

CHAPTER I

INTRODUCTION

A. Background of Study

Along with the paradigm shift, money has been a part of history for least the last 3.000 years. Before that time, it was assumed that a system of bartering was likely used. A barter system was used long before the seventh century (before the time of Prophet Muhammad). But. The simple way it still has many flaws, such as: the standards of living in the bartering system was been necessarily low.¹ So humans create and develop exchange as money because, one of the great achievements of money is to increase the speed at which business and trade.²

The importance of money is make many economists who define the money, according to Pigou, said that money is things that were widely used as a media for exchange.³ As for Robertson also said that money is something which is widely accepted in payments for goods, or in discharge of other kinds of the business obligation.⁴ Keynes also said that money used as a convenient medium of exchange on the spot approach to being Money, in as much as it may represent a means of holding General Purchasing Power.⁵

With a lot of great achievements of money than humans motivated to obtain money, that is when humans live in a culture where money is used, money enters into human behaviour in some of the same ways as commonly recognized motivators such as food or ‘a portion of food’. More

¹ Ahmed Kameel Mydin Meera, “Seignorage of Fiat Money and the Maqasid al-Shari’ah: The Compatibility of The Gold Dinar with the Maqasid”, *Humanomics*, Vol. 22 Iss. 2 2014, p. 85.

² Andrew Beattie, “The History Of Money : From Barter To Banknotes”, *Investopedia*, Vol. 1 No. 2 February 2015, p. 1.

³ Pigou, *The Veil of Money*, (New York: ST. Martin’s Press, 1909), p. 5.

⁴ Robertson, *Money*, (London: The University Press, 1922), p. 2-3.

⁵ Keynes, *A Treatise On Money*, (London, Mac Millan, 1930), p. 3.

specifically, firstly, is money acts as an incentive, when the people can perceive or understand the particular action it can to lead them obtaining money. Secondly, money acts as a reinforce, when the actions that are the past led the person to receive money.⁶

Money plays an important role in an individual way but also has an important role in financial development. Hence, McKinnon and Shaw's stress on the importance of financial conditions, and money is the predominant financial repository of domestic savings in the countries.⁷ A thorough understanding of money, reasons for money and most important factors influencing of stability, will announce an insight into whether of money demand.

The following is a statistical curve of the demand for money in Indonesia, based on Bank Indonesia in period 2009-2018:

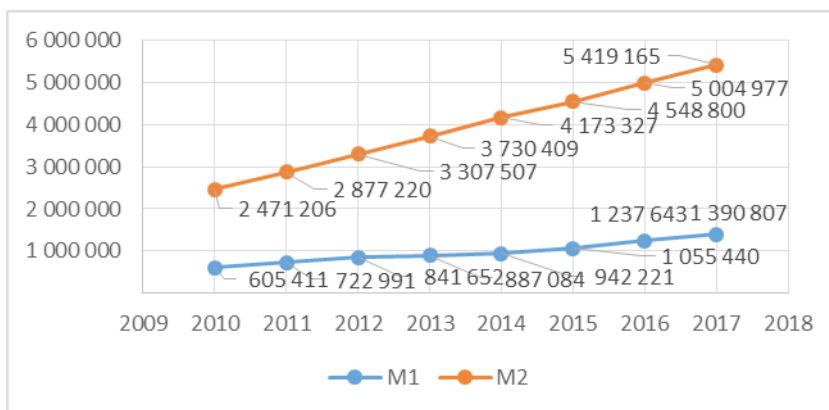


Figure 1.1 The Money Demand for Indonesia

Source: Statistics Indonesia, 2019.

⁶ Stephen E.G. Lea and Paul Webley, "Money as Tool, Money as Drug: The Biological Psychology of a Strong Incentive", *Behavioral and Brain Sciences*, Vol. 29 No. 2 2006, p. 162.

⁷ M.J. Fry, "Money and Capital or Financial Deepening in Economic Developments" *Journal of Money, Credit, and Banking*, Vol. 10 No. 4 November 1978, p. 109.

Consequently, examining the characteristics of money demand in Indonesia should bear significant meaning for the present and future conduct of monetary policy. Broad money demand has fluctuated a lot moving from 2011-2012 increased by 430.287 billion rupiahs in M1 of money demand, and from 2016-2017 increased by 182.203 billion rupiahs. These fluctuations have often been considered the fact that a stable money demand function is considered essential for the formulation and conduct of efficient monetary policy.

Friedman was said that the real quantity of money demanded a function of population and the real capital income, as well as the interest rates, rate of change of prices, and the other variables.⁸ The elasticity of demand for real money balances per capita with respect to the real capita income to be unity in order to divorce monetary analysis from the real sector in the sense under consideration.

That is contrary with Islamic perspective, because Islam does not find interest to be an appropriate mechanism for the management of money demand in an efficient. Consequently, Chapra tries to regulate money demand some strategy that can be rely on a number of instruments, there are three instruments.⁹ Firstly, since value and the institutions play the crucial role in practically all aspects of human life, and Islam has not an anathema to value judgments. Secondly, since values may be disregarded, it tries to reinforce them by a number of social, economic and also political institutions. Thirdly, Islam prohibits interest, speculation and reorganizes financial intermediation on the basis of profit and loss sharing.

From the view of money above, it can be concluded that Islam has a different look in terms of the goal function of money with conventional views, because Islam has a commitment on spiritual values, economic

⁸ Milton Friedman, *Interest Rates and the Demand for Money*, University of Chicago. (This Content downloaded from 04 May 2017, on 19.30 PM, from www.journals.uchicago.edu), p. 73.

