Master 1: Islamic Finance and Banking

The Ninth lecture

Islamic Finance Terminology Quiz

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

1. Provides the funds
2. Provides the expertise
3. Pay interest
4. Sells
5. Agreed profit margin
6. It is redeemed in due course
7. Prohibited
8. Not *Sharia'a* compliant (*haram*)

1) Mudaraba *Contract*

Mudaraba refers to an investment on the customer's behalf by a bank. It takes the form of a contract between two parties, one who [1]…………………….and the other who [2] …………..…………and who must agree to the division of any profits made in advance. In other words, the bank makes *Sharia'a*-compliant investments and shares the profits with the customer. If no profit is made, the financial loss is borne by the customer and the bank charges no fee.

2) Murabaha *Contract*

Murabaha is a contract for purchasing an asset and subsequent sale to the customer. This allows the customer to make purchases without having to take out a loan and [3]…………..………. The bank purchases the goods for the customer, and [4] ………..……….…..them to the customer on a deferred basis, adding an [5]…………….……….. The customer then pays the sale price for the goods on an instalment basis, effectively obtaining credit without paying interest.

3) Qard

The *Fiqh* definition of *Qard* is that it is a non-interest bearing loan intended to allow the borrower to use the loaned funds for a period of time with the understanding that [6]……………………...

4) Riba

Riba means interest, which is [7] ………..…………in *Sharia'a* law. Any risk-free or guaranteed interest on a loan is considered to be [8]……………….…………..