



## INTEGRATING VALUES IN ECONOMICS: CHALLENGES AND PROSPECTS

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### ABSTRACT

This paper builds the case for a values-driven framework in economics. Religion is the most historic and significant institution in human society shaping people's worldview and preferences while also providing rules and norms in individual and collective life. Religious institutions also affect markets and transfers beyond markets through redistribution. Mainstream economics can incorporate religion as institution to look at the impact on aggregate outcomes. However, mainstream economics is not robust in defining religion or religiosity as a dynamic state of being, i.e. a continuous variable. It only takes religion as a representation of identity as a dichotomous variable. Mainstream economics can incorporate analysis of economic behaviour concerning religious products which are traded in the market. Nonetheless, mainstream economics is inappropriate in analysis of allocation of economic resources beyond markets where the motive transcends self-interest. The implication for Islamic economics is to assimilate mainstream economics tools and framework only after critical filtering and modifications and leave it in situations where it contradicts and falls short in embracing the revealed knowledge.

**Keywords:** Methodology of economics, Islamic economics, Self-interest, Universal values

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### INTRODUCTION

#### Is There Need for a Values-Driven Framework?

Species extinction, global warming, climate change, depletion of the ozone layer and massive carbon emissions are contemporary problems that humans face. In a post-industrial society, humans have pushed planetary boundaries by unprecedented carbon emissions, deforestation and sea contamination, all of which is accelerating global warming. The sustainable existence of life and life-supporting systems require responsibility, humility, contentment and commitment in place of the self-centric pursuit of instinctive pleasures. Humans have pushed planetary boundaries through the unprecedented burning of fossil fuels, rapid deforestation, contamination of seas and which has caused a rise in temperature, frequent heat waves, floods, melting of glaciers and enormous loss of marine and tropical forest species.

Some three centuries after the onset of the industrial revolution, humans have achieved phenomenal economic growth. Gross World Product has increased from a mere \$100 billion in 1700 to \$106 trillion in 2023, according to the IMF data. During the 20th century, the world population increased by a multiple of 4, whereas the industrial output grew by a multiple of 40.





However, the intensity with which environmental resources are used increased sharply. The last two generations in the twentieth century alone brought an increase in energy consumption by a multiple of 16. Fish harvesting increased by a multiple of 35 and Carbon and Sulphur emissions grew 10 times (Dasgupta, 2010). It is estimated that continued use of fossil energy will lead to an increase in the average global temperature by 1.0–3.5 degree Celsius in the coming 50–100 years (Dagobert, 2000). Remarkably, 97.1% of the scientists endorsed the consensus position that humans are causing global warming (Cook et al., 2013).

In addition to the above anthropogenic disruptions, the global sea levels have risen by about 8.8 inches since 1870, according to the World Research Institute. Ironically, there is a garbage island of the size of India, Europe and Mexico combined floating in the oceans. On the other hand, humans also waste almost one-third of the food that is produced (Lundqvist et al., 2008). Thus, the enormous economic growth that humans have achieved has come at a significant cost to the environment and life-supporting systems on the planet. This state of affairs represents an enormous moral crisis. The rapid deterioration of the human environment is nothing, but a crisis of values.

This position is not a default outcome of random interactions of matter. Humanity has reached this point as a result of conscious human actions, even if they represent a minority of affluent human beings. The views about life affect preferences and choices. Thus, the sustainable existence of life and life-supporting systems hinges upon a social contract and worldview which can inculcate the notion of responsibility, humility, contentment and commitment in place of the self-centric pursuit of instinctive pleasures with envy and carelessness in minds.

Besides the humungous sustainability challenges, the economic growth has not resulted in improvement of wellbeing of the masses equitably. Growth alone is insufficient for well-being as shown by Easterlin Paradox (Easterlin, 1995). Individualism breeds social comparison and hedonic adaptation which keeps a person away from a consistently rising level of happiness. Even the growth has been more and more unequal in the recent decades. As per Oxfam, the richest 1% grabbed nearly two-thirds of all new wealth worth \$42 trillion created since 2020, almost twice as much money as the bottom 99% of the world's population (Oxfam, 2023). The redistribution of resources through taxation is ineffective. A tax of up to 5% on the world's multi-millionaires and billionaires could raise \$1.7 trillion a year, enough to lift 2 billion people out of poverty. However, only 4 cents in a dollar of tax revenue come from the wealth tax (Oxfam, 2023). Strikingly, according to the Food and Agricultural Organization, for the world as a whole, per capita food supply rose from about 2,200 kcal per day in the early 1960s to more than 2,903 kcal per day by 2014 (FAO, 2015). However, it is ironic that still there are 828 million empty plates in 2021 as per Food and Agriculture Organization.

