EXPLAINING PROFIT AND LOSS SHARING MODEL (PLS) AS AN ANTECEDENT TO ISLAMIC ECONOMIC ACTIVITY : A THEORETICAL PERCEPTIVE

Hatem Ahmed Adela. [1]

[1]American University in the Emirates, UAESadat Academy for Management Sciences LAW Director of the Master's

Abstract:

The study aims to contribute to formulating the methodological framework of the Islamic Economy Model through the formulation of the Profit and Loss Sharing Model (PLS), using the development in the theoretical and mathematical methods of the conventional economics. Including, reformulating the concepts of present value and the marginal efficiency rate of investment, as well as replacing the interest rate by the return rates of sharing. The Model enables the central bank to control the monetary policy, economic activity, and reallocating of economic resources more efficiently than when using the interest rate.

Introduction:

Most of the studies in the field of Islamic economics focus on legislative and jurisprudential of Islamic financing transactions. Bosca, (2015) explains that around 50% of the studies of the Islamic economy related to the legislative and jurisprudential issues during the period 1994-2005, while only 19% focused on the methodological framework of the Islamic economy[1]. Despite the existence of different types of financing in the Islamic economy, such as murabahah, musharakah, mudarabah, ijara, the economic studies are relatively few. That refers to the necessity of using the conventional economics instruments; theoretical,

mathematical, and statistical in formulating a more integrated model of the Islamic economy.

The Profit and Loss Sharing Model (PLS) considers the most effective method to influence the economic activity in the Islamic economy, which includes the participation of savers, the bank, and investors in providing the finance for projects, sharing in profit and taking risks. Therefore, it impacts the domestic savings, investments, and the domestic resources gap. The implementation of the sharing model is more flexible than using the interest rate. Whereas it includes three rates of return; a return rate of saver's sharing, a return rate of bank's sharing, and a return rate of investor's sharing. While the interest rate is determined arbitrarily according to the maturity date of funds between the bank and the saver on the one hand, and between the bank and the investor, on the other hand, the investor bears the financial risk individually. The other hand, the investor bears the financial risk individually.

The formulation of the Profit and Loss Sharing Model (PLS) requires the replacement of the return rates of sharing instead of the interest rate in formulating the economic instruments that influence the economic activities, where the interest rate is an essential component when calculating both of the present value which relates to the domestic saving and the marginal efficiency rate of investment that relates to the domestic investment, also, it is the main factor when formulating an investment function. To this end, the research investigates the following:

1- The inflation rate within a framework of the Islamic economy can be used as a discount rate when calculating the present value.
2- The return rates of sharing are considered an alternative to the interest rate in the Islamic economy.
3- The Central Bank can use the return rates of sharing as instruments in managing the monetary policy and influencing economic activity.

Also, the mechanism of using the interest rate to achieve the equilibrium in the money market includes lags to transform the savings into investments and influencing the level of economic activity. While the profit and loss sharing process ensures the participation of all parties synchronously, the saver, the bank, and the investor, therefore, the lag period is limited to the implementation of the sharing process. Also, Zakat has a positive impact on the sharing process by encouraging the individuals to pump their funds into economic activity by sharing and reduce the willingness to hold their money idle for precaution or speculation in the stock market.

The study aims to contribute to formulating a comprehensive theory of the Islamic economy that enables management of the monetary policy and economic activity by formulating a Profit and Loss Sharing Model (PLS) according to the Islamic

economy. It includes the reformulating of the concepts of the present value, the marginal efficiency rate of investment, the investment function, as well as replacement of the interest rate with the return rates of sharing.

Accordingly, the research was divided into four sections; the first section examines a literature review of the Profit and Loss Sharing Model (PLS); the second section examines the Keynesian Model of the investment function, the interest rate, the present value and the marginal efficiency rate of investment; the third section examines the formulation of the Profit and Loss Sharing Model (PLS) in the Islamic economy and the implementation by the central bank in influencing the economic activity.

1. Literature review:

Sharing is known as a form of partnership in which two or more partners accumulate their funds or labour to share the profit or loss of the joint enterprise and having similar rights and liabilities. This type of business can be registered as an unlimited liability partnership or as a limited liability partnership. If the enterprise sounds feasible, the bank might share the finance of the project and become a third party to the partnership[2].

The two types of sharing-based financing are as follows:
Permanent sharing: the Islamic financial institution and the customer are sharing the finance without a separate entity. It has no specific maturity date and continues until the partners decide to dissolve it. The joint account is registered under the customer's name in a lump sum or installments, while the management of the account's transactions is managed jointly by the Islamic financial institution and the customer. Diminishing sharing: the Islamic financial institution and the customer establish a legal entity to execute a project. The project management process by both parties to represent their interests and responsibilities toward the project, the Islamic financial institution disburses the sharing finance in a lump sum or instalments, and pledge to sell its share gradually to the partner, where the project becomes the partner property[3].

