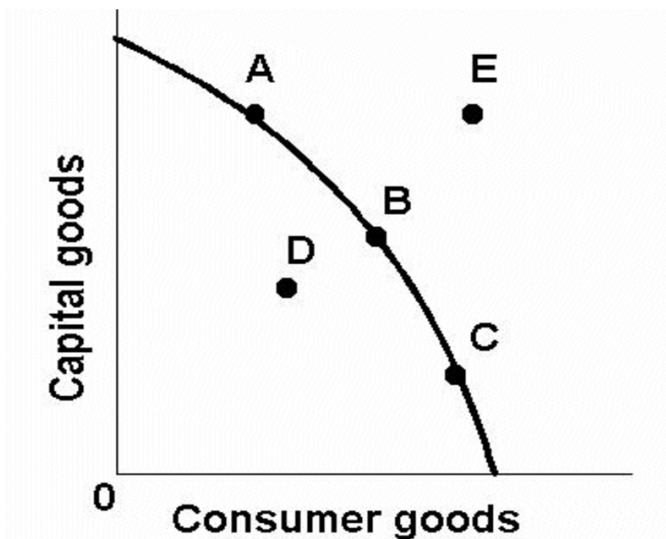
## Production Possibilities



- Why PPC?
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- Economic model and its limitations (assumptions)
- Microeconomics and macroeconomics perspectives

# Illustration: Macro perspectives

## Production Possibilities

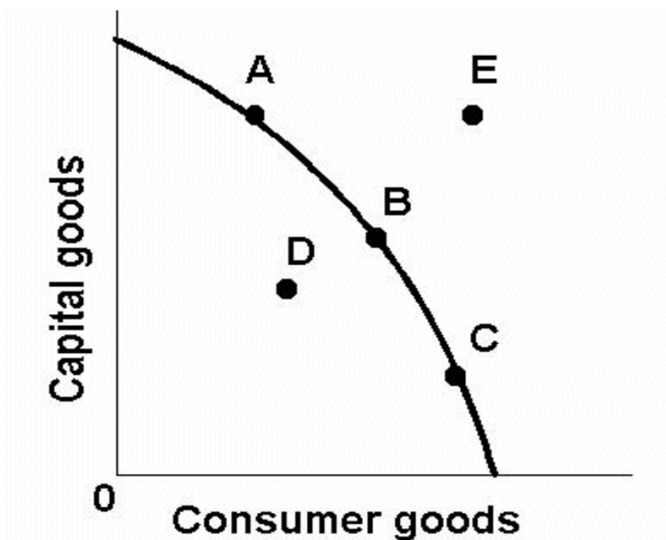


1. Limits and constraints
  - ▣ Part of divine scheme
  - ▣ Subject to human knowledge and effort.
  - ▣ Require continual explorations, inventions and innovations.
  - ▣ Avoid wastage (israf)



# Illustration: Macro perspectives

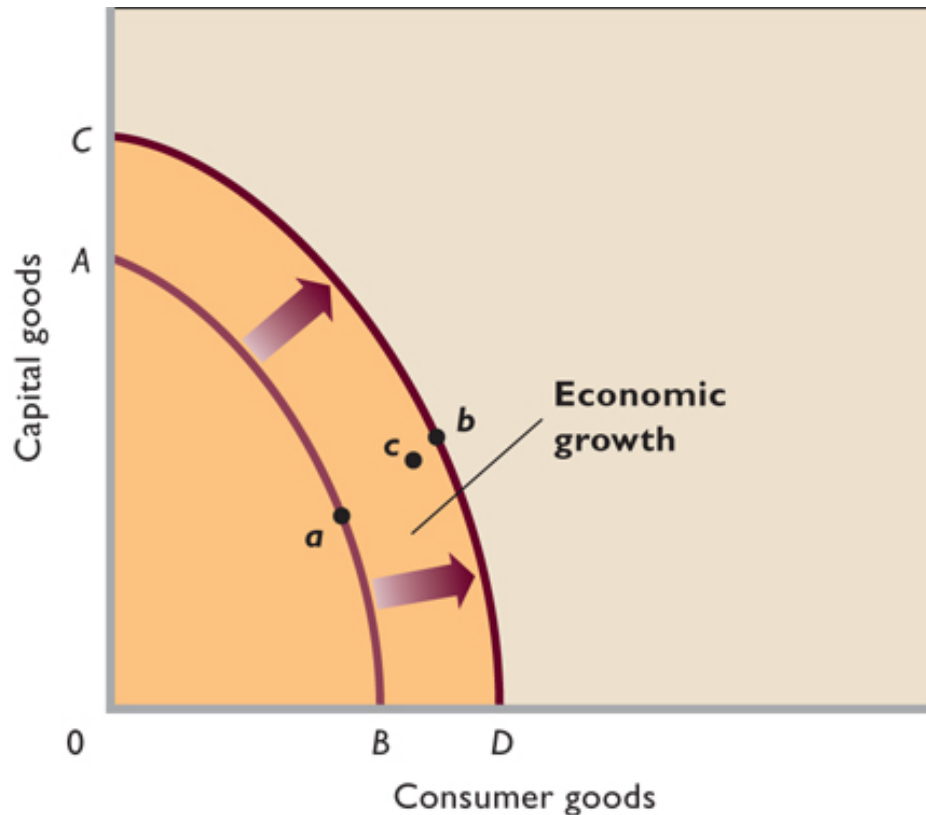
## Production Possibilities



### 2. Resource allocation

- ▣ To produce enough goods and services to meet the basic needs.
- ▣ Islam endorses the pursuit of self-interest within the confines of its code of conduct.
- ▣ Priority to the promotion of social interest.

