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Looking for Parameters in the Halal Exchange Market

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Abstract: This study develops a conceptual and operational framework for the halal exchange market by situating it within both classical and contemporary theories of economic exchange and the epistemological foundations of Islamic economics. While conventional exchange markets operate on assumptions of utility and profit maximisation, efficiency, and institutional regulation, halal exchange markets integrate these functional mechanisms with Shariah principles derived from the Holy Qur'an and Sunnah. Through a comparative analysis of exchange theories—including classical, neoclassical, institutional, behavioural, and political economy approaches—this study highlights the unique role of Tawhidic epistemology in shaping halal markets. Eight constitutive dimensions of exchange are examined: economic agents, initial endowments, preferences, markets and prices, contracts and rules, information structures, equilibrium conditions, and institutions/governance. The findings suggest that halal exchange markets are not merely differentiated by the exclusion of *riba* (usury), *gharar* (excessive uncertainty), *maysir* (gambling), and *tanajush*, but by embedding ethical accountability, fairness, and justice within their structural design. This study proposes a set of parameters to guide the development, regulation, and evaluation of halal exchange markets within the global economy. Implications are drawn for policymakers, regulators, and practitioners in fostering credible, transparent, and just halal marketplaces.

Keywords: Halal economy, Islamic finance, exchange market, political economy.

Introduction

An exchange market is an organised marketplace, whether physical or electronic, where people can buy and sell (exchange) various assets, such as commodities, stocks, sukuk, and currencies. The characteristics of an exchange market include standardised assets, price discovery through open trading, risk management tools such as profit rate swap and commodity tawwaruq, a diverse range of participants, and a focus on efficient matching of supply and demand, which subsequently determines the price of traded assets.

A new exchange market emerged in the middle of the 20th century: the halal exchange market, a religiously permissible market. The market has shown tremendous progress. As reported in the *State of the Global Islamic Economy Report*, the size of the halal economy increased from USD 1.9 trillion in 2015 to USD 2.4 trillion in 2024 (DinarStandard, 2016; DinarStandard, 2024). The major sectors contributing to this growth include the halal food and beverage industry, cosmetics, medicines, Islamic financial services, modest fashion, halal tourism, and Islamic media. The expansion of the halal economy and its sectoral contributions highlight the potential of the halal exchange market as a distinct market segment. Hence, the re-emergence of the halal economy on the international political-economic scene warrants an understanding of the political-religious conflicts between Western and Islamic civilisations (Al-Qaradawi, 1999; Esposito, 2018).

A halal exchange market also implies a halal economic system, which is rightly guided by Al-Qur'an and the sayings and actions (or al-hadith) of the Prophet Muhammad (peace be upon him). This system has been practised for more than 1,400 years, predating conventional economic schools such as the Classical, Marxian, Keynesian, Chicago, Hebrew School, and Austrian Schools.

However, these guiding principles are often missing in shaping the contemporary exchange market. Therefore, identifying and articulating the parameters of a halal exchange market is crucial, especially in the current context of emerging marketplaces that claim to serve halal trade. Marketplaces such as Jeddah Islamic Port, Penang Port, Rotterdam Port, and Pasar Martapura, which are currently operated under various jurisdictions, serve as examples of such exchange markets. Nevertheless, clear parameters that define a halal exchange market remain absent.

Therefore, the objective of this study is to examine the conceptual foundations, operational features, and governing principles of a halal exchange market, and to propose a set of parameters that can serve as guidelines for its development and evaluation in the global economic system.

The study will be organised into five sections. The second section reviews the literature on exchange markets and the halal economy. The third section discusses the methodology. The fourth section develops the parameters for identifying and evaluating a halal exchange market, supported by case examples of existing marketplaces. The final section concludes with implications for policy, practice, and future research.

An Overview of Economic Exchange Theory

The exchange of goods and services has been studied across different strands of economic theory – classical, neoclassical, institutional, Keynesian and post-Keynesian, Austrian, and behavioural. Each, as summarised in Table 1, offers its own lens. Their main perspectives will be discussed as follows.

The classical theory of exchange of goods and services emphasises that trade arises naturally from the division of labour, specialisation, and the pursuit of self-interest within markets. Scholars such as Adam Smith and David Ricardo argue that individuals and nations exchange goods because it allows them to obtain what they cannot efficiently produce themselves, leading to mutual gains (Smith, 1776/1976; Ricardo, 1817/2004). Value in exchange was often linked to the labour embodied in production. At the same time, money was seen as a convenient medium to overcome the limitations of barter without altering genuine economic relationships (Mill, 1848/2004). Through the mechanism of supply and demand, prices adjust to balance production and consumption, ensuring that markets move toward equilibrium. Say's Law further reinforced the idea that production itself creates the capacity and willingness to purchase, meaning that goods are exchanged because supply generates its own demand (Say, 1803/2001).

