

## **The eighth lecture**

### **Islamic Finance Terminology Quiz**

- Fill in the missing words indicated by the numbers in square brackets.

1. Leasing
2. Buys
3. Ownership
4. Promise from the customer to buy the asset at the end of the lease period
5. Risk and return
6. Profit-sharing ratio
7. Proportionate
8. Reduces
9. Rental payments
10. Decreases

#### **1. Ijara Contract**

*Ijara* is a form of [1].....It involves a contract where the *Rab ul Mall* [2] .....and then leases an asset to a customer for a specified rental over a specific period. The duration of the lease, as well as the basis for rental, are agreed in advance. The bank retains [3] .....of the item throughout the arrangement and takes back the asset at the end of the contract.

#### **2. Ijara wa Iqtina Contract**

*Ijara wa Iqtina* is similar to *Ijara*, except that included in the contract is a [4] .....at a pre-agreed price. Rentals paid during the period of the lease constitute part of the purchase price. Often, as a result, the final sale will be for a token sum.

#### **3. Musharaka Contract**

*Musharaka* means partnership. It involves an investor placing his capital with an Islamic bank with both sharing the [5] .....The difference between *Musharaka* contracts and *Mudaraba* contracts is that the partners can set any kind of [6] .....but losses in *Musharaka* must be [7] .....to the amount invested.

#### **4. Diminishing Musharaka Contract**

The principle of diminishing *Musharaka* can be used for home purchase. Diminishing *Musharaka* means that the bank [8] .....its equity in an asset with any additional capital payment the customer makes, over and above the [9]. .....The customer's ownership of the asset increases and the banks [10] .....by a similar amount each time the customer makes an additional capital payment. Ultimately, the bank transfers ownership of the asset entirely over to the customer.