Bougatef & Korbi (2018) Examine the main factors influencing the margin of bank's profit through the Profit and Loss Sharing Model (PLS) and comparing with the determinants of profit in conventional banks by applying to 50 Islamic banks and 180 commercial banks in 14 countries in the Middle East and North Africa region. The study found that the net profit in the Islamic banks depends on risk aversion, operational deficiency, project diversification, and general economic conditions; while in conventional banks, it depends on market concentration, risk aversion, specialization, project diversification, and liquidity[4]. Navid (2018) Examines the convergence degree between Islamic banks and conventional banks, the study found that Islamic banks differ among themselves in applying the Profit

and Loss Sharing Model (PLS), where the Islamic banks are divided into three groups; the first is not different from conventional banks in the implementation; the second follows the Profit and Loss Sharing Model while comprising its asset portfolios; the third is the most applied of the Profit and Loss Sharing Model in its transactions[5]. Elgadi et al., (2018) Examine the determinants of profitability in Islamic banks while implementing Profit and Loss Sharing Models (PLS), non-sharing in profit and loss, and Salam finance by applying to 27 banks in Sudan. The study found that sharing in property, capital, and assets through implementing the Profit and Loss Sharing Model has a positive impact on Return on Assets (ROA), financial performance indicators, and Return on Equity (ROE)[6]. Karim & Terebessy (2018) Examine the determinants of distributing the investors' profits through the Profit and Loss Sharing Model (PLS) and comparing it with the interest of advancing loans in conventional banks. The study found that financing through profit and loss sharing distributes the wealth more efficiently than advancing loans; it reduces inflation, increases employment, and stimulates economic activity[7]. Vegirawati, et al., (2018) examine the impact of the deposit, mudarabah, and the commitment of the management through the Profit and Loss Sharing Model (PLS) using the general linear model. The study found a positive impact on the commitment of both the management and the depositor[8]. Al-Jarhi (2017) examines the economic reasons that enable the Islamic economy through the macroeconomic analysis of banks, financing, and prices. The study found that Islamic finance has advantages to solve financing problems in the conventional economy; it needs to develop appropriate regulatory frameworks to facilitate Islamic finance[9]. Abdul-Rahman & Nor (2016) examine the finance in the Islamic banks through the musharakah and mudarabah contracts to evaluate the implementations of Profit and Loss Sharing (PLS) in the Islamic banks in Malaysia. The study found that there are four main obstacles, which are the high-risk investment, selection of low creditworthiness partners, credit risks, and capital risks[10]. Minhat & Dzolkarnaini (2016) examine the factors that impact on the non-Islamic financial institutions to apply Islamic finance through Profit and Loss Sharing (PLS). The study found that the implementations of Islamic finance instruments through the non-Islamic financial institutions have difficulties in applying the Profit and Loss Sharing Model (PLS), as well as achieving low profit and high credit risks[11]. Khatat (2016) considers the interest rate as an important tool for both conventional and Islamic banking systems; it enables the monetary transition from the conventional system to the Islamic system through the channels of the interest rate. Also, Islamic banks can rely on the interest rate to price their financial transactions[12.] Ouidad (2014) examines the finance methods of musharakah and mudarabah through the Profit and Loss Sharing Model (PLS) to solve the issues of asymmetry of the information. The study found that sharing finance is a strong incentive for investors and can solve the risks of the borrowers' moral hazard[13]. khoutem & Hamza (2014) examine the impact of financial intermediation through the Profit and Loss Sharing Model (PLS) on the quantity of liquidity in the economy. The study found that financial intermediation causes the increase of liquidity risks in Islamic banks for both musharakah and mudarabah

while Islamic banks use short-term deposits for long-term financing[14.] Saad &
Abdul Razak (2013) investigate the diminishing sharing, the study found that
financing through diminishing sharing surpasses the financing through the debt in
conventional banks; it is the optimal way to finance small projects[15]. Khasanah, et,
al., (2013) examine the implementation of the Profit and Loss Sharing Model
(PLS) among rice farmers in Malaysia using the "Giddens' structuration
approach". The study found that financing by equity through the Profit and Loss
Sharing (PLS) is better than financing by debt, as well as the government can
coordinate effectively between the fiscal policy and monetary policy to provide the
financial support to implement the Profit and Loss Sharing Model and to support
the property financing[16].

This paper contributes to this literature by formulating a methodological
framework to the Islamic Economy, which includes savings, investment, monetary
policy, and economic activity, in terms of the Islamic economy. Through
reformulate the concepts of present value, the marginal efficiency rate of
investment, and investment function, as well as determining the mechanism for the
central bank to use the return rates of sharing for managing the monetary policy
and economic activity.