Scholars have expanded classical views by incorporating neoclassical and institutional. The neoclassical economics shifted the focus from labour to consumer preferences (utility) in determining value (Blaug, 1997; Medema & Samuels, 2003). Jevons (1871/1970), Walras (1874/1954), and Marshall (1890/1920) argue that individuals exchange goods to maximise utility, subject to resource constraints. Prices are determined through the interaction of supply and demand, and markets move toward equilibrium where marginal benefit equals marginal cost. The neoclassical perspective formalised exchange through rational choice, marginal analysis, and general equilibrium, highlighting efficiency in resource allocation.

Institutional economics scholars emphasise that exchange is embedded within legal, cultural, and political structures, highlighting the role of institutions in reducing transaction costs and enabling efficient exchange by shaping property rights, governance frameworks, and market rules (North, 1990). Unlike neoclassical models that assume frictionless markets, institutional perspectives argue that rules, norms, and enforcement mechanisms are essential in facilitating exchange and preventing opportunism (Williamson, 1985). Institutions provide the "rules of the game" that govern economic interactions, defining what is permissible, enforceable, and legitimate within a particular context (North, 1991). Formal institutions such as legal systems, regulatory bodies, and state policies establish enforceable property rights and mechanisms for contract enforcement, while informal institutions—such as social norms, cultural values, and trust—reduce uncertainty and transaction costs by shaping expectations and behaviours in market exchanges (Greif, 2006).

Other scholars further extend this perspective by emphasising the historical evolution and path dependency of institutions, which constrain or enable future trajectories of economic exchange (North, 2005). This line of inquiry shows that institutional change is often incremental, shaped by both past arrangements and the bargaining power of social groups. Building on this, Acemoglu and Robinson (2012) distinguish between inclusive institutions, which foster broad-based participation and secure property rights, and extractive institutions, which concentrate power and wealth, thereby distorting incentives and limiting the potential for efficient exchange. These insights underscore that the efficiency and equity of exchange cannot be understood solely through market mechanisms but must also account for the institutional environment that shapes incentives, power relations, and long-term economic outcomes.

While institutional economics highlights the embeddedness of exchange within social, legal, and political frameworks (North, 1990), other scholars have both complemented and challenged this view. For example, transaction cost economics (Williamson, 1985) can be seen as a complement, deepening the institutionalist claim by examining how governance structures, such as firms and contracts, emerge to economise on transaction costs. This approach bridges neoclassical rational choice assumptions with institutional concerns, emphasising the efficiency of different forms of exchange organisation.

On the other hand, critical perspectives have questioned institutional economics for being overly functionalist and insufficiently attentive to power dynamics. Scholars inspired by Karl Polanyi (2001) argue that markets are not naturally arising institutions but are socially constructed and often imposed through political processes. He stresses that institutional economics underestimates how exchange relations can generate inequality and social dislocation when embedded within capitalist systems.

Furthermore, evolutionary, behavioural, sociological, and political-economic perspectives have challenged the rationalist assumptions of institutional economics by highlighting the cognitive limits of decision-making and the significance of historical trajectories. Nelson and Winter (1982) contend that abstract models of cost minimisation cannot adequately capture economic exchange but are better understood through routines, habits, and bounded rationality that shape actors' behaviour. From this standpoint, institutions are not merely efficiency-enhancing mechanisms but evolutionary adaptations to uncertainty and complexity, shaped by path dependence and historical contingency. This view underscores the dynamic and adaptive nature of exchange, which evolves in response to technological, cultural, and political change rather than stabilising in a fixed equilibrium.

Behavioural approaches further deepen this critique. Simon (1957) introduced the concept of bounded rationality, arguing that individuals satisfice rather than optimise due to cognitive limitations and incomplete information. Kahneman and Tversky's (1979) prospect theory extended this insight by demonstrating how decision-making under risk is systematically shaped by psychological biases such as loss aversion and reference dependence. These insights resonate with institutional economics, since Williamson (1985) explicitly incorporated bounded rationality into his theory of transaction costs, arguing that contracts are necessarily incomplete because actors cannot foresee every contingency. However, while institutionalists like Williamson use bounded rationality primarily to explain the efficiency of governance structures, behavioural economists emphasise its systematic, often non-rational deviations, thereby challenging the assumption that institutional arrangements continually evolve toward efficiency.