In the light of these sustainability challenges from the environmental and social perspectives in a divided and unequal world where the dollar votes of the rich affect the resources allocation as well as political economy, there is need to revisit the political paradigm of capitalism. The self-interested framework is inadequate to enable people to look beyond themselves and beyond the self-experience of pain-pleasure calculus in their own lifetimes. The environmental resources have longer lifespan than the typical lifespan of homo-economicus. But, if the homo-economicus only cares about self-experience of pain-pleasure calculus in his own lifetime, then he will overexploit and overconsume the limited resources leading to intergenerational injustice. It is striking to note that mainstream economics does not show any concern over the wastage of resources in unnecessary lifestyle and the allocation of resources in frivolous entertainment. At the same time, there are millions of people still suffering from hunger, extreme poverty, displacement, unemployment, unhealthy drinking water and poor sanitation. The technology and the resources required for overcoming these





challenges are not huge, but such social needs are underserved when the criteria for allocation looks at private utility and profit maximization.

Even the call towards sustainable development goals and environmental, social and governance (ESG) practices falls short on creating urgency, commitment, responsibility and follow-up. Many commentators show apprehension that private financiers turning a blind eye to the hunger and poverty in the neighbourhood in the current moment talk fervently about sustainability and the greening of the economy for the far future. To some, it seems like an eyewash referred to as ‘green-washing’ in the literature to tap just another market segment (Becker-Olsen, & Potucek, 2013).

Responsible behaviour towards conservation and preservation of resources, respecting planetary boundaries and maintaining a just and congenial relation with ecology and biodiversity require strengthening values so that they guide preferences, choices and thus a required change in lifestyle. However, self-interested paradigm giving undue force to consumer sovereignty promotes individualism, greed, avarice and accumulation. Godless worldview justifies this value system through survival instincts.

Worldview of divine religions focuses on Tawheed which creates humbleness, horizontal equity and subservience to the higher being, the Creator. Values given by divine religions are objective and universal. For values to be universal, they have to be shared broadly across time and space. They should not be unduly influenced by the present generation only in order to avoid intergenerational injustice. Among all the institutions in human history, religion is the oldest and which through its worldview and values inculcates responsible behaviour. Divine justice in the afterlife in the two worldly view of Islam provides the permanent and active stimuli towards choosing morally upright behaviour. Since religious values are not influenced by humans individually or collectively by one generation, they are universally agreeable.

In the divine religions, values like caring for others, establishing justice, ensuring truthfulness, observing fairness and keeping trust are indeed universally agreed upon. Since these religious values have been held by all human generations, they are universal not only across space currently, but across time intertemporally. Lastly, the values mentioned in divine scriptures are universal in the sense that these values are inculcated in innate human nature (Al-Qur’an: As-Shams: 8). Thus, religious values, especially in divine religions are appropriate representation of universal values in terms of innate human nature as well as historically learned and transmitted knowledge among humans. This paper shows how religion becomes important in economics in various dimensions. However, the paper argues that uncritically incorporating the mainstream economic methodology and paradigm without much filters and modification can incapacitate Islamic economics to lead the discourse towards guidance found in the revealed knowledge. Nonetheless, instead of an either-or-approach, there is a possibility of careful, monitored and modified integration so as to retain the distinction of Islamic economics.

## **LITERATURE REVIEW**

### **How Religion Becomes Important for Economics?**

Hagen (1977) thinks that even in descriptive economic theory, it is not reasonable to disregard the moral attitudes of economic agents. He also mentions that it comes more natural to be moralistic when the economic agent is not personally affected. It implies that pro-social and welfare considerations require looking beyond self-interest. Islamic worldview has the





potential to provide incentives in the transcendent nature of two-worldly view of life which can reconcile self-interested behaviour in two-worldly lifetime compelling self-less choices in the temporal lifetime in this world. It is because self-less behaviour, sacrifices and pure altruism will have personal rewards for the self in the life hereafter in Islamic worldview.

