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Important Marking Instructions

- Make marks that fill bubbles completely
- Example
- Erase unwanted marks cleanly
- Make no stray marks on this form

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Islamic Banking & Finance (Course: BA 351)

Gulf University for Science & Technology

First Midterm Exam

22nd Feb. 2017

Student's Name

ID No

True / False Questions

1. All valid contract are Jaiz (revocable). (F)
2. Any contract which contains an element of uncertainty that leads to future dispute is an invalid contract. (F)
3. We as adults enjoy both receptive legal capacity (*ahliyyah al-wujub*) and active legal capacity (*ahliyyah al-'ada*). (T)
4. Like minor Gharar minor Riba is tolerable. F
5. All valid contracts are Lazim (irrevocable). F
6. If the uncertainty in a contract doesn't lead to future dispute then it is minor Gharar. F
7. It is not a condition for the validity of the *murabahah* contract that the buyer knows the original cost price of the commodity or the additional profit that has been added by the seller. ~~True~~ False
8. The amount of profit for each partner under *musharakah* must be determined in proportion to the capital invested by the partner. T
9. A unilateral contract is binding for the person who makes it as well as on the person in whose favor it has been made. ~~True~~ False
10. Classification of contract according to its legal consequences puts emphasis on the extent of validity or binding nature of the contract. T
11. All Nafith (enforcible) contracts are valid contracts. T
12. A contract may be considered deficient (*fasid*) if it is lawful in its substance but unlawful in its description. T
13. The terms "void contract" and "voidable contract" are identical so they can be used interchangeably. F
14. Batil contract can be repaired/fixed to make it Sahih. F
15. The rationale behind the prohibition of any business transaction that involves speculative element is to avoid unnecessary risk-taking which will eventually lead to disputes between the contracting parties. T

16. Speculative contracts which contain uncertain elements constitute the second major prohibition of contracts under the Shari'ah. ~~F~~ True
17. *Riba al-nasi'ah* relates to a trading transactions while *riba al-fadl* relates to loan transactions. F
18. Lease contract is considered an impractical mode of financing in modern Islamic banking and finance and does not represent a genuine alternative to the charging of interest. T
19. In the event of losses under *musharakah*, the entrepreneur loses his/her labour and the financier loses the capital. T
20. All types of *Gharar* are prohibited under Islamic Law. T
- F 21. The resolution of Islamic Fiqh Academy cannot be considered one of the main sources of Shari'ah (Islamic law) that constitute the basis of Islamic banking and finance. (F)
22. There are basically two types of *riba*—*riba al-nasi'ah*, which is the interest on lent money, and *riba al-fadl*, the unequal exchange of homogenous rabawi commodities. T
23. In Islam, business is business. Profit-making comes first before anything else. F
24. Islam establishes the need to lawfully acquire property and validates all measures and policies towards the protection of such right. T
- F 25. A contract is deemed valid when it is concluded with an effective offer and acceptance and the parties have the legal capacity to do so irrespective of the nature of the subject matter. F
- F 26. Islamic Development Bank was the first fully-fledged Islamic commercial bank in the world established 1975 in Dubai. F
- T 27. Dual banking system is a banking system of a country or a territory that incorporates both conventional and Islamic financial systems. T
- F 28. 'Sources and application of funds' refers just to the cash inflows in an Islamic bank or financial institution over a period of time. F
- F 29. Islamic financial institutions are not permitted to charge fees, commissions or fixed charges for their services. F
30. All banks with dual banking arrangements manage their Islamic funds freely along with their conventional funds without any need for segregation of funds. F
31. Investment deposits are risk-free funds which does not yield any return. F
32. *Mudarabah* is the sale of a commodity at the cost price at which it was purchased plus an additional profit which has been mutually agreed by the parties. F

33. *Istisna'* is a transaction on an already existed (manufactured) commodity. **F**
34. A *salam* contract can be defined as a contract of sale where the seller agrees to supply specific goods to the buyer on a deferred basis in exchange of an advanced price fully paid on the spot. **T**
35. The *hadith* "gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates... hand to hand..." implies that trade in currency is not permissible in Islamic law. **F**

Multiple Choices Questions

36. The following mode(s) of transactions were prevailing during the Prophet's lifetime:
- a) *shirkah* (partnership) based on profit and loss sharing (PLS)
 - b) *al qard al hasan* (benevolent loan)
 - c) *salam* (forward) contract
 - ☒ d) all of the above
37. Among the many destructive outcomes of Qimar/gambling is/are the following:
- ☒ a) hostility and hatred is usually generated among the players
 - b) destruction of the source of families' livelihood of
 - c) turning the players away from the remembrance of Allah and to neglect fundamentals of Islamic pillars such as the five canonical prayers.
 - ☒ d) all of the above
38. The following items are major components of Islamic banking and finance EXCEPT:
- a) Islamic banking,
 - b) *takaful* (insurance)
 - ☒ c) stock Exchange
 - d) capital markets
39. The Islamic banking component of Islamic financial services may be:
- a) fully fledged Islamic banks,
 - b) Islamic subsidiaries
 - c) 'windows' of conventional banks.
 - ☒ d) All of the above
40. The pillars (*arkan*) of contract in Shari'ah include:
- a) place of the contract
 - b) witnesses to the contract
 - ☒ c) subject matter of contract
 - d) date of the contract
41. International bodies dedicated to enhancing Islamic finance industry include:
- a) the International Islamic Financial Market (IIFM)
 - b) Islamic Financial Services Board (IFSB)
 - c) accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)
 - ☒ d) all of the above