Sociological approaches further broaden the critique by situating exchange within networks of interpersonal relationships and cultural practices. Granovetter's (1985) influential concept of embeddedness demonstrates that isolated individuals rarely act economically; somewhat, their actions are shaped by trust, reputation, and ongoing social ties. From this perspective, exchange depends as much on informal institutions, such as networks and norms of reciprocity, as it does on formal governance mechanisms. While this complements institutional accounts by highlighting the social foundations of exchange, it also reveals their limitations, particularly in contexts where trust and norms substitute for or even undermine formal contracting.

At another level, political economy critiques—most prominently advanced by Karl Polanyi—challenge institutional economics on normative and historical grounds. Polanyi (2001) argued that markets are not natural outcomes of human exchange but relatively socially and politically constructed institutions often imposed through state intervention. In his view, institutional economics underestimates how market exchange can generate inequality, commodify social life, and destabilise communities when disembedded from traditional social and cultural constraints. This critique highlights the roles of power, coercion, and social conflict in shaping exchange, aspects often downplayed in institutionalist and behavioural accounts.

Together, these perspectives—evolutionary, behavioural, sociological, and political economy—point to a richer, more pluralistic understanding of exchange. They both complement and critique institutional economics: complementing by reinforcing the importance of bounded rationality, history, and informal constraints, and critiquing by showing that institutions cannot be reduced to efficiency-enhancing devices. Instead, exchange must be understood as an evolving process shaped by cognition, history, power, and social relationships.

Table 1

Comparative Perspectives on Exchange

Perspective	Core Assumptions	View of Exchange	Role of Institutions	Key Scholars
Classical Economics	Value based on labour theory; production and distribution are central	Exchange enables specialization and division of labour; value is linked to labour and production costs	Institutions are essentially background; focus on markets and the state for stability	Smith (1776); Ricardo (1817)
Neoclassical Economics	Rational, utility-maximizing individuals; stable preferences; equilibrium outcomes	Exchange ensures efficient allocation of scarce resources through prices	Institutions are largely implicit; markets are assumed to function if property rights are secure	Jevons (1871); Marshall (1890)
Institutional Economics	Exchange is costly and embedded in rules, norms, and enforcement mechanisms.	Exchange requires institutions to reduce transaction costs and stabilize expectations.	Central: property rights, governance structures, and transaction cost minimization	North (1990); Williamson (1985)
Game & Contract Theory	Strategic interaction under incomplete information; actors respond to incentives	Exchange outcomes are shaped by bargaining power, payoffs, and the credibility of enforcement	Institutions matter for enforcement, but the focus is on micro-foundations of strategy and contracts.	Myerson (1991); Fudenberg & Tirole (1991); Hart & Holmström (1987)
Critical/ Polanyian	Markets are socially and politically constructed, not natural	Exchange can generate inequality and social dislocation	Institutions are arenas of power, often imposed through state intervention	Polanyi (2001)
Evolutionary Economics	Bounded rationality; routines and habits shape behaviour	Exchange evolves through adaptive processes shaped by history	Institutions evolve through path dependency, innovation, and selection	Nelson & Winter (1982)
Sociological (Embeddedness)	Economic action is socially situated; trust and networks matter	Exchange is structured by relationships, norms, and social ties	Informal institutions (networks, trust) are often as important as formal rules	Granovetter (1985)

Game theory and contract theory provide further analytical tools that complement and extend classical, neoclassical, and institutional perspectives on exchange. Classical economics, with its emphasis on labour value and the role of markets in coordinating production and distribution, essentially treated exchange as a straightforward outcome of specialisation and the division of labour (Smith, 1776; Ricardo, 1817). Neoclassical economics formalised this by modelling exchange through utility maximisation and equilibrium, in which outcomes are determined by prices and preferences, under the assumptions of rational choice and complete information (Jevons, 1871; Marshall, 1890). Institutional economics broadened the analysis by recognising that exchange is embedded within legal and social frameworks, in which transaction costs, governance mechanisms, and property rights influence outcomes (North, 1990; Williamson, 1985).

Within this trajectory, game theory and contract theory analyse exchange at a finer micro-foundational level by explicitly modelling strategic interaction, bargaining power, and information asymmetries. Game theory demonstrates how individual incentives, payoffs, and expectations shape cooperative or competitive outcomes across different institutional and informational settings (Myerson, 1991; Fudenberg & Tirole, 1991). Bargaining models explain how outside options and power relations determine the division of surplus. At the same time, repeated games illustrate how reputation and long-term interaction can sustain cooperation in the absence of formal enforcement. Contract theory complements this by examining how optimal contracts mitigate information asymmetries—such as moral hazard and adverse selection—and align incentives between parties with divergent interests (Hart & Holmström, 1987).