While the economic theory of utility does not usually take into account moral behaviour, Mereh (1986) in his utility formulation shows that an individual may maximize a higher welfare function whose arguments are (a) his utility and (b) higher goods or moral value. The latter are goals which he ought to achieve. The amount of higher goods achieved depends upon his moral preference. Etzioni (1986) presenting the case for a multiple-utility conception argues that individuals pursue at least two irreducible sources of value or “utility”, pleasure and morality.

Nonetheless, the mainstream economics literature on economics of religion has to be looked at with caution. Just because economics of religion entertains the thought of giving importance to religious impulse, it does not make it automatically acceptable for Islamic economics. Economics of religion looks at the religion from the demand and supply perspective of market. Iannaccone (1992) summarizing this brand of literature write:

*“We hear much talk these days of ‘religious markets’ and ‘religious economies’. Religious ‘consumers’ are said to ‘shop’ for churches much as they shop for cars: weighing costs and benefits, and seeking the highest return on their spiritual investment. Religious ‘producers’, the erstwhile clergy, struggle to provide a ‘commodity’ at least as attractive as their ‘competitors’. Religion is advertised and marketed, produced and consumed, demanded and supplied.”*

While there is problem in endogenously looking at pure religious choices within the utility framework where consumer sovereignty, pareto efficiency and self-interested paradigm is used, there is scope of looking at only the economic effects of religious choices. In this particular way of analysis, the focus is not on determining the efficiency and optimization of the religious activity, but to look at the effects and implications of religious choices on economic behaviour. Islamic economics cannot entertain the first line of analysis, but there is no harm in analysing the latter. Iannaccone (1998) argues that economic models can be modified to address questions about belief, norms, and values; and exploring how religion (and, by extension, morals and culture) affect economic attitudes and activities of individuals, groups, and societies.

On the other hand, Furqani and Echchabi (2022) argue that Homo Islamicus is going to portray Islamic ethical teachings in economic actions and he will be the representative agent in theorizing Islamic economics. Homo Islamicus, rather than making an economic choice about religious attributes, he will take revealed knowledge as axioms in the preference structure. In this way, economics can understand the economic implications of religious choices, but not determining the moral optimality of the choices. Cevizli (2022) and Kutval (2022) also caution that while behavioural economics and Islamic economics agree on the limitations of mainstream economics and rationality, Islamic economics should not entertain the thought of accepting religious choices as ‘irrational’ as well. These choices are rational in the Islamic worldview and objective of life.





### ***Religion as Institutions***

Religions, especially divine religions, have a strong focus on morality and values. Religious scriptures specifically mention the morally upright actions and the immoral actions. Abrahamic religions in their pure form also provide a worldview in which morality of actions leads to consequences in this life and especially in hereafter.

The preferences of religious people are influenced by the religious worldview and knowledge. The religious people learn these values and believe in this worldview. These preferences affect their choices and in some cases, these choices result in new markets, such as faith inspired banking or missing market of certain goods and services, such as a market for alcohol etc. Such values, if held at large, also affect economic regulation, especially in countries where faith-based population is in majority. For instance, if the alcohol is not permissible in Islam, Muslim majority countries may have a missing market for alcohol. If prostitution is not allowed, the labour market would not exist for that.

Economics is neutral between the 'ends'. It would regard religious or religiously inspired allocation of time outside of the labour market as leisure. It does not pass value judgments on the preferences. Hence, if a person has a backward bending labour supply curve beyond a certain wage/level of income, it would not regard it as irrational. If a person exhibits greater patience and saves due to avoiding excessive spending on self, then this would be captured in parameters of patience and intertemporal elasticity of substitution in economic models. This approach would let the religious impulse and choice play out their role in choices, but it will not introduce the religious impulse and preferences explicitly as choice variables.