2- The marginal efficiency of investment

The interest rate in Keynesian theory is a primary determinant of investment,
which is included in the marginal efficiency rate of Investment. It is a criterion for
calculating the opportunity cost Approaching being free of risk, as well as the
interest rate is a significant determinant for comparative returns for Savings
vessels which determine savings decisions. Therefore, the interest rate is the most
important monetary policy tool in influencing economic activities. The level of
investment is inversely related to the interest rate, as the investment function takes
the following formula:

$$I = f(r) \tag{1}$$

When: r is the interest rate

The role of interest rate is to ensure equality between the supply and the demand
for lendable funds, and thus, between savings and investment, which leads to two
types of problems while using the interest rate as an implement of monetary
policy:

1- The role of interest rate is to equate between supply and demand for lendable
funds, it includes lags in the equilibrium of savings and investment at a high level
of economic activity or a lower level. It has an impact on the performance of
companies to raise or decline according to the direction of the interest rate effect
on economic activity.

2- The interest rate is considered an inflexible instrument, where the interest rate is determined arbitrarily according to maturity of loans between the bank and the savers on the one hand, and between the bank and investors on the other hand. Therefore, investors bear the interest burden as financial risks. Also, the savers are looking to receive a rate of return on their savings that exceeds the shrinking in purchasing power, so they compare the interest rate with the inflation rate to gain a positive real interest rate.

The interest rate is significantly related to the present value concept that is used by banks while giving loans to compensate for the decline of money value over time. It also used while calculating the returns on risks, whether general risks such as inflation or private risks such as operational risks. Also, it related to the depreciation of money over time without the influence of other economic factors such as recession or inflation.

Therefore, the present value takes the following formula:

$$P = \frac{R1}{(1+r)} + \frac{R2}{(1+r)2} + \cdots \ldots \ldots \ldots \ldots + \frac{Rn}{(1+r)n}$$

.... (2)

Where:

R1, R2.....Rn: the future cash flows, whereas,

r indicates: the interest rate.

Keynes also used the term of the marginal efficiency of capital to express the additions to the return on the aggregate capital, which is deducted at an expected return rate over the project lifetime for equating the cost of the initial investment. Therefore, the marginal sufficiency rate of investment represents a required rate of return on investment includes operational risk and financial risk.

Investors' expectations are one of the main determinants of investment in conventional economics. The investors make their decisions to execute the investment when it is profitable. The profitability of new investment depends on the expected inflow of net revenue, which is calculated by the difference between the expected revenue over the productive lifetime of the project and expected cost, which includes the replacement cost and interest on the capital. The investor bears the risk includes the operating risk and financial risk while executing the investment. Therefore, he expects to obtain a return rate of the investment exceeds the prevailing interest rate in the banks. Accordingly, the net revenue is deducted at an expected return rate, which represents the marginal efficiency rate of investment. Accordingly, the investor makes the investment decision according to the following equation:

$$C_0 = CF_1/ (1+e)^1 + CF_2/ (1+e)^2 + \dots + CF_n/ (1+e)^n$$

.... (3)

When:

C_0: The value of capital assets

e: Marginal efficiency rate of investment

CF: Expected net return

The equation must be at least equal to zero or positive

When the capital increases in the economy, the profitability of new investments tends to decrease; due to the emergence of diminishing returns, the decrease of product prices, and the higher cost of replacement by growing the investment demand. These lead to decreasing the marginal efficiency rate of investment[17]. Therefore, the demand for new investment will be affected reversely to the interest rate.

In the case that investors' expectations of returns on investment varied from actual returns, investors bear investment risks away from savers, this leads the economy to lie out of the equilibrium towards a lower level of the domestic income, where investors are reluctant to demand more funds for investment. Therefore, the Central bank cuts the interest rate to reduce the cost of advancing loans for investment and the savers bear lower returns for their savings to stimulate the investment and increase the economic activity.

As well as determining a fixed interest rate for lending and borrowing in the money market includes in part, a negative impact on the real market, due to encouraging borrowing for speculation purpose whether securities or commodities, which leads to a higher securities prices by more than the fair values, and creates bubbles in the stock market. Also, it increases the demand for funds to import and consumption; that leads to an increase in the inflation rate and stimulates the Central bank to raise interest rates again.

In addition, the marginal efficiency rate of investment applies to investment decisions, whether new or replacement investment. Therefore, depreciation allowances will be reinvested only when it adds to the project's profits[18]. Accordingly, the marginal efficiency rate of investment is compared with the interest rate; the investment decision will be taken if the marginal efficiency rate of investment is higher than the interest rate.