⁹ Chapra, "Monetary Management In An Islamic Economy", *Journal Islamic Economic Studies*, Vol. 4 No. 1 December 1996, p. 7-8.

justice and humanity. Chapra said that for reducing the money demand for unproductive and speculation purpose, Islam tries to minimize the holding of idle cash balances by the levy of zakah.¹⁰ This could induce savers to get into the productive investments to save the net wealth by zakah. Zakah also one of instrument that uses the function and the role of money in management.

Similar, the case with zakah expenditure in the form of an organized social assistance programmed under the taken of the state. The stated categories of expenditures of the zakah fund can be extended to cover programmers of employment creation, family welfare, rehabilitation of the aged, and the income support during times of economic losses and others.¹¹

Based on the data Baznas 2018, a growing collection of ZIS (*Zakah, Infaq, Shadaqoh*) that occurred during the last 10 years.

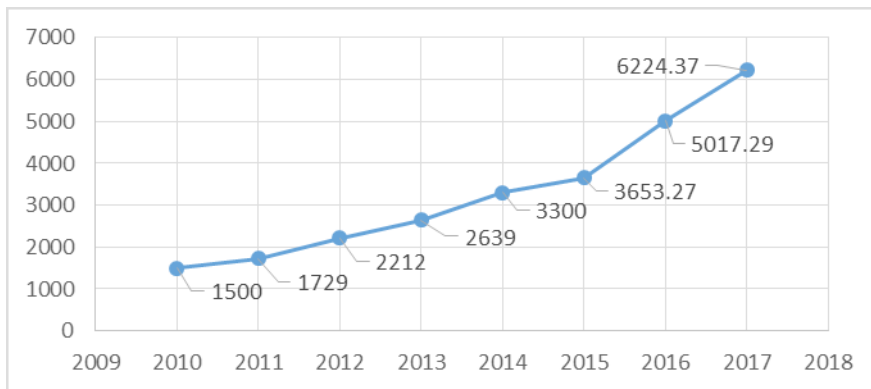


Figure 1.2 A Growing collection of ZIS

Source: BAZNAS, 2017

From the above data can be explained, that happened the increase and decrease in the collection of *Zakah, Infaq, and Shadaqoh*. ZIS votes can grow a society based on a balanced distribution of wealth by placing

¹⁰ *Ibid*, p. 15.

¹¹ Masudul Alam Choudhury, "Principal of Islamic Economic", *Journal Middle Eastern Studies*, Vol. 19 No. 1 December 1983, p. 95.

the material and spiritual values at the same level. In other words, ZIS can create fair economic distribution mechanisms. Muslim enabling money to serve the interests of one of the zakah.

There are few authors who have done research with quantitative approaches, including, Inung Oni Setiadi, and Jhon F. Cochrane, but it examined about money demand in conventional system. So, Chapra, Ebrinda et al, Ascarya et al, it examined Islamic Money demand system in macro research. But only a few studies that examine about zakah as one of social values that influence on the function of money is qualitative micro. Such us, Muhammad Fahmi, but his respondents were the students from University Darussalam Gontor, and this research was used regression for analyzing the data.

So, the author is interested in doing the research, with the title:

“Social Values Instrument as Islamic Money Demand Function: Evidence From Muzakki in Indonesia”

B. Formulation of Research

Based on the description of the background of the problems that have been described above, then the issue will be discussed in this research are:

Can the instrument of Social Values be the function of money demand for Muslims?

C. Purpose of Research

Based on the formulation of a problem then it aims:

To know that instrument of social values as a function of the money demand for Muslims from Muzakki in Indonesia.

D. Benefit of Research

The benefits of this research are as follows:

1. The Benefits of Academics:

- a. After learning that an instrument of social values as a function of the demand for money, is expected to add to the scientific insights to the other students and community or citizen.
- b. Contribution of thought towards further researchers who are interested in researching on money demand function short of Islam and the subject of additional references.

2. The Benefits of Practitioners

In order for the community to know that the instrument of social values as a function of the demand for money.

3. The Benefits of Researchers

Add insight researcher, and became learning for researchers.

E. Limit Problem of Research

In this study researcher limits the framework of thought i.e., data were collected by using the online questionnaire, with the population of the communities examined the community is Muslim who already have mandatory age of zakah, and has had an income required for Zakah (muzakki) issued the title in the Muzakki are residing in Indonesia.

F. Systematics of Writing

CHAPTER I: INTRODUCTION

The first chapter contains a description of the background to the selection of conical research topics are solid and informative, the formulation of problems presented in the form of questions and based on the background, research purposes containing the clearly exposure to what is planned in the proposed research, the limitation issue, data and methodologies is about the explanation of the data used and the chosen methodology for analyzing the problem, the benefits of research that contains the benefits to be gained and the importance of research done now as well as systematic writing.

CHAPTER II: LITERATURE REVIEW

Chapter two describes the theories related to the research and showing an expose about the results of previous research ever undertaken by previous researchers or literature review.

CHAPTER III: METHODOLOGY OF RESEARCH

Chapter three describes the types and sources of research data. Describes the operational definition is also about against the variables used. As well, the existence of a research methodology that describes what are the methods used in this study.

CHAPTER IV: THE PRESENTATION OF DATA AND DATA ANALYSIS

The fourth chapter contains the results of research and discussion has been done by researchers. Along with the results of the analysis of the results of research that has been done by the researcher to know the influence of each variable.

CHAPTER V: CLOSING

The fifth chapter describes the conclusion of what has been outlined in the previous chapter and posited suggestions of improvement analysis results the author over the problems that have been raised.