### ***Religion and Beyond Market Distribution***

Religious institutions like Waqf create a third sector which holds economic resources as common property beyond private property and public property. Furthermore, Zakat is an institution which redistributes resources from the endowment surplus people (holding wealth above the threshold value of Nisab) to the endowment deficient people (holding wealth below the threshold value of Nisab). Other institutions like inheritance laws transfer wealth across generations in each family unit.

When it comes to religious norms affecting rules or acting as institutions of intermediation and redistribution, their effects can be analysed through institutional economics, which is flexible in its analytical framework than micro-founded mainstream economics which focuses on market behaviour. For instance, Zakat can be incorporated as a lump-sum or proportional charge on endowments. Waqf can be incorporated as an allocation by a consumer with a bequest motive in infinite planning horizon. Likewise, interest-free asset markets and cooperative risk sharing based insurance can be introduced as institutions to model Islamic economy.

In this approach, spending done by people outside of the market is explained through warm-glow effect, such as voluntary transfer of resources through charity and donations. In self-interested paradigm, utility framework can explain impure altruism through reasons like feeling good in seeing someone happy, i.e. warm glow (Andreoni, 1990), gaining prestige (Harbaugh, 1998), social influences (Meer, 2011), peer pressure (Reyniers & Bhalla, 2023), avoiding the perception of being unfair (Andreoni & Bernheim, 2009) and expecting reciprocity (Kolm, 2006).

Nonetheless, pure altruism does not conform to self-interested utilitarian framework. But, mainstream economists argue that it is rare and insignificant anyways in comparison to the institutional and corporate giving which is usually not anonymous and is made with the







intention of building reputation. For instance, corporate social responsibility related spending and establishing chair and endowments in educational and health institutions.

Nonetheless, there are several case studies which highlight the positive impact of Islamic social finance on the well-being of the beneficiaries. Azman et al. (2021) show that Islamic social finance stabilized income among micro-entrepreneurs during COVID-19. In another study, Mawardi et al. (2023) examine data from 137 recipients of Zakat and establish that Zakat empowerment programmes and business assistantships positively impact the growth of businesses of the Zakat recipients and this proves to be beneficial for their well-being. Furthermore, Ningsih and Balgis (2024) collecting data from 55 respondents reveal that the utilization of productive Zakat has a positive impact on the level of welfare of Zakat recipients. In addition to that, Akmal et al. (2021) taking data from 100 Zakat recipients in Banda Aceh find the similar results which reflect higher human development score after Zakat assistance as compared to the score before the recipients were given Zakat assistance. These studies give an account of the potential of Islamic economics in the redistribution beyond markets.

### ***Religion as Choice Variable in Economic Decisions***

Religious people engage in worship where time is spent and time is an economic resource (DeVoe & Pfeffer, 2007). Religious people also engage in volunteering for imparting education, contributing in relief efforts and providing services in healthcare (Yeung, 2018). In such engagements, time is allocated and it is an economic resource. Such choices affect labour supply and hence level of employment and wages. Bruno and Fiorillo (2016) find wage premium for volunteering and while explaining the rationale, they argue that volunteering opens access to networking, avoids attrition and provides a signal for motivated and active individuals in the labour force.

Religious people engage in religiously inspired spending for self, such as Hajj travel, Umrah travel, animal sacrifice, Halal banking, Halal investments, Halal cosmetics, Halal medicine and Halal food. Furthermore, they also engage in religiously inspired spending for/on others, such as charity in cash and charity in kind. Such spending affects budget and hence optimal choice and demand for other goods and services. Table 1 presents the size of Halal segments in multiple sectors globally. It can be seen that faith-inspired market segments and products are sizable part of the market.

Mainstream economics also recognizes market segments inspired by religious impulse. Spending inspired by religious impulse in the market would still result in purchasing goods and services from the market and where the purchase decision would be influenced by common attributes like relative price and income. Variations in the intensity of some preferences can be entertained through differences in tastes and where such differences in intensity will reflect in measures of elasticity and price effect including substitution and income effect.

