

**The Twelfth lecture**

**The Salam Contract:**

**EX: N 01**

Circle True (T) or False (F) in the statements below:

Note: you need to indicate T or F for each statement.

**1. Under Salam, the seller:**

- A. Receives the sale price in advance. **T F**
- B. Must deliver the goods as agreed on the due date. **T F**
- C. Assumes full responsibility for delivery at the agreed sale price. **T F**

**2. Salam can only be used for:**

- A. Project finance. **T F**
- B. Manufactured goods. **T F**
- C. Agricultural goods. **T F**

**3. The benefits to the seller with a Salam contract are as follows:**

- A. He does not need to repay if bad weather destroys his crops. **T F**
- B. He gets paid in advance. **T F**
- C. He can sell the goods to another buyer if prices have gone up meanwhile. **T F**

**4. Under a Salam contract the Rab ul Mall is at risk for the entire period of the contract. T F**

**5. Under a Salam contract the Rab ul Mall is at risk for a short period only. T F**

**6. Under a Salam contract the Rab ul Mall is at risk until the muslim ileihi buys the goods. T F**

**7. Under a Salam contract the Rab ul Mall is at risk even after the contract has expired. T F**

**8. Under a Salam contract the Rab ul Mall is exposed to a total loss of capital. T F**

**9. Under a Salam contract the Rab ul Mall is exposed to no loss of capital. T F**

**10. Salam is a Sharia'a-compliant Islamic mode of finance because the risk is such that the Rab ul Mall can lose all his capital and the Mudarib can lose only his time and effort expended. T F**


**11. Salam represents a type of options contract. T F**

**12. Salam represents a type of forward contract. T F**

**EX: N 02**


Describe at least two risks associated with the Salam contract:

**Risk 1**

 .....

.....

**Risk 2**

 .....

.....

## ANSWERS

1. A. TRUE  
B. TRUE  
C. TRUE
2. A. FALSE  
B. FALSE  
C. TRUE
3. A. FALSE  
B. TRUE  
C. FALSE
  
4. TRUE
5. FALSE
6. FALSE
7. TRUE
8. TRUE
9. FALSE
10. FALSE
11. FALSE
12. TRUE

### **Risks with the *Salam* Contract**

#### **Risk 1**

*Credit Risk:* Settlement/delivery risk where the goods are not delivered or not delivered on time.

#### **Risk 2**

*Market Risk:* The risk that if there is a default then the bank has to purchase the goods on the open market at a higher price than the agreed price in the Parallel *Salam* contract.