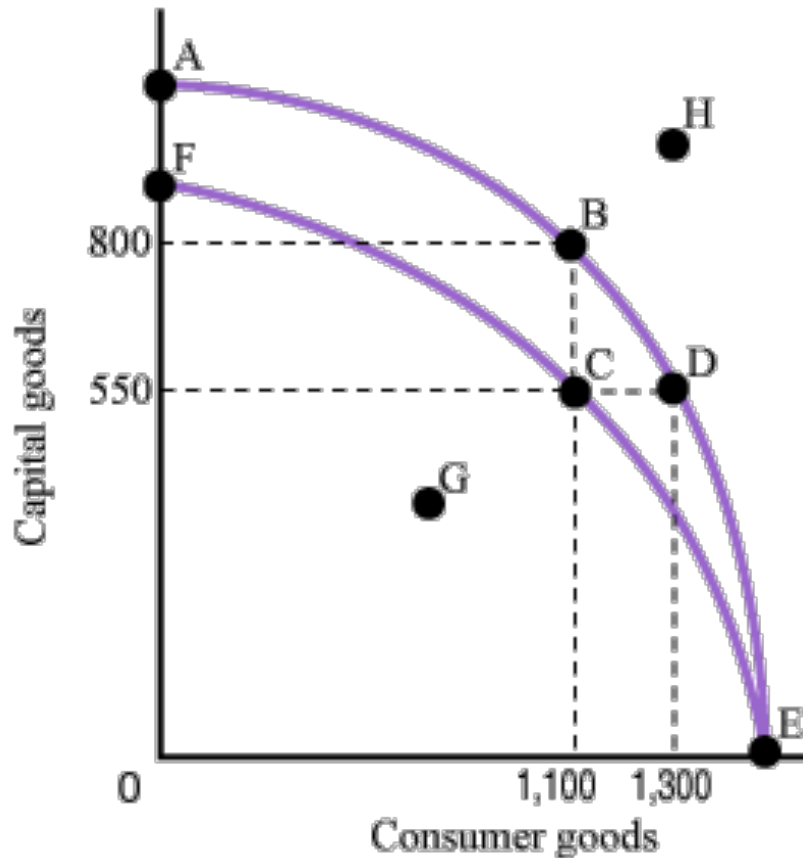
# Illustration: Macro perspectives



## 3. Goals

- ▣ Growth, full-employment, stability and distributive justice
- ▣ The notion of Falah
- ▣ The process of value selection
- ▣ The measurement issues

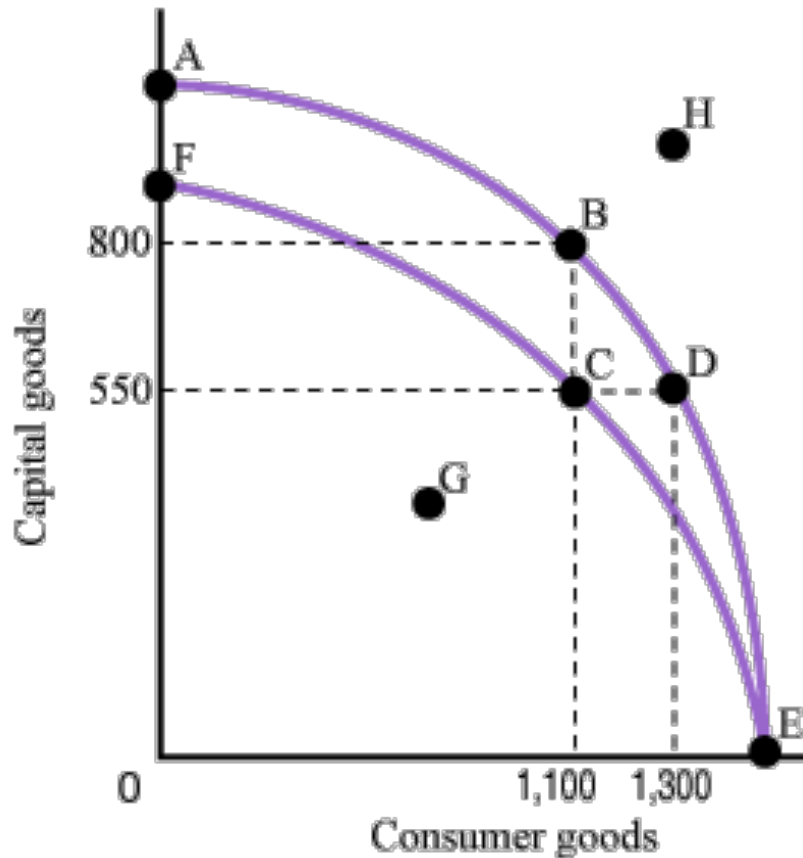
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## 3. Goals: Mainstream