Table 1: Halal Economy Size

<b>Market Segment</b>	<b>2022 (bln \$)</b>	<b>2027F (bln \$)</b>	<b>CAGR</b>
Islamic Finance	3,958	5,955	8.51%
Food	1,403	1,887	6.11%
Fashion	318	428	6.12%
Cosmetics	84	129	8.96%
Travel	133	174	5.52%
Media & Recreation	247	344	6.85%
Pharmaceutical	108	142	5.63%

Source: State of the Global Islamic Economy Report 2023





## RESEARCH METHODOLOGY

### Works in the Assimilative Methodological Approach in Islamic Economics

In the assimilative approach to methodology in Islamic economics, economists attempt to develop theories in Islamic economics using the mainstream economics methodological tools within the same paradigm of optimization analysis. Provided the Homo-Islamicus consumer is making economic choices concerning consumption of Halal goods and services under the constraint of Halal income earned through Halal means, the economists use the mainstream constrained utility maximization framework to understand and explain consumer choice in marketplace. Likewise, provided that the Homo-Islamicus producer is making economic choices concerning production of Halal goods and services under the constraint of Halal means and resources sourced through Halal means and financing, the economists use the mainstream constrained profit maximization framework to understand and explain producer choice in marketplace.

It is difficult to classify Islamic economics researchers into assimilative approach with a definite stance. The proponents of the distinctive approach have used strong language in their criticism of both mainstream economics and about those Muslim economists who had tried to use an assimilative approach in the early literature in the 1980s and 1990s.

Some researchers have changed the boats or have done works which can be classified under assimilative as well as distinctive approach. For instance, Zaman (2005) attempted to use a lexicographic utility function to incorporate concerns about food security, poverty and endowment inequality in mainstream economics, but later on, his works strongly criticize or even condemn the mainstream economics methodology as well as the subject of economics altogether. That is an example of the transition from the assimilative to the distinctive approach. Therefore, instead of attributing researchers to the particular methodological approaches, it is better to mention few research works that can be classified under the assimilative approach.

Some Islamic economics researchers had tried to come up with analytical studies using the assimilative approach. In consumer theory, such works include Hasan (2017), Ahmed (2002), Kahf (1996), Kahf (1992), Zarqa (1992), Khan (1986) and Kahf (1980). In producer theory, such works include Amin et al. (2003), Bendjilali and Taher (1990) and Hasan (1983) to name a few.

Another contribution to the assimilative approach was made under the name of ‘divine economics framework’. Hamdani (2002; 2004) defines divine economics as a “framework for the study of religion and economics in each other’s perspective.” This methodological approach came up with follow-up studies to build the foundation more comprehensively. Thus, explaining and critically analysing it will help in appraising this methodological school better and how it can be refined further.

The assimilative approach under divine economics framework takes religion or religious activities as an object of choice in a rational framework. The link between economics and religion is created by arguing that time is money and when time is allocated on religious activities too, these activities can also be analysed within the framework of economics. Some engagement in religious activities involves allocation of budget, such as on religious travel, animal sacrifice and almsgiving. Thus, even from a positive economics perspective, the role of religion cannot be ignored.

Divine economics framework provides an empirical basis of behavioural comparison between the religious and non-religious agents with regards to their economic and non-economic choices. For instance, if the religious people use common property resources and public goods more responsibly, then it is worthwhile to promote and create awareness about





the religious values. On the other hand, if the religious and non-religious agents do not differ in their choices, then still it suggests that we need appropriate education and learning to create right kind of awareness about true religious values.

Divine economics framework establishes a link for cross communication between the mainstream economists and faith-inspired economists by using a universal methodological framework, which is sufficiently scientific, objective and broadly agreeable in mainstream economics.

Divine economics framework attempts to endogenize the religious variables. In the earlier literature, religion or religious identity has been taken as a categorical variable. It is not differentiated from other demographic characteristics of an economic agent. Some indices are also available, but they do not incorporate the religiosity levels. Divine economics framework provides a framework to rank the agents on their religiosity.

It is true that measurement of religiosity is God's prerogative. It is also true that true religiosity is founded in good actions as well as good intentions. So, it depends on observable and unobservable factors. However, the measurement of religiosity in divine economics framework is not meant to actually reward and punish people on this estimation. Rather, it is meant to measure religiosity by using a robust set of observable indicators as far as possible so as to be able to rank people on their religiosity levels. Thus, it targets criterion related validity for the behavioural comparison. This approach enables the comparison of choices between the religious and non-religious economic agents.

