Define Terms of Trade . What are the types of TOT

- Terms of trade (TOT) is a measure of how much imports an economy can get for a unit of export goods
- For example, if an economy is only exporting apples and only importing oranges, then the terms of trade are simply the price of apples over the price of oranges.
- In other words, how many oranges can you get for a unit of apples

- In the simplified case of two countries and two commodities, terms of trade is defined as the ratio of the total export revenue, a country receives for its export commodity to the total import revenue it pays for its import commodity. In this case the imports of one country are the exports of the other country
- For example, if a country exports 50 dollars' worth of product in exchange for 100 dollars' worth of imported product, that country's terms of trade are 50/100 = 0.5. The terms of trade for the other country must be the reciprocal (100/50 = 2).

- When this number is falling, the country is said to have "deteriorating terms of trade". If multiplied by 100, these calculations can be expressed as a percentage (50% and 200% respectively). If a country's terms of trade fall from say 100% to 70% (from 1.0 to 0.7), it has experienced a 30% deterioration in its terms of trade.

Types of TOT

- **Improving terms of trade** : If a country's terms of trade improve, it means that for every unit of exports sold it can buy more units of imported goods.

- **Worsening terms of trade :** A worsening terms of trade indicates that a country has to export more to purchase a given quantity of imports.

Terms of trade are influenced by a number of factors. Important among them are given below:

1. **Elasticity of Demand**
2. **Elasticity of Supply**
3. **Nature of Goods:** If a country is producing and exporting only primary goods, and importing manufactured goods, the terms of trade will be unfavourable .

4. Economic Development:

- The economic development has two types of effects:

(a) The demand effect: It refers to the increase in demand for imports as a result of increase in income associated with economic development

(b) The supply effect: It refers to the increase in supply of import substitutes or import competing goods. The net effect of economic development depends upon the extent of these two effects.

5. Rate of Exchange: Changes in the rate of exchange of a country's currency also affect its terms of trade

6. Tariff Policy: Tariffs and quotas also influence the terms of trade. These measures, if not retaliated by other countries, improve a country's terms of trade by restricting imports.

7. Size of Population

8. Size of Country

9. Degree of Competition: If a country enjoys monopoly power in case of its exports and there are many alternative sources of supply of its imports, then it will have favourable terms of trade.

Explain the importance of Zakat in the process of Distribution of wealth in Islamic State?

The Concept of Zakat

Zakat has two meanings in Arabic

i. That which purifies

ii. That which causes growth.

i. That Which Purifies

This indicates that Zakat purifies the human soul by keeping a person away from illegal source of earning, eliminating the love for materialism and overcoming the sense of pride for being wealthy.

ii. That Which Causes Growth

- This means that Allah protected the wealth from which Zakat had been paid and in the way the peace of mind of the person who pay Zakat.
- In economics technically Zakat defined as Zakat is a “transfer payment” which Sahib-e-Nisab muslim pay to poor given rate in the month of Rajab.

Assessment of Zakat

1. Sahib-e-Nisab Muslim

A muslim who owns and keeps his/her possession at least 7 1/2 total gold of 52 1/2 total silver or cash money to the equivalents value is considered a Sahib-e-Nisab Muslim.

2. Exposed and Unexposed Wealth

Zakat is paid from two types wealth

- i.Exposed (e.g. Bussiness, Salary, and goods) and

ii. Unexposed (e.g. gold, silver, cash money etc)

3. The Rate of Zakat

If paid on a tleast 7.5 tola golds or 52 tola silver or the equivalents value of cash, goods, salary etc.

i. The rate of Zakat is 2 1/2 of total value of (cash, goods, salary, building etc)

ii. The rate of Zakat is 10% for the Agricultural Produce of land.

Beneficiares of Zakat

1. **The Poor.** Those people who are below than Sahib-e-Nisab.
2. **The Needy.** They are the people who are unable to earn their living e.g. handicapped disabled, unemployees person.
3. **The Converts.** Those who convert to Islam have right to get Zakat.
4. **The Debtors.** Those who heavily indebbed can get zakat to repay their Zakat.
5. **Mujahideen.** Zakat can also be given to Mujahideen.