By integrating insights from incentives, strategy, and enforcement, these approaches extend the analysis of exchange beyond market prices (as in neoclassical economics) and beyond institutional contexts (as in institutional economics), offering a richer account of how agreements, risk allocation, and credibility shape real-world exchange relationships.

In parallel, Islamic economic thought provides a distinctive framework that integrates moral, legal, and social principles in the context of economic exchange. Exchange in Islam is permissible and encouraged if it is based on mutual consent (*taradhi*), fairness, and transparency, while exploitative practices such as *riba* (usury), *gharar* (excessive uncertainty), and *maysir* (gambling) are strictly prohibited (Chapra, 1992; Kahf, 2004), as they undermine justice and create asymmetries in risk and reward. Another prohibited practice is *tanajush* (*najsh*), in which sellers artificially inflate prices without a genuine intent to purchase, thereby deceiving others into paying more. The Prophet ﷺ explicitly forbade this by saying: "Do not artificially inflate prices (*lā tanajashū*)" (al-Bukhari, Muslim). This injunction highlights the principle that market transactions must be guided by honesty, trust, and fair competition, ensuring that economic exchange contributes to both individual welfare and collective justice.

Taken together, the literature reveals three important gaps. *First*, while substantial research has examined Islamic finance and halal consumption, relatively little attention has been given to conceptualising a halal exchange market as an integrated institutional framework. *Second*, most existing studies are descriptive, focusing on sectoral growth rather than the theoretical and operational parameters of halal exchange. *Third*, the lack of standardised global benchmarks for halal marketplaces raises questions about consistency, credibility, and governance. This study seeks to address these gaps by developing a Tawhidic epistemology as the foundation of a halal exchange and identifying parameters for a halal exchange market, informed by both Islamic principles and contemporary market practices.

Methods

The methodology of this study adopts a two-pronged approach. *First*, it engages with theories of knowledge (epistemology) as the intellectual foundation of the economic discipline. Epistemology defines the way economic phenomena are apprehended, analysed, and explained. Conventional economics is primarily anchored in positivism, empiricism, and the pursuit of value-neutral analysis (Friedman, 1953; Blaug, 1992). By contrast, Islamic economics integrates revealed knowledge with rational inquiry, thereby generating a value-laden framework oriented toward justice, welfare, and accountability before God (Naqvi, 1981; Chapra, 2000; Siddiqi, 1979; Kahf, 2003; Islahi, 2006). It should be noted that in the Qur'an it is emphasized that the Qur'an ((as Allah's Revelation) is the source of truth (Al-Qur'an (57): 9; (38):29). This comparison highlights fundamental differences in sources of knowledge, methodological orientation, scope, and normative objectives between the two traditions, and illustrates how epistemological foundations shape their distinctive approaches to economic reasoning and policy design.

Second, the findings in section two, as summarised in Table 2, have identified eight constitutive elements of an exchange economy.

a) Economic Agents – decision-making units such as households and firms, which act in accordance with objectives of utility or profit maximisation (Samuelson, 1947). In the Islamic tradition, agents are also guided by ethical norms and divine accountability (Siddiqi, 1981).
b) Initial Endowments – the bundle of resources or goods each agent possesses prior to exchange, which constrains feasible trades and determines the distribution of gains from exchange (Edgeworth, 1881). Islamic economics extends this concept by linking endowments to the principles of *amanah* (trusteeship) and the stewardship of resources (Kahf, 1992).
c) Markets and Prices – markets serve as institutional arenas for exchange, while prices function as signals that coordinate supply and demand (Hayek, 1945). Within Islamic economics, the legitimacy of market outcomes is conditioned by fairness, prohibition of *riba* (usury), and avoidance of exploitative practices (Siddiqi, 1982; Chapra, 1992).
d) Contracts and Rules of Exchange – transactions occur within a framework of formal mechanisms (contracts, enforcement systems) and informal arrangements (trust, norms), which reduce opportunism and transaction costs (Coase, 1937; Williamson, 1985). Islamic jurisprudence (fiqh al-muʿāmalāt) provides a comprehensive contractual framework ensuring compliance with Shariah principles (Islahi, 2006).
e) Information Structure – the degree of information available to agents shapes bargaining, allocation, and efficiency; asymmetric information gives rise to adverse selection and moral hazard (Akerlof, 1970; Stiglitz, 2002). Islamic economics emphasises transparency (*bayan*) and disclosure as ethical imperatives in exchange (Naqvi, 1981; Kahf, 2003).
f) Equilibrium Conditions – analytical attention is frequently directed toward general equilibrium, where markets clear and no agent can improve their welfare through further trade (Walras, 1874; Arrow & Debreu, 1954). Islamic economics broadens this notion by embedding equilibrium within a moral and distributive context aimed at justice and welfare (Chapra, 2000).

g) Institutions and Governance – the broader institutional environment, encompassing property rights, legal frameworks, and cultural norms, influences the efficiency, distributive outcomes, and sustainability of exchange (North, 1990). Islamic economics stresses the complementary role of institutions such as zakat, waqf, and hisbah in ensuring equity, accountability, and social balance (Siddiqi, 1981; Islahi, 2006).