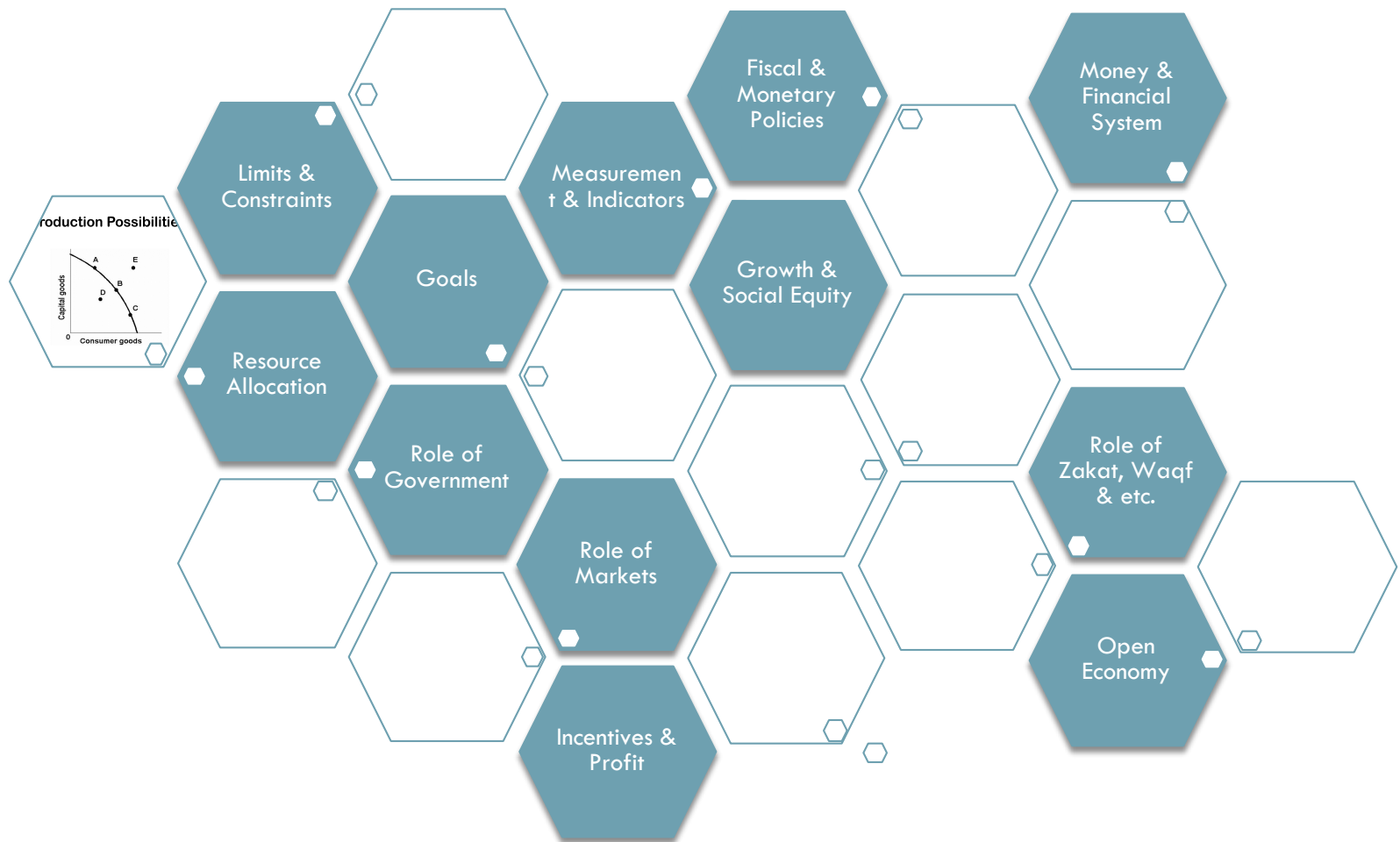
- ▣ Focuses only on the material or mundane component of well-being.
- ▣ Promotes capital accumulation for future growth.

# Illustration: Macro perspectives



- Questions for students:
  - ▣ How do we perceive this from the context of Islamic economics?
  - ▣ What would be the implications?
  - ▣ Do you agree with the idea?
  - ▣ Where is the connection?

# Islamic Economics Curriculum



# Challenges



- Coordination - coverage and depth
  - ▣ Across different sections/ classes
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- Timing and syllabus coverage



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- Teachers background
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- Timing and syllabus coverage
- Suitable materials
  - ▣ Non-uniform and unstandardized
  - ▣ Scattered and disorganized

# Issues & Concerns



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- Do we need to have a separate standard in teaching Islamic economics?
- Does the standards different between conventional and Islamic economics?
- Does the content of the existing Islamic Macroeconomics form as an integral part of the curriculum?

# Recommendations



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- Approach and content has to be uniformed for the respective level of studies.
- The content has to be unified to bring coherent in curriculum development.



# Thank you

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