- It is clear that Zakat is a source of financial assistance to the poor and needy to become economically independent.

Economic Significance / Importance of Zakat

1. Fair Distribution of Wealth

Islam does not permit that the wealth is distributed in few hands. Therefore people have to pay 2 1/2 % Zakat to poor.

2. Elimination of Class Conflict

Zakat makes the poor obliged and thus the problem of class conflict does not arise at all.

3. Economic Stability

Zakat promotes the velocity of Calculation of money due to which aggregate demand for goods and services increases

- This determines the lives of investment, income and employment on stable footing. Hence an Islamic economy is always stable.

4. Social Security

Zakat fund not only covers the poor and the disabled but it also provides social security to the unemployed who may later on prove to be valuable assets of the nation.

5. Discouragement of Anti-Social Activities

Zakat which is paid from (rizq-e-halal) stop muslims from anti social activities like smuggling etc.

6. Social Welfare

Hospitals, schools, and handicrafts for the poor can be constructed by making use of the zakat fund.

7. Self Reliance

Zakat enables peoples to take care of each others needs.

8. Control of Crimes

The Major causes of crimes particularly the poverty of people. This can be overcome by paying Zakat regularly. Zakat decrease the crime rate.

Riba :Meaning and its impect

Riba:

- The word *riba* means excess, increase, or addition. From a Shariah point of view, it can be interpreted as: an excess compensation or unjustified return in a lending, borrowing, or sale transaction.
- The most common example of Riba is taking a loan from a conventional bank: the bank gives a loan, and the borrower repays the money at a later date with a percentage increase over the original amount.

Types of Riba :

- **Riba Nasiah :**
- Unjustified increment in money lent whether in kind or cash over and above the principal amount.
- **Riba Fadl :**
- Occurs in trading and exchange transactions, in which unequal exchange of certain commodities (gold, silver, dates, etc.) of same kind and same basis.

- **Impact of Riba :**
- Economic
- Social
- Moral
- **Impact of Riba on Economy :**

1. **Reduced Economic Productivity Rate (Negative impact of Riba on Savings-Investment):**

- Typically, a rise in the interest rate encourages people to save more as the former leads to increased income. However, an increase in the interest rate also raises the cost of capital, resulting in a reduction in investment within the economy.

- **The consumptive loan:** This kind of loan is normally borrowed by poor and needy people for their personal needs, however, the Riba charges render the payment of this loan high and almost impossible for such people and to the extent that they will have to borrow one loan after the other in order to get themselves out of this problem.
- Even after paying Riba equal to many times the original principal amount, the principal amount remains as it was before without any decreasing, rather, the major portion of the income of the poor debtor will be taken away by the money-lenders .
- Who make the condition of poor people in general miserable to the extent that they find themselves unable to take care of their family by providing a proper food for them, not only that even when they become sick they will not be able to buy the necessary medicine for lack of money.

- This naturally kills the interest and sincerity of the majority of the poor people in their work.
- When the fruit of their hard work is taken away by the selfish money-lenders, definitely they cannot put their whole heart and effort into their work, and this will lower the quality and standard of national production, and the results will be the deterioration and destruction of the country.

Economic loan: There are three evils out of many regarding the fixed interest on economic loan, and they are:

1. Those people who cannot pay an interest higher than or equal to the market rate cannot draw in capital howsoever useful they may be for their country development and growth.

2. All the available money flows into those people who can pay higher interest rate or channels of business and dealings which can bring Riba equal to or greater than the market rate of Riba /interest, whosoever harmful or ruinous they might be from the national development, prosperity and community wellbeing point of view.

- It will be difficult for any business or trade etc. to guarantee a fixed and uniform rate of profit under all circumstances.
- Not to speak of such a guarantee, there cannot be any guarantee against loss in any business also.
- Therefore, the business, which borrows capital at a fixed rate of interest, can never be free from some kind of serious risk or loss.

3. As the money-lender himself is not directly a partner in the profit or the loss of the business but keeps in mind only his guaranteed fixed interest, he is not interested in the business welfare.