This framework also provides a way to see how people substitute time with money to have the desired spiritual fulfilment and well-being. For instance, a religious scholar with humble monetary resources, but abundant knowledge would share knowledge and devote more time in teaching. A businessperson or busy professional having less free time and relatively more monetary resources would contribute money to causes in which he or she personally may not be able to participate directly.

## **FINDINGS AND DISCUSSION**

### **Challenges Faced by Divine Economics Framework**

This section discusses the key methodological and epistemological challenges faced by the Divine economics framework in the assimilative school of methodology in Islamic economics.

The primary problem comes in the definition and measurement of religiosity. There is an overlap between the religious and non-religious activities. Engaging in economic enterprise or spending on self like educating oneself or keeping oneself healthy to be able to perform duties to family and society ordained by religion are also acts which are considered as virtuous acts by religion. Islam does not force a dichotomy between the worldly affairs and the religious affairs. A good part of religious teachings concerns with Muamlat and Huquq-ul-Ibad. Thus, self-interested behaviour can also be regarded as a religious act.

Furthermore, the quantity of religious activity is not the appropriate indicator of religiosity level if the quality and motivation behind the religious activities differ. Hence, a busy professional surgeon, a broadcaster or a steward devoting less time to religious activities, but fulfilling the professional duties with sincerity and commitment may get equal or more reward. He may be considered as much religious as a person whose professional and personal life is centred on religious activities like a teacher in Madrasa or an Imam of mosque. While the quantity can be measured, the quality, motivation and contextual differences which determine the quality of religious activities are unobservable as well as beyond direct







examination. Hence, relative comparisons are difficult to make and which make generalization and aggregation immensely difficult. Without the possibility of aggregation and generalizability, the policy use of empirical findings becomes limited.

As per Islamic principles, certain sins can overshadow other noble and charitable acts almost completely. Some or most religious teachings relate to social behaviour, such as good speech, good manners, justice and honesty, for instance. Hence, if a person has not fulfilled his duty towards his mother and his wife, then, his statement about himself is not an exhaustive means of determining his religiosity since his shortcomings in social relations can better be gauged from the views of those related to him.

Furthermore, religiosity is not an addition of positive activity alone, but a net of positive and negative activities. Positive activities may be revealed by the respondent or even exaggerated, but negative activities may be underreported or altogether hidden. Measuring religiosity is so much hard that even the researcher cannot possibly know and predict his or her own religiosity. Moreover, religiosity is also dynamic. But, such panel data analysis involving individuals while coping with limitations of cost and attrition is hard to overcome.

Another big problem is the problem of dual hypothesis. If a religious person acts in an inappropriate way in social relations, then is he not religious enough or his religiosity does not result in good civic and professional behaviour? Principles cannot bring contradictory results in behaviour if applied and followed correctly. Contradiction and variety in action is not due to principles, but because of human preferences and sovereignty in choices. It is the compliance to religion that makes a person religious and not his performance or satisfaction determining the effectiveness of religion.

Another issue in divine economics framework in particular and the assimilative literature in Islamic economics is general is that the use of market-centric analysis put a price tag on everything. Utility and profit maximization models try to explain economic behaviour in markets. Mainstream economists would argue that by treating preferences as exogenous, economics remains neutral about various motivations behind the choices. Thus, while selecting the airline, hotel and transport services, one would engage in marginal analysis even in religious travel for Hajj and Umrah. Likewise, mainstream economists may argue that if a person feels obliged to do household chores, attend to family and also to engage in spiritual activities, then, such non-economic choices are lumped together in leisure. Their focus is not on determining the deeper motivation, but how such choices in labour-leisure trade-off determine and affect market wage and level of employment. Problem is that in this framework, if religiously motivated allocation of time and money is taken in objective function rather than exogenously excluded from the constraint function, then there will be a need for price of such allocation of time and money and a supply side.