In sum, an exchange economy is structured by the interplay of agents, preferences, endowments, markets, prices, contracts, information, and institutions, which together shape the allocation of goods and services. The comparative epistemological and institutional perspectives of conventional and Islamic economics reveal not only methodological contrasts but also normative divergences in their visions of economic order.

Table 2

Elements in an Exchange

Element	Description	Role in Exchange
Economic Agents	Households, firms, or individuals who participate in exchange.	Make decisions on consumption, supply, and trade based on preferences and objectives.
Initial Endowments	The starting bundles of goods or resources each agent holds.	Define what agents can trade and the potential benefits from the exchange.
Preferences/Utility	Agents' ranking of different bundles of goods, often represented by utility.	Determine demand behaviour and guide choices in exchange.
Markets and Prices	Mechanisms and signals through which exchange occurs.	Coordinate supply and demand; prices allocate resources efficiently.
Contracts/Rules	Formal (legal) or informal (trust-based) arrangements governing trade.	Ensure commitments are credible, reduce opportunism, and enforce exchange agreements.
Information Structure	Availability and distribution of information (complete, incomplete, asymmetric).	Shapes bargaining power, efficiency, and potential market failures.
Equilibrium Conditions	A state where supply equals demand and no agent can improve through further trade.	Defines efficiency and stability of the exchange outcome.
Institutions/Governance	Legal, political, and cultural frameworks underpinning exchange.	Reduce transaction costs, secure property rights, and sustain long-term efficiency.

Parameters of a Halal Exchange Market

The analysis will commence with an exposition of the first methodological approach. Building upon this foundation, the discussion will subsequently turn to a comprehensive examination of the parameters governing a halal exchange market.

(a) Tawhidic Epistemology and the Foundations of a Halal Exchange

The parameters of a halal exchange market must be situated within the broader intellectual framework of Tawhidic epistemology, which provides the foundational paradigm for Islamic economics. Tawhid, the doctrine of Divine Oneness, establishes not only a theological principle but also an ontological and epistemological worldview that integrates economic activity within a unified moral order (Naqvi, 1981; Chapra, 2000). In this epistemology, knowledge is derived from both revelation (*waḥy*) and reason (*'aql*), where revelation anchors values and reason serves as an instrument for their application in human affairs (Haneef, 1997).

Unlike conventional economic epistemologies that rest on positivism and value-neutral analysis, Tawhidic epistemology posits that economic life is inseparable from ethics, accountability, and the pursuit of justice ('adl). This integration implies that markets cannot be regarded merely as neutral arenas for exchange but must embody moral imperatives. Consequently, a halal exchange market must exclude elements explicitly prohibited by Shari'ah, such as *riba* (usury), *gharar* (excessive uncertainty), *maysir* (gambling/speculation), and *tanajush* (market distortion), while promoting values such as transparency, trust, and fairness (*maslahah*). Islam has ordered humans and believers to eat halal and good food and not to follow the bad behaviour of Satan (Qur'an (2): 168 and 172).

By grounding the design and operation of exchange markets in Tawhidic epistemology, Islamic economics moves beyond the narrow pursuit of efficiency. Instead, markets are re-envisioned as instruments for achieving the higher objectives of Shari'ah (*maqasid al-Shari'ah*), including the protection of wealth (*ḥifẓ al-mal*), justice in exchange, and the promotion of socio-economic well-being.

(b) Identifying Parameters

Grounded in Tawhidic epistemology, a halal exchange market must embody principles that align with the higher objectives of Shari'ah (*maqasid al-Shari'ah*) while maintaining the functional efficiency of a halal exchange economy. The list of parameters is presented in Table 3.

Economic Agents (Row 2 of Table 3) - the participants in the economy, typically households and firms, who hold preferences (utility functions) and endowments of goods. They make decisions about what to demand or supply based on their objectives (e.g., utility maximisation for households, profit maximisation for firms). However, while conventional theory assumes agents pursue utility or profit maximisation, Islamic economics frames them as *ʿabd* (servants of God) and *khalifah* (vicegerents), responsible for aligning choices with ethical and social obligations.