- His only concern is his own interest; therefore very selfishly tries to withdraw and withhold his money whenever he has even the slightest fear of a slump in the market.
- In this way he creates panic by his selfishness and paves the way for a further crisis and when there is already a crisis, he accelerates it into a disaster.
- There are many examples in this regard in the existing global financial system, which relies entirely on dealing in Riba .
- Where some individuals or institutions have managed to create confusion and uncertainty in the global financial market for self interest and selfishness.

- These three evils have shown clearly that Riba in general decreases the national economic wealth and hinders the progress and development of a country, therefore, no one can deny the truthfulness of the Allah’s law pertaining Riba.
- **Money Supply**
- Economists generally agree that high rates of inflation and hyperinflation are caused by an excessive growth of the money supply.

- Money supply should be maintained at a rate that would approximately keep prices constant.
- Interest based system results in inflation, and negative impact of inflation coupled with loose government spending and an exploitative banking system, is a sure recipe for disaster.
- **Negative Impact on the Performance of Capital in Small Businesses**
- Small businesses are the worst affected in interest-based economies.
- For capital to perform in a small business is as easy as swimming in a canal.
-

- If it doesn’t sink at once it sinks at last.
- Indirectly, this also undermines the productive exploration and exploitation of numerous natural resources.
- **Business Risk**
- No business is risk-free but doing business on interest loans compounds the risk since it binds the businessman to pay interest at a fixed rate whether or not the business has made profit.

Instability in Market Demand and Supply :

- Riba is that extra liability created in excess of the produce available and that does not exist.
- Every liability is a demand in practice, the basic rule of economics known to every one is that to maintain economic equilibrium (stability) in the society .
- The supply side should be equal to the demand, if the demand is more than the supply – a shortage will occur.
- Creating an extra liability means creating an extra demand without increasing equal supply, this will start a never ending mechanism of perpetually increasing the shortage of that produce in the society.

Impact of Riba on Society :

- In consequence, the rich become richer and the poor become poorer.
- The class distinction therefore grows and takes the shape of class conflict in course of time.
- From societal point of view, this is one of the main reasons of interest being prohibited.

- **Impact of Riba on Moral :**
- It becomes obvious that riba is based on greed, selfishness, stinginess, hard-heartedness, narrow-mindedness.
- Also, it creates by its evil nature, cruelty, money-worship, and kills the spirit of fellow-feeling and co-operation among the society.
- For all these reasons and others, one can say confidently that Riba is destruction for society spiritually, morally and economically.

Riba vs. Profit

Riba	Profit
•When money is "charged", its imposed positive and define result is *Riba*	• When money is used in trading (for e.g.) its uncertain result is profit.
• By definition, *Riba* is the premium paid by the borrower to the lender along with principal amount as a condition for the loan.	• By definition, profit is the difference between the value of production and the cost of production.
•*Riba* is prefixed, and hence there is no uncertainty on the part of either the givers or the takers of loans.	• Profit is post-determined, and hence its amount is not known until the activity is done.
• *Riba* can not be negative, it can at best be very low or zero.	•Profit can be positive, zero or even negative
•From Islamic *Shariah* point of view, it is *Haram.*	•From Islamic *Shariah* point of view, it is *Halal.*

The Conventional View of Market Vs Islamic Perspective

The Conventional View of Market as a place where buyers and sellers establish a price through the exchange of goods and services.

Meaning of market, in a conventional sense, is a formal or informal arrangement in which a group of economic agents (individuals and/or firms) exchange goods and services, or exchange productive resources with each other in a buyer-seller relationship. . Highlights of the conventional market are as follows:

Maximization of profits and utility is the main objective of market participants. Any exchange that maximizes utility or profit is the domain of the market

- **The conventional market encourages self interest.** The accomplishment of self interest is the prime of the conventional market.
- **The conventional market is an exchange of goods and services of an open ended production set.**
- This includes the production and trading of any goods and services.
- It does not matter whether the goods or services (such as pornography, alcohol, etc.) are socially beneficial or harmful.
- The jurisdiction of production and exchange of goods or services is not restricted by any Divine code, such as “halal.
- As long as the production and exchange of goods or services maximizes profits, the definition of market is defined and satisfied by maximizing profits.
- Profit is the driving force of production in a conventional market.

