

ABSTRACT

Money Creation in an Islamic Monetary System, A Comparative Study Between Muhammad Umer Chapra and Mabid Ali Al-Jarhi

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The creation of money is the most important part of monetary policy, it determines the supply and circulation of money with main goals to main the stability in the value of money. The prevalent money creation system is still regulated on debt basis, and interest rate is the most important instrument of it. This particular system is clearly against the principle of Islamic economics which prohibits the use of *riba* and interest rate of any kind. The use of interest rate in money creation system would cause inflation and instability value of money. And yet most Muslim majority countries are still implementing such policy that includes Indonesia.

Acknowledging the previous background of research, the author tends to conduct its undergraduate thesis on money creation in an Islamic monetary system by comparing the two renown Muslim economists Muhammad Umer Chapra and Mabid Ali Al-Jarhi. The research aims to know and understand the concept and mechanism of money creation according to Muhammad Umer Chapra and Mabid Ali-Jarhi and then to compare the similarities and differences of their thoughts.

The research is a qualitative and literature-based research, the author would use descriptive comparative method to analyse and understand the thoughts and ideas of Muhammad Umer Chapra and Mabid Ali Al-Jarhi on money creation in Islamic monetary system. The author would descript their thoughts and ideas and then compare the differences and similarities of both.

The research revealed the similarities and differences between Chapra's and Al-Jahri's thoughts on the concept and mechanism of money creation. The fundamental difference could be found in the concept of money creation, where Chapra proposed and suggested the use of monetary targeting framework, meanwhile Al-Jahri proposed inflation targeting framework. However, they both in agreement that Islamic banks have the capability to create a significant amount of broad money. Nevertheless, they have different approach of implementation of Islamic monetary policy instruments to control the creation of narrow by central bank and broad money by Islamic banks.

Keywords: Money creation, reserve requirement, money supply