Muslim economists who had conceptually talked about embedding the concept of Iman, Taqwa, Tazkia, Falah and Barakah in the utility function have not thought over this problem of where is the market-based supply side of these attributes as choice variables. If these concepts enter in the utility function as attributes other than choice variables, then like the exogenous parameters, their effect will nullify in the final reduced form solution in the marginal analysis. In market, there is a demand side and there is a supply side. If the religious preference attributes are taken in the utility function and are demanded, then there ought to be a market and a supply side too.

Another potential challenge in divine economics framework in particular is the weakness of stated preferences method of survey in finding the motivations behind the actions where the questions of ethics are involved. Behavioural economics confirms through empirical evidence that people tend to be overconfident (Pallier et al., 2002). People have personal biases to consider themselves more righteous than they really might be in reality if they face actual





trade-offs and crossroads. It is also difficult to create an exact situation of real trade-off scenario by using stated preference method of survey or even lab experiments. People responding with an agreement on the high value attached to truthfulness may act otherwise when they face the actual trade-off involving the real payoffs to them in a real world scenario (Graham et al., 2015).

Another major limitation of marginal analysis in utility and profit function for Islamic economics in general and divine economics framework in particular is that the lens of efficiency regards religious and non-religious choices alike. Economics is neutral between ends. Any combination of religious and non-religious bundle if chosen by a 'rational' consumer in utility framework is economically theorized to achieve economic efficiency with equi-marginal principle.

Finally, another problem with the assimilative approach of methodology in Islamic economics in general and divine economics framework in particular is that the actual well-being in the afterlife is only in the divine knowledge about which the economic agents only have expectations and hope. From an Islamic perspective, this worldly life is a trial (Al-Qur'an: Al-Mulk: 2). Absolute justice and deterministic rewards are promised in the afterlife. The hardships are meant to test steadfastness, character, devotion and purity. Even the most pious prophets (pbut) in the materialistic sense of Falah faced hardships and some were martyred (Al-Qur'an: Al-Baqarah: 61). Some or greater part of the promised well-being is to be achieved in the life hereafter. There is no way to gauge that, but it does have a temporal effect on the ex-ante behaviour in this world. Thus, here, both the independent variable of religiosity and the dependent variable of well-being are quite difficult to measure reliably and the role of extraneous variables cannot easily be captured comprehensively.

It can be seen that there are certain issues in incorporating religious attributes, impulses and choice variables in the mainstream economics framework of utility and profit functions. Sometimes, there are limitations of mathematics, measurement, data availability, non-observable attributes, time-incongruence and dual hypothesis problem. The next section looks at how and to what extent these problems can be resolved for synthesis and integration between the mainstream economic tools and Islamic economics.

## **RECOMMENDATIONS**

### **Possible Answers and Solutions to the Challenges and Paradoxes**

This section discusses the possible ways to resolve the challenges identified in the previous section so that analytical studies can still be carried out after overcoming the challenges and paradoxes. First of all, it is important to embrace integrative methodology to disentangle market and non-market choices. The integrative approach makes a distinction between the economic and non-economic choices. This approach confines economics to only the economic sphere of life. The religious choices in a market can be analysed in descriptive studies using the mainstream tools for analysis of the market behaviour. All else the same, one would prefer to economize on the airfare, accommodation and food while planning for Hajj and Umrah travel. For instance, if an online app delivers the same airline ticket, hotel room or food brand more cheaply than the other, then it would be chosen while one is undergoing the Hajj or Umrah journey.

The religious choices outside of the market shall not be analysed within the self-interested paradigm. The allocation of resources driven by spiritual stimuli might not involve buying an economic good, such as a donation. At the same time, the religious choices should





not be discarded, deemed irrational or assumed away. Hence, the better approach is to reduce the budget of the consumer and producer by the amount of spending that is used up on religious spending beyond markets.

On the other hand, marginal analysis can still be carried out on goods and services that are traded in the market. Even if a person spends only 25% of income on self-consumption and on earning a return on investment, the person would try to economize resources by not paying more than what is necessary for a particular Halal good and service if the available alternatives are all alike. The person would choose to buy among the different Halal goods and services the one he/she prefers. As a producer, the person would not choose to hire extra labour and extra machinery than what is needed since the cost budget has limits and compels a carefully planned choice of inputs. If more profits can be earned from the allocation of cost budget in a productive enterprise, then the choice behaviour can consider marginal analysis.