From an Islamic point of view :

- Market is not just an exchange of goods or services between the two parties.
- The objectives and functions of market are fundamentally different than those of the conventional market.
- The participants in an Islamic market face dual objectives:

(i) maximization of the profits and utilities of the parties concerned and

(ii) maximization of the welfare of the world and the world hereafter.

- The market from an Islamic perspective is an institution or a channel of delivering maximal objectives.
- These objectives are maximizing financial goals (by providing greater well-being for mankind in this world) as well as ensuring a reward in the world hereafter.
- The objectives are not simply an exchange of goods between the two parties as implied in conventional wisdom.

Perfect Competition Market :

- A Perfect Competition market is that type of market in which the number of buyers and sellers is very large, all are engaged in buying and selling a homogeneous product without any artificial restrictions and possessing perfect knowledge of the market at a time.

A perfectly competitive market has the following characteristics:

- There are many buyers and sellers in the market.
- Each company makes a similar product.
- Buyers and sellers have access to perfect information about price.
- There are no transaction costs.
- There are no barriers to entry into or exit from the market.
- examples include the likes of agriculture, foreign exchange, and online shopping.

- **In perfect competition, the price of a product is determined** at a point at which the demand and supply curve intersect each other. This point is known as equilibrium point as well as the price is known as equilibrium price. In addition, at this point, the quantity demanded and supplied is called equilibrium quantity.

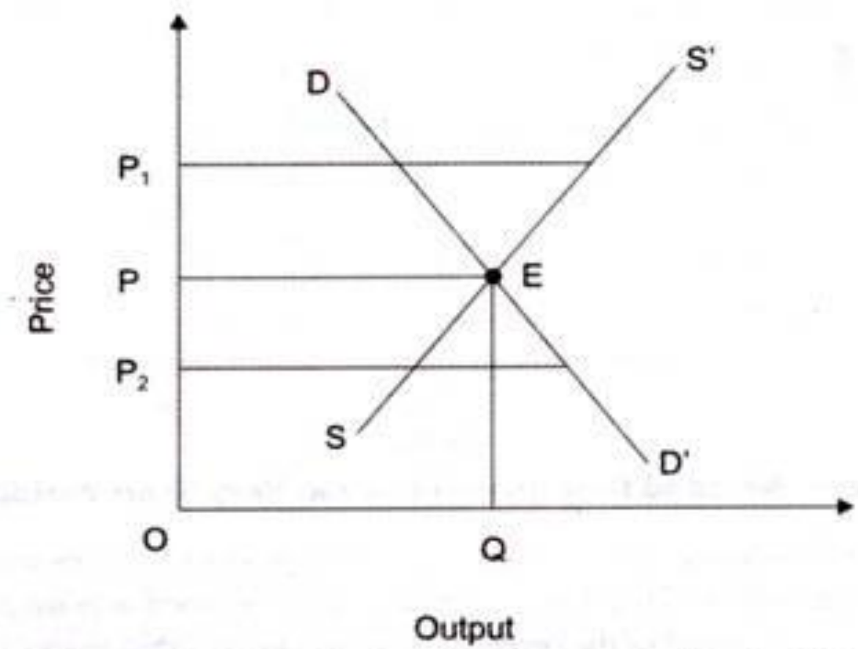

Figure-3: Price and Output Determination under Perfect Competition

- In Figure-3, it can be seen that at price OP1, supply is more than the demand. Therefore, prices will fall down to OP.
- Similarly, at price OP2, demand is more than the supply. Similarly, in such a case, the prices will rise to OP. Thus, E is the equilibrium at which equilibrium price is OP and equilibrium quantity is OQ.

Market Structure & Market Equilibrium ;An Islamic perspective.

Islamic implications relate primarily to three main profiles of market structure:

- In terms of the competitiveness (competition / monopoly) .
- In terms of marketable goods (consumer goods / productive factors)
- In terms of marketability (scope of marketable services)Yet, the idea of equilibrium must first be addressed

- **The Concept of Equilibrium:**
  Equilibrium, in general : the state in which an economic entity (e.g good price, factor price, consumer spending, producer output etc) is at rest so that it has no tendency for change over a given period of time .
- **How equilibrium is achieved**: when forces operating on the entity (e.g supply / demand of a good) are in balance for that period of time –
- **Does equilibrium make Islamic sense**? Examples from jurisprudence (sarf rate; ‘day price’, ‘equivalence price’, thaman al-mithl)“God permitted sale”. Implications from this verse The ‘just’ market price – the Prophet’s hadith.