In an economic exchange, participants are typically households and firms. Both could act as buyer or seller. These agents are endowed with preferences (represented as utility functions) and initial allocations of goods, and they make decisions regarding demand and supply in pursuit of specific objectives. In conventional economic theory, households are generally assumed to maximise utility, while firms are assumed to maximise profits. By contrast, Islamic economics conceptualises economic agents not merely as utility- or profit-seekers but as *ʿabd* (servants of God) and *khalifah* (vicegerents). This framing underscores their responsibility to align individual choices with ethical norms, social obligations, and the broader objectives of the Shari'ah (*maqasid al-Shari'ah*).

Initial Endowments (Row 3 of Table 3) - the starting bundle of goods or resources owned by each agent before exchange takes place. These endowments determine the feasibility of trades and the potential benefits from exchange. Islamic economics recognises that all resources are ultimately created by Allah and entrusted to human beings as *amanah* (a trust). This shifts the meaning of endowments from mere private property to a divine trust with moral obligations.

Key principles of resources are: (i) divine ownership: Allah is the absolute owner of all wealth (Qur'an 2:284). Humans are trustees (*khalifah*); (ii) natural distribution: People are born with different material endowments (wealth, land, skills) and non-material ones (health, intellect); (iii) legitimate acquisition: initial endowments must be acquired lawfully (halal sources). Wealth gained through *riba*, *maysir*, *gharar*, *tanajush*, or theft is invalid; (iv) redistribution mechanisms: zakat, waqf, inheritance laws, and charity correct inequality in initial endowments; and (v) accountability (*hisab*): People will be judged not by how much they were given but how they used their endowments (Qur'an 28:77).

Preferences and Utility Functions (Row 4 of Table 3) - In Islamic economic thought, the conventional assumption of self-interested and purely individualistic preferences is redefined by embedding moral, spiritual, and social dimensions. Preferences are not value-neutral but are bounded by Sharīʿah principles and ethical responsibility. Several key features characterise this modification:

i. Halal vs. Haram constraint – Consumers must avoid prohibited goods and services (e.g., alcohol, pork, riba-based finance), thereby filtering choices through legal-ethical boundaries.
ii. *Maslahah* (public interest) – Preferences extend beyond individual benefit to include considerations of social welfare and collective well-being.
iii. Balance (*Wasatiyyah*) – Choices are guided by moderation, avoiding extravagance (*israf*) and wastefulness (*tabdhir*).
iv. Akhirah-orientation – Preferences are intertemporal, reflecting not only worldly consumption but also accountability for afterlife outcomes.

Thus, preferences in Islam are not purely individualistic; they are bounded by Shariah and guided by ethical responsibility.

Instead of utility being solely material satisfaction, Islamic economists propose a multi-dimensional utility function that includes permissible consumption (halal goods/services), wealth distribution (zakat, charity, sadaqah), ethical behaviour (fair trade, honesty), and afterlife considerations (obedience to Allah, intention/*niyyah*).

This framework integrates material well-being with moral-spiritual satisfaction, recognising that true welfare (*falah*) is both worldly and eternal.

Markets and Prices (Row 5 of Table 3). In conventional economics, markets function as mechanisms that facilitate the exchange of goods, services, and financial assets, with prices determined by supply and demand. Prices serve as signals, guiding the allocation of resources and the coordination of economic activities.

In a halal exchange market, while the fundamental role of markets and prices as allocative mechanisms remains, their operation is constrained and guided by Shari'ah principles. This reframes both the structure of markets and the process of price formation:

i. Shari'ah compliance – Transactions must exclude prohibited elements such as *riba* (interest), *gharar* (excessive uncertainty), *maysir* (gambling/speculation), and *tanajush* (market distortion).
ii. Fair pricing – Prices should reflect just value (*thaman al-ʿadl*), avoiding exploitation, fraud, and monopolistic manipulation.
iii. Market ethics – Honesty, transparency, and trust (*amanah*) are integral norms, ensuring that markets serve justice rather than mere profit.
iv. Maslahah orientation – Markets should contribute to public welfare, including stability, equitable access, and sustainable outcomes.
v. Stability mechanisms – Islamic contracts (e.g., *murabaḥah*, *salam, istisna', ijarah, sukuk*) provide risk-sharing and asset-backed structures that shape price behaviour differently from interest-based instruments.

Accordingly, prices in a halal exchange market are not merely the outcome of impersonal forces of supply and demand, but the result of interactions embedded in ethical constraints, distributive justice, and the pursuit of *maqaṣid al-Shari'ah*.

Contracts/Rules (Row 6 of Table 3). Markets operate based on rules and enforceable contracts that structure exchanges and ensure compliance. In conventional markets, contracts are generally designed to minimise transaction costs, allocate risks, and enforce property rights, while allowing for flexibility to accommodate profit-maximising behaviour.