42. Examples of Islamic non-bank financial institutions include:
- a) Islamic leasing companies,
 - b) Islamic microfinance institutions,
 - c) *waqf* management institutions,
 - ☒ d) all of the above
43. All financing in Islamic banking and finance can be conveniently classified under:
- a) sharing modes
 - b) sale modes
 - c) leasing modes
 - ☒ d) any of the above modes
44. All of the following are examples of unlawful earnings except:
- a) short-measures in trade through underweight
 - b) hording to inflate prices at a later period
 - ☒ c) earning through musharakah mode of finance
 - d) money-lending that involves usury
45. The legal consequences of a contract may result in a(n):
- ☒ a) valid contract (*Sahih*)
 - b) invalid or deficient contract (*Fasid*)
 - c) void contract (*Batil*)
 - ☒ d) any of the above
46. A contract that is lawful in its substance but unlawful in its description is considered:
- a) binding contract
 - ☒ b) deficient contract
 - c) void contract
 - ☒ d) none of the above
- bar d
47. Which one of the following is not an element of a valid sales contract?
- a) offer and acceptance
 - b) subject matter
 - ☒ c) witnesses
 - d) consideration or price
48. The power to sell is denied in the following circumstances in order to avoid elements of uncertainty (*Ba'i' al-Gharar*)
- a) things which, as the object of a legal transaction, do not exist.
 - b) things which exist but which are not in possession of the seller or the availability of which may not be expected
 - c) things which are exchanged on the basis of uncertain delivery and payment.
 - ☒ d) all of the above

49. "A contract among two or more persons involving the exchange of money or other valuables depending upon the uncertain outcome of a staged event" is:

- a) gharar
- b) qimar
- c) musharakah
- d) Bai'

50. Types of legal capacity in a contract (ahliyyah)

- a) ahliyyah al-wujub and ahliyyah al-'ada
- b) ahliyyah al-wujub and ahliyyah al-fard
- c) ahliyyah al-'ada and ahliyyah al-fard
- d) none of the above

Fill the blanks

1. All contracts should be free from riba, major Gharar and gambling (qimar).

2. The four elements of a valid contract of sale are offer & acceptance, subject matter, consideration or price, and meeting of minds of the parties.

3. All loans are debts; but not all debts are loans.
(loans, debts)

4. All gambling are Gharar; but not all Gharar are Gambling.
(Gharar, gambling)

5. ies aqd an agreement among parties concluded through an offer and acceptance with the consequences of binding legal obligation.

6. Waqf, ibrah', hibah, wa'ad, and tabarru' contracts are categorized as unilateral superiority contracts.

7. voidable contract is an unenforceable contract that is invalid from the very beginning, which cannot be remedied by addressing any missing element in such transaction.

DIB 8. Dubai Islamic Bank was the first fully-fledged Islamic commercial bank in the world established 1975. It operates five main business groups: retail banking, corporate banking, real estate, investment banking, and proprietary trading investments.

9. The waiving of one's financial right or ownership that is owed to him/her in totality or partially is known as: Ibra

10. Islamic banks use their funds in 3 modes: sale, lease and partnership (sharing) modes.

sale
7 ↑ 3.5

Short Answer questions

Answer only 2 questions with not less than 50 words (discipline-specific).

1. Explain the difference between Jaiz and Lazim contracts.
2. Discuss the difference between Mudaraba and Musharaka in terms of profit, losses and management.
3. Discuss Musharaka Mutanaqisa/ diminishing Musharakah.
4. What is Legal Capacity in a Contract?
5. Name the major four components of the Islamic banking and finance industry.
6. List the names of the Unilateral Supporting contracts.
7. What is the meaning of fungible and usufruct? Discuss.

② Musharaka is one someone or two parties one of them has the money and the other one will do the effort and make a business with the money if the business was successful both of them will share the profit and if the business had some losses both of them will lose they share the profit and losing. In the Mudaraba one of the parties will give the other the money to do business in this case if the business loses and the reason was not making effort from one of the parties then he/she will lose alone without the person who gave the money and try to make up for him. In Musharaka they both share losing and gaining profits but in Mudaraba they can both share the gaining but the losses the person who did not make the effort will handle it alone.

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