- **Market Structures : (In terms of Competitiveness)** Focusing more closely on the Prophet’s tradition: Hadith: “ This is your market with no kharaj imposed on you”
- Choice of a large market place in Medina makes up for two conditions: large number of buyers/ sellers Maximum information efficiency No-tax policy (i.e kharaji in the hadith) this makes up for free entry and exit. Reference : A/ Rahman Yusri (in Arabic, 1998).

Monopoly :

- A monopoly market is a market which is dominated by a single seller.
- In many cases this monopoly is created and maintained by artificial entry barriers and unfair practices, such as bribery, localized price-cuts, buying of competitors, false advertisement campaigns, sabotage, fake infringement, lawsuits, coercion of supplier of raw materials, etc.
- **The Islamic position** is unambiguous on these issues. All such practices which are immoral and unethical are not permitted in Islam. Hence, Islam prohibits monopolies which are created and sustained by such unfair practices.

- From an Islamic perspective the monopolist's sole objective of profit maximization is in violation of Islamic principles.
- A market agent is not guided by the sole objective of profit.
- Rather he is driven by the spirit of Falah, which is more than the mere maximization of profit.
- Secondly, the monopolist's policy of restricting output and charging an exorbitant price is unethical and un-Islamic because such policies hurt the well being of the society in the form of unsatisfied needs.
- The opportunity of increased production and gainful employment is deliberately prevented from taking place at a higher level. So, the firm's behavior of restricting output for the sake of maximizing profits at the cost of the consumer's suffering is not permissible in Islam.

Theory of Distribution

- Distribution theory, in economics, the systematic attempt to account for the sharing of the national income among the owners of the factors of production—land, labour, and capital.
- Traditionally, economists have studied how the costs of these factors and the size of their return—rent, wages, and profits—are fixed.

Concept ofDistribution in an Islamic System :

- The teachings of Islam require people to always try to live a balanced life, namely by paying attention to the welfare of life in the world and salvation in the hereafter.
- One of the main principles in the Islamic economy is distributive justice. Distribution activities in the Islamic economic system must be based on two principles: freedom and justice .
- Freedom describes as freedom based on the values of monotheism and justice, not like the understanding of capitalists, which frees human actions to act and act without the intervention of any party.
- Thus, the balance between individuals with material and spiritual elements, the balance of individuals and society, and the balance of society with other communities is taken for granted.

- The principle of justice in distribution is illustrated by the prohibition of assets that only circulate in certain groups, even though the wealth is expected to circulate in a comprehensive manner and contribute to the welfare of the community (Qur’an of surah Al – Hasyr 7).
- Therefore, the accumulation of wealth by a group of people must be prohibited in the Islamic economic system.
- Islam suggests moving the flow of wealth to a lower class of society. In the interpretation of the Qur'an, a command that is highly recommended and must be applied in all aspects of life is an order to do justice.As explained in Surah Ar-Rahman (55) verses 7-9 towards justice in the economic field.
- Therefore, the concept of distribution in Islamic Economics must be based on the basic principles of Islamic economics, namely individual freedom, social insurance, prohibition of accumulating wealth, and fair distribution of wealth.

Rent :

- David Ricardo defined rent as "that portion of the produce of the earth which is paid to the land lord for the use of original and indestructible powers of the soil".
- Thus, rent is only a payment for the use of land. The following are the theories of rent:
- (i) Ricardian Theory of Rent, and
- (ii) Modern Theory of Rent.
- a) Ricardian Theory of Rent, is the payment for the use of only land
- Ricardian rent is also known as pure rent.