In a halal exchange market, contracts and rules are framed in accordance with Shari'ah principles, ensuring that the substance and form of agreements align with ethical, legal, and social objectives. Key features include:

i. Shari'ah compliance of contracts – Permissible contracts must avoid *riba* (usury), *gharar* (excessive uncertainty), *maysir* (gambling), and *tanajush*, ensuring exchanges are just and transparent.
ii. Types of permissible contracts – Islamic jurisprudence recognises contracts such as *murabahah* (cost-plus sale), *salam* (forward sale), *istisna* (manufacturing contract), *ijarah* (leasing), *musharakah* (equity partnership), and *muḍarabah* (profit-sharing).
iii. Rules of fairness and disclosure – Contracts must include full disclosure (*bayan*), mutual consent (*taraḍi*), and avoidance of deceit (*gharar khafī*), ensuring informed participation.
iv. Risk-sharing principle – Unlike conventional contracts that may transfer or concentrate risk, halal contracts emphasise equitable risk distribution between parties.
v. Regulatory and institutional oversight – Halal exchange markets require Sharīʿah supervisory boards and legal frameworks to monitor compliance and resolve disputes in accordance with Islamic law.

Thus, contracts in a halal exchange market function not merely as legal instruments for private gain, but as vehicles of trust, justice, and cooperation, aligning economic transactions with the maqāṣid al-Shari'ah (objectives of Islamic law).

Information Structure (Row 7 of Table 3). In conventional markets, information is often asymmetric: some participants possess more or better information than others, leading to adverse selection, moral hazard, and market manipulation. While institutions like disclosure rules, auditing, and regulation aim to reduce these problems, the underlying assumption is that information imbalances are inevitable.

In a halal exchange market, the information structure is reframed through Sharīʿah principles of honesty (*ṣidq*), trustworthiness (*amanah*), and transparency (*bayan*). Information is not merely a strategic resource but a moral responsibility. Key dimensions include:

i. Mandatory transparency – All material facts must be disclosed to avoid *gharar* (uncertainty) and *tadlis* (fraudulent concealment).
ii. Ethical responsibility – Participants are accountable before God (*taklif shar'e*) for misrepresentation, insider trading, or market manipulation.
iii. Equal access – Information should be disseminated so that no group gains an unjust advantage, supporting justice (*ʿadl*) in exchange.
iv. Oversight mechanisms – Shari'ah boards, regulators, and auditing institutions ensure information integrity in financial reporting, contracts, and market operations.
v. Integration of spiritual accountability – Information disclosure is linked not only to legal enforcement but also to afterlife accountability, reinforcing compliance beyond formal monitoring.

Accordingly, information in a halal exchange market is structured to prevent exploitation, enhance fairness, and promote market stability, aligning with the *maqāṣid al-Sharīʿah* (protection of wealth, justice, and trust).

Equilibrium Conditions (Row 8 of Table 3). In conventional economics, equilibrium is defined as the state in which supply equals demand at a given price, often characterised as competitive equilibrium (*Walrasian or Marshallian*). It is primarily a mathematical construct that reflects efficiency, where no agent has an incentive to change their choices given prevailing prices. Welfare theorems then link this equilibrium to notions of Pareto efficiency.

In a halal exchange market, equilibrium retains the functional notion of balance between supply and demand but is reshaped by ethical and Sharīʿah constraints. Equilibrium is not evaluated solely by efficiency but by justice (*ʿadl*), fairness, and alignment with the maqasid al-Shari'ah. Its distinctive conditions include:

i. Shari'ah-compliant feasibility – Only permissible goods, services, and financial assets can enter the market-clearing process.
ii. Fair value in exchange – Equilibrium prices must reflect thaman *al-ʿadl* (just value), excluding manipulation, fraud, or exploitation.

iii. Ethical balance – Market outcomes should uphold moderation (*wasatiyyah*), prevent concentration of wealth (*takathur*), and ensure equitable access.
iv. Maslahah-oriented welfare – Equilibrium is judged by its contribution to societal welfare, not just individual gains, thereby extending beyond Pareto optimality.
v. Dynamic accountability – Equilibrium is intertemporal, recognising both worldly stability and accountability in the *akhirah* (afterlife).

Thus, equilibrium in a halal exchange market represents not only the balance of supply and demand but also the moral balance of justice, fairness, and shared prosperity in line with divine guidance.

Institutions/Governance (Row 9 of Table 3). In conventional markets, institutions and governance structures are designed to enforce property rights, reduce transaction costs, and provide regulatory oversight. Governance mechanisms such as central banks, securities commissions, and independent regulators primarily focus on market efficiency, stability, and investor protection.

In a halal exchange market, institutions and governance go beyond functional regulation to embody Sharīʿah compliance, ethical accountability, and social justice. Key features include:

i. Sharīʿah supervisory boards – Oversight bodies ensure that all transactions, instruments, and practices adhere to Islamic legal principles.
ii. Integration of Shari'ah and civil law – Governance structures harmonise modern regulatory frameworks with Islamic jurisprudence, creating a dual layer of accountability.
iii. Ethical enforcement – Governance extends beyond legal compliance to include moral responsibility (*amanah*), honesty, and justice (*ʿadl*).
iv. Stakeholder orientation – Institutions are mandated to safeguard not only investors but also consumers, workers, and society at large, aligning with *maslahah* (public interest).
v. Wealth distribution mechanisms – Instruments such as zakāt, waqf, and ṣadaqah interface with markets to ensure inclusivity and social balance.
vi. Dispute resolution – Islamic arbitration (*taḥkim*) and Shari'ah courts complement conventional legal systems to resolve conflicts fairly and ethically.

Thus, governance in a halal exchange market is not merely about efficiency and risk management but about embedding justice, transparency, and social welfare into the institutional fabric, ensuring that markets serve both economic and moral purposes in line with the maqasid al-Shari'ah.

Table 3

Comparative Parameters of Conventional vs. Halal Exchange Markets

Dimension	Conventional Exchange Market	Halal Exchange Market
Economic Agents	Households (utility maximisers) and firms (profit maximisers); behaviour is driven by self-interest within market constraints.	Agents are *ʿabd* (servants of God) and *khalifah* (vicegerents); decisions are guided by ethical responsibility, social justice, and accountability to God.

Initial Endowments	Agents are endowed with goods, resources, and property rights, which form the basis for trade and production; distribution is taken as given.	Endowments are viewed as a trust (*amanah*) from God; ownership is stewardship, not absolute. Use of resources must align with *Shari'ah*, social equity, and intergenerational responsibility.
Preferences & Utility Functions	Preferences are individualistic and value-neutral; consumers maximise utility, firms maximise profits.	Preferences are ethically bounded; shaped by *Shari'ah* (halal vs. haram), *maslahah* (public interest), moderation (*wasatiyyah*), and accountability for the a*khirah*.
Markets & Prices	Markets allocate resources through supply and demand; prices serve as impersonal signals that reflect scarcity and preferences.	Markets function within *Shari'ah* rules; prices must reflect just value (*thaman al-ʿadl*), exclude riba, gharar, maysir, tanajush, and ensure fairness, transparency, and social welfare.
Contracts & Rules	Contracts are flexible legal tools for allocating risk, reducing transaction costs, and enforcing property rights.	Contracts must comply with *Shari'ah*; permitted forms include *murabahah, salam, istisna, ijarah, musharakah, mudharabah*. Risk-sharing, disclosure, and fairness are mandatory.
Information Structure	Information asymmetries are common; regulation and disclosure aim to reduce adverse selection and moral hazard.	Information disclosure is a moral duty; transparency is mandatory to avoid *gharar* and *tadlis*. Equal access, honesty (*ṣidq*), and accountability before God reinforce compliance.
Equilibrium Conditions	Equilibrium is defined as supply = demand; efficiency and Pareto optimality are the main evaluative criteria.	Equilibrium incorporates *Shari'ah* compliance, fairness, and justice (*ʿadl*). Welfare is measured by *maslahah* and equity, not only efficiency. Outcomes must prevent exploitation and wealth concentration.
Institutions & Governance	Institutions (e.g., regulators, central banks, exchanges) ensure market stability, efficiency, and investor protection.	Governance integrates *Shari'ah* supervision with modern regulation; it emphasises justice, transparency, wealth redistribution (via zakat, waqf), stakeholder welfare, and ethical dispute resolution.

Conclusion

The halal exchange market constitutes a distinctive institutional framework that integrates the operational efficiency of contemporary markets with the ethical and spiritual imperatives of Islamic economics. Anchored in Tawhidic epistemology, it reorients economic exchange toward justice, fairness, and accountability before God, thereby transcending the value-neutral assumptions of conventional economics. By delineating the parameters of halal exchange—including agents, endowments, preferences, prices, contracts, information, equilibrium, and governance—this study advances a systematic framework that is relevant to both scholarly inquiry and policy formulation. The findings highlight the need to establish standardised global benchmarks to ensure consistency, credibility, and compliance across halal marketplaces. Future research should empirically extend this framework by examining existing halal ports, financial exchanges, and digital platforms, thus reinforcing the institutional foundations of the halal economy. Within the context of expanding global trade, the halal exchange market holds the potential not only to serve

Muslim consumers and investors but also to help realise a more just, transparent, and sustainable global economic order.

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Conflict of Interest

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