3- **Profit and Loss Sharing in the Islamic Economy**

The model includes the replacement of return rates of sharing instead of the interest rate, which enables overcoming of the two main problems of the interest rates:

1. The Profit and Loss Sharing Model (PLS) in the Islamic economy includes the sharing of all parties in risk and profit; they are the saver, the bank, and the investor. Therefore, the level of economic activity depends on the efficiency of managing investment, and not relies on the interest rate as an instrument to motivate the investment or encourage savings.
2. The Profit and Loss Sharing Model (PLS) includes the replacement of three rates of return instead of the interest rate to provide more flexible and diversified according to different types of projects. It consists of the return rate of depositors' sharing (T1), the return rate of the bank's sharing (T2), and the return rate of the investor's sharing (T3). This increases the efficiency of monetary policy instruments in influencing economic activities. Whereas, the increase of return rate return of depositors' sharing lead to increase of savings and provide funds for investment, as well as the increase in the return rate of investor's sharing encourages investors to increase the investment, also, decreasing the return rate of the bank's sharing leads to an increase in both savings and investment.

The investment function takes the following formula:

$$I = I_0 + cT_1 - cT_2 + cT_3$$
………………………………. (4)

The investment is positively related to the rate of return of both the depositors' sharing and the investors' sharing, whereas it is an inverse relationship with the return rate of the bank's sharing.

In addition, while using the Profit and Loss Sharing Model (PLS), the present value can be calculated by using the inflation rate instead of the interest rate, where the savers depend on the real value of their savings. In this case, the Central Bank can target the inflation rate and reduce the extent of its fluctuations to a minimum possible, which leads to achieve economic stability and stimulate the investment.

 Also, using the rate of inflation as a discount rate instead of interest rate overcomes a significant problem when calculating the internal return rate of the project. As the increase of the prices' level at a higher rate than the internal return rate of the project, the real return will be less than its present value in terms of the interest rate, thus, the project moves from profit to loss. Therefore, the present value depends on the inflation rate considers more reliable in expressing the profitability of the project from an economic perspective.

Therefore, the investment function takes the following formula:

$$P = \frac{R_1}{(1+f)} + \frac{R_2}{(1+f)2} + \cdots \ldots \ldots \ldots + \frac{R_n}{(1+f)n} \qquad \ldots \ldots \ldots \ldots \quad (5)$$

Where: f the inflation rate

In the case of using the inflation rate in Profit and Loss Sharing Model (PLS) as a rate to discount the return of the projects, loans, and bills, the central bank's ability to determine the legal reserve ratio decreases and the volume of commercial banks reserve will shrink for the influence of the participants' preferences. Whereas the banks' reserves depend on the individuals' preferences for savings and investment, demand for money as a currency, as well as the preferences of the central bank.

Therefore, when individuals would save at a commercial bank through the Profit and Loss Sharing Model (PLS), while the volume of currency is relatively stable, there is influencing by individuals on reserves due to their preferences impact on their preferences through changing the volume of the money supply. Consequently, the Central Bank has more influence on banks ' reserves.

Also, the bank, depositor, and investor bear the cost of keeping reserves, which increases when the inflation rate as a discount rate decreases as well as when the return rate of assets increases. Therefore, alongside the Central bank authority, the effect of preferences of the bank, savers, and investors on the volume of the money supply will increase to make the money supply more flexible to the change in the inflation rate as a discount rate. Therefore, the Central bank regulates the sharing rates between the bank and investors on the one hand, and between the bank and depositors, on the other hand, to influence the rates of return, the volume of the commercial bank reserves, and money supply.

Also, the determinants of the marginal efficiency rate of investment differ in terms of the Profit and Loss Sharing Model (PLS), as it represents a required return rate of investment, which includes both the return rate of free risk, the operational risk, and financial risk. In the case of sharing financing, the financial risk that represents the risk of default would not exist. Also, the rate of free risk can be replaced with the equivalent of the ratio of purchasing power contraction. Therefore, the Marginal efficiency rate of investment comprises the operational rate, inflation rate, and Zakat rate.

$$E = f + P + Z \qquad \ldots \ldots \ldots \ldots \ldots \ldots \ldots \quad (6)$$

Where:
E: Marginal efficiency rate of investment.
f: Inflation rate
P: Operational rate
Z: Zakat rate

Zakat contributes to continuing the positive impact on economic activity in the Profit and Loss Sharing Model (PLS), whereas the individuals will not keep their funds idle as a result of its decreasing by Zakat rate. Also, the desire to reserve the funds for speculation diminishes because The investor's return is determined according to the rate of sharing between the bank and the investor, while the success of the project depends on the efficiency of managing the operational risks by the investor. Therefore, the bank can increase the investor sharing's return by increasing the investor's sharing ratio (T3); in return, reducing the bank's sharing ratio (T2). Therefore, both the return rate