- **Modern Theory of Rent :**
- According to the modern theory of rent, the rent of a factor, from the point of view of any industry, is the difference between its actual earnings and transfer earnings (Rent = Present Earnings minus Transfer Earnings).
- Transfer earning refers to the amount of money, which a factor of production could earn in its next best-paid use (opportunity cost).
- Suppose, an hectare of land under cotton cultivation yields an income of Tk.15,000. If the same area is put into its next best use, namely, paddy cultivation, it earns an income of Tk.12,000, then it is its transfer earning(opportunity cost).
- Then, the rent of that hectare of land is Tk.3,000 (Tk.15,000-12,000)

- **Wage** :
- Wage is defined as the price paid for the services rendered by the labourer in the production process.
- If wages are paid according to the amount or quantum of work done, it is called piece-wage. E.g. wage for weeding in one acre of paddy field.
- If wages are paid to a labourer who works for a fixed period of time, it is known as time wage. E.g. wage for weeding per labourer per day.
- When payment is made in terms of cash or money, it is known as money wage or nominal wage

- **Interest** :
- Interest is the price paid for the use of loanable funds (capital) used in the production process
- **Profit** :
- Profit is the reward to an entrepreneur for the functions he renders in productive activity.
- Out of the income earned by the farm, land owner is paid rent, labourer is paid wage and capitalist is paid interest.
- Whatever is left over goes to the entrepreneur as profit. Hence, profit is also called a residual income.

What is a 'Foreign Direct Investment - FDI' ? Why do Bangladesh Needs FDI and how?

- An investment made by a company or entity based in one country, into a company or entity based in another country
- Foreign direct investments differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange.

- Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made.
- Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies

Why do Bangladesh Needs FDI:

- Bangladesh is a growing LDC and projected to be a developing country before 2021.
- At this point of time we have limitation is terms of technical knowhow, skilled manpower, power supply, infrastructure development, managerial capacity, product’s standards and international certifications etc.
- With so many limitations we have to grow further even faster to achieve the goal. Therefore foreign direct investment could be the best alternative to keep the wheel rolling, to move the economy faster toward prosperity.

What to do & how to do:

- Our investment promotion agencies could consider the following steps to attract foreign investment in an effective manner:

1. Priority sectors for inviting foreign investment have to be selected
2. Complete project proposals (fiscal & technical) shall be prepared
3. A long list of global investment giants could be made
4. Providing One Stop Investment Facility Services to the Investors

5. Post investment services

Causes of our failure to attract foreign investment could be listed as political instability, shortage of power, gas and other utilities supplies, absence of effective IPR imposition so on and so forth.

Repo and reverse repo

- In a repo, one party sells an asset (usually fixed-income securities) to another party at one price and commits to repurchase the same or another part of the same asset from the second party at a different price at a future date or (in the case of an open repo) on demand.
- If the seller defaults during the life of the repo, the buyer (as the new owner) can sell the asset to a third party to offset his loss.
- The asset therefore acts as collateral and mitigates the credit risk that the buyer has on the seller.

- Although an asset is sold outright at the start of a repo, the commitment of the seller to buy back the asset in the future means that the buyer has only temporary use of that asset, while the seller has only temporary use of the cash proceeds of the initial sale.
- Thus, although repo is structured legally as a sale and repurchase of securities, it behaves economically like a collateralised or secured deposit (and the principal use of repo is in fact the secured borrowing and lending of cash).

- The difference between the price paid by the buyer at the start of a repo and the price he receives at the end is his return on the cash that he is effectively lending to the seller.
- In repurchase transactions, and now usually in the case of buy/sell-backs, this return is quoted as a percentage per annum rate and is called the *repo rate*.
- Although not legally correct, the return itself is usually referred to as *repo interest*.
  An example of a repo is illustrated below.

- A **repurchase agreement** (repo) is a form of short-term borrowing for dealers in government securities. ... Repos are typically used to raise short-term capital.
- They are also a common tool of central bank open market operations.
- **Repo rate** is the rate at which the Central bank grants loan to the commercial banks for a short period against government securities.

- **Reverse repo** A purchase of securities with an agreement to resell them at a higher price at a specific future date. This is essentially just a loan of the security at a specific rate. **also called** reverse repurchase agreement.
- For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement (Reverse repo) .
- **Reverse repo rate** is the rate at which the commercial banks grant loan to the Central Bank