
A Conceptual Distinction Between Money and Capital in Islamic Economics

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Abstract

Money is an object that plays an important role in the economy. Money is a medium used to facilitate economic transactions in human life. Without money, it will be difficult for humans to carry out daily transaction activities. So that the role of money in an economy can be likened to blood flow in the body, without which economic activities can be severely hampered and even stopped. In Islamic economics, money has the main function as a medium of exchange and a unit of calculation. Although in practice it is still allowed to use money as a store of value and deferred payment standards, as long as money is considered only a medium of exchange, not a commodity to be traded. Islamic economics differs from conventional economics in looking at the terms money and capital. In conventional economic view, the terms money and capital are often used interchangeably. Because in the conventional economy, money is synonymous with capital. Meanwhile, in economics, Islam makes a clear distinction between money and capital.

Keywords: *Money, Exchange Rate, Islamic Economy*

INTRODUCTION

Since ancient times, humans have used various ways to exchange goods, to meet their needs. In a civilization that is still very simple, humans exchange needs by barter. However, this barter requires the existence of two different goods from the parties to this exchange. The more numerous and complex human needs, the more difficult it is to barter, making it difficult to transact between others. That is why humans have always thought about the need for a medium



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of exchange that is acceptable to all parties. Such a medium of exchange is called money.

Money is a great innovation in the world's economic civilization, its position is very strategic in the economic system, and it is difficult to replace it with other media. Throughout the history of its existence, money has played an important role in the course of human life. Money has succeeded in facilitating and shortening the transaction time of the exchange of goods and services. Money in an economic system allows trade to run effectively and efficiently.

The existence of money provides an easier transaction alternative to barter which is more complex, inefficient, and less suitable for use in modern economic systems because it requires people who have the same desire to make exchanges and also difficulties in determining value. The efficiency gained by using money will ultimately encourage trade and the division of labor which will then increase productivity and prosperity.

RESEARCH METHODS

This research is qualitative research, research that examines information obtained from people who interpret or use text or speech as the subject of the study. In this study, we sought information from various book sources and journal reference references. Qualitative research can be carried out using research methods that aim to summarize various situations or social phenomena that occur in society in an interesting way as characteristics, signs, symbols, patterns or descriptions of certain situations, circumstances, and phenomena that occur.

RESULTS AND DISCUSSION

1. Definition of Money

In the Indonesian dictionary, money is a standard of measuring value issued by the government of a country in the form of paper, gold, silver or

other metals printed with certain shapes and images.¹

Meanwhile, according to Kasmir, defining money broadly is as something that can be generally accepted as a means of payment in a region or as a means of debt payment or as a means of purchasing goods and services.²

So everything can be accepted as money if there are rules or laws that indicate that something can be used as a medium of exchange.

Meanwhile, functionally, what can be said is that money is everything that performs its function as money, that is, it can be used as: a medium of exchange, a store of value, a unit of calculation and a means of pending payment.³

2. Money as *Public Goods*, Capital as *Private Goods*

In the economic concept, money as *a Public Goods* belongs to the Community. This concept emphasizes that money should be a medium of exchange that facilitates economic activities for the entire community, not a source of personal wealth. Whoever hoards money or is left unproductive means reducing the amount of money supply which can result in the economy not running. If someone deliberately accumulates money that is not spent, it means obstructing the process or smooth trading process. The implication is that the exchange process in the economy is hampered.

In addition, the accumulation of money/wealth can also encourage humans to tend to bad traits such as greed, greed and lazy to do charity such as zakat, infaq, sadaqah and so on. These bad qualities also have a negative impact on the survival of the economy. Therefore, Islam prohibits the accumulation /

¹ WJS Purwadarminta, *General Dictionary of Indonesian Language* Ed.3 (Jakarta: Balai Pustaka, 2006), p.1323

² Kasmir, *Banks and Other Financial Institutions* (Jakarta: PT. Rajagrafindo Persada, 2008), p. 13

³ Sadono Sukirno, *Macroeconomics: An Introduction to Theory* (Cet. 17; Jakarta: Raja Grafindo Persada, 2004), p. 34

hoarding of wealth, monopolizing wealth.

Meanwhile, capital in the concept of Islamic economics as *private goods*, is a productive asset such as machinery, equipment or land that is personal and can be used by its owner to generate profits. For example, a factory owned by an entrepreneur is capital that is considered *private goods*.

3. Money as a Flow Concept

Money as a flow concept in the context of Islamic economics means that money must continue to flow in the economy, not be stored or become a personal item. This means that money should be used for economic activities such as the exchange of goods and services, not stored or hoarded. In contrast to the conventional economic view that can consider money as a commodity that can be saved. The Function of Money

4. The functions of money include as;

- a. Money as an intermediary for exchange.

With money, it has been possible to obtain the desired goods only by finding the person who owns the goods and then obtaining the goods. The seller of the goods can then use the money they earn to buy the goods they want from other people, meaning that there is no need to bother looking for people who own the goods and also want the goods they have.

- b. Money as a Unit of Value

A unit of value is a unit of measurement that determines the amount of value of different types of goods and services. With money, the value of an item can be easily stated, namely by showing the amount of money needed to acquire the goods and services.