Secondly, with market-based economic analysis, mainstream economic tools can be employed where the supply side of Halal goods and services is possible and which are priced and exchanged in the marketplace. Markets for products including goods and services like Halal food, Halal cosmetics, Halal medicine, Halal insurance (Takaful), Riba-free banking, faith-compliant investment services and religious education exist and suppliers provide these products to the buyers at the market price and with at least a partial profit motive. However, the same cannot be said for attributes such as 'Taqwa', 'Iman', 'Tazkia', 'Barakah' and 'Ihsan'.

In the behavioural studies to study the effect of religiosity in the assimilative literature in divine economics framework, the robustness of religiosity measurement can be enhanced by cross verification of self-stated preferences. The data collection strategy in divine economics framework makes meticulous efforts to cross verify some details. Though, not all such personal details and accounts are objectively verifiable, but the framework tries to incorporate cross verification to ensure accuracy of data as much as is possible.

More importantly, it is reasonable for Islamic economics to also extend research beyond self-interested paradigm. The empirical analysis focusing on profitability, stability, risk and efficiency of institutions does not require much abstraction to proceed. Even in mainstream economics, the agenda setting in development discourse, policymaking, differential diagnosis and impact evaluation depend on inductive research methodology employing qualitative and quantitative data in primary form. Thus, while the utility and profit functions may not adequately and holistically assist in modelling homo Islamicus behaviour, the tools of analysis available for empirical and statistical research shall not be altogether discarded as well.

The deductive reasoning in utility framework is confined to expositional purpose and not taken as a binding framework in applied research. The main research agenda in Islamic economics is or ought to be analysis of how to achieve need fulfilment of various economic needs at the individual and collective level within the bounds of religious teachings and norms. Hence, policy and action oriented research in this domain can use methodological pluralism, which is even embraced now in mainstream economics.

Finally, since the study of well-being in individual sphere runs into multiple problems, it is worthwhile to shift focus from individual wellbeing to societal wellbeing. An alternate strategy could be to focus on societal well-being which is less complex and has more practical significance. Islam asks to feed hungry, take care of weak, establish justice, protect and respect private property, conserve environment and avoid wastage, for instance. Such social wellbeing indicators are more reliably measurable. Policy goals at the national as well as at the global level also emphasize on improving these indicators and hence societal well-being. Research in this focused area is more doable, universally acceptable, has practical value and will avoid problems in evaluating personal judgments.





## CONCLUSION

This paper highlighted the need for a values-driven framework in economics in order to make economics more realistic and responsive to deal with the problems that transcend private market outcomes alone. The paper discussed areas in which religion and economics intersect. The paper also discussed how divine economics framework in the assimilative approach attempts to capture the interaction between religion and economics.

However, divine economics faces certain challenges as well in its analytical and empirical framework. Robust quantitative measurement of religiosity while keeping the qualitative aspects which are contextual, idiosyncratic and unobservable is not easy. The unobservable religious attributes without the corresponding supply side are also not possible to be brought into the utility and profit functions endogenously. While the robust measurement of religiosity with cross verification is a solution, there is also need to shift focus from individual well-being to societal well-being as done through measurement of human development index, sustainable development index and Maqasid-e-Shari'ah based well-being index.

It is discussed that while market-behaviour for Halal goods and services with a corresponding supply side can be studied in the utility and profit functions, there is no need to overuse the utility and profit functions to endogenously determine Iman, Ihsan, Tazkia, Falah and pure altruism. Allocation of time and economic budget shall be deducted from the constraint functions exogenously just like family time and lump-sum taxes.

Beyond the mathematical analysis of homo-Islamicus, there is also potential of using empirical analytical tools in the efficiency, performance, stability, risk and cost analysis of Islamic commercial, social and redistributive institutions. While there are contentions between the mainstream and Islamic economics with regards to the ultimate objective of life and worldview, there is still scope to use the statistical and econometric tools as much as they are comparatively useful for the purpose at hand. Thus, methodological pluralism and creating separation of economic and non-economic behaviour in and beyond markets is needed. This can be a more fruitful integrative framework which can connect the mainstream economics and Islamic economics in future.

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