- c. Money as a Delayed Means of Payment

That the value of the money used must remain stable. The value of money is said to be stable if the amount of money spent will still get the same amount of goods and the same quality from time to time. It is possible

that people prefer to accept pending payments in the form of goods or avoid exchanging for delayed payments. This situation always occurs when the prices of goods are rapidly increasing from time to time.

d. Money is used as a tool to store value.

The main type of money is bank money or money bills. This type of money does not require any money to store it and is easy to take care of. Money functions as a tool to store value (*currency*) because it can be used to shift purchasing power from the present to the future. When a seller currently receives a certain amount of money as payment for the goods and services he sells, then he can save the money to be used to buy goods and services in the future.

5. Currency Exchange Rate

Definition of Exchange Rate (Exchange Rate)

The price of one currency against another is called the *exchange rate*. The exchange rate describes the price of one currency against the currency of another country, as well as the price of an asset or the price of an asset. The exchange rate is one of the important things in an open economy, because it has a very large influence on the current account balance and other macroeconomic variables.

6. Factors Affecting Exchange Rates

a. Government Policy

Various policies made by the government of a country will affect the exchange rate of the currency in that country. The policy serves as a control to be able to:

- 1) Avoiding various barriers to foreign exchange rates
- 2) Avoiding barriers to international trade
- 3) Attempts to intervene in the money market by buying and selling currencies.

This market intervention is usually carried out for the following reasons:

- 1) Facilitate changes in domestic currency exchange rates
- 2) Conditioning the domestic currency exchange rate to predetermined limits
- 3) In response to temporary obstacles
- 4) To affect macro variables, such as inflation, income rates, and interest rates

b. Inflation Rate

In the foreign exchange market, the main basis is international trade, both in the form of services and goods. Thus, changes in domestic prices relative to foreign prices are factors that affect the movement of foreign currency values. For example, China is Indonesia's trading partner. China is experiencing high inflation which causes the price of goods to be higher. This will automatically result in a decrease in demand for relative products.

c. Interest Rate Differences

International capital flows are affected by changes in a country's interest rate. In other words, rising interest rates will provoke the influx of foreign capital. Interest rates will affect the operations of the foreign exchange market and the money market. When transaction activity occurs, the bank will consider the difference in interest rates in the national and global capital markets with a view derived from profits. The Bank prefers to get cheap loans in the foreign money market with lower interest rates and the place of foreign currency in the domestic credit market if the interest rate is higher.

d. Balance of Payments Activities

The currency exchange rate is also affected by the balance of payments. An active balance of payments will increase the value of the domestic currency with an increase in the number of foreign debtors.

If the balance of payments is passive, this will result in a decline in the

domestic currency exchange rate so the debtor will have to sell everything in foreign currency to repay their external obligations.

The impact of the balance of payments is measured against the exchange rate that has been determined by the level of economic openness. Import restrictions, tariff changes, trade quotas, and subsidies will affect the trade balance.

e. Relative Income Levels

The rate of income growth against foreign prices is another factor that affects supply and demand in the foreign exchange market. Foreign currency rates will weaken as the pace of domestic income growth improves.

f. Spektasi

The expectation of a country's currency exchange rate in the future is also a factor that affects the foreign exchange rate. Like any other financial market, the forex market will react quickly to various news that is considered to have an impact on the future. For example, news of the predicted increase in inflation in the United States is likely to encourage forex traders to sell against the dollar. This is because it is estimated that the price of the dollar will fall in the future. And this reaction will directly pressure the dollar exchange rate in the market.

7. Money in an Islamic Perspective

In Islamic economics, the concept of money is very clear and firm that money is money, money is not capital. In the concept of Islamic economics, money is *public goods*. Whoever hoards money or is left unproductive means reducing the amount of money supply which can result in the economy not running. If someone deliberately accumulates money that is not spent, it means obstructing the process or smooth trading process. The implication is that the exchange process in the economy is hampered. In addition, the accumulation

of money or wealth can also encourage humans to tend to bad traits such as greed, greed and lazy in charity (zakat, infak and sadaqah). These bad qualities also have a negative impact on the survival of the economy. Therefore, Islam prohibits the accumulation / hoarding of wealth, monopolizing wealth.

Another difference in Islamic economics, money is something that is a *flow concept* and capital is something that is a *stock concept*, while in conventional economics there are several definitions, according to Frederic S. Mishkin expressing the concept of *Irving Fisher* stating that:

$$MV = PT$$

Information:

M = amount of money

V = money turnover rate P = price level of goods

T = number of goods traded

CONCLUSION

Money is a standard of measuring value issued by the government of a country in the form of paper, gold, silver or other metals printed with certain shapes and images. So everything can be accepted as money if there are rules or laws that indicate that something can be used as a medium of exchange.

The functions of money include as an intermediary for exchange, units of value, deferred means of payment, and a means of storing value.

In Islamic economics, the concept of money is very clear and firm that money is money, money is not capital. In the concept of Islamic economics, money is *public goods*. Money is something that is a *flow concept* and capital is something that is a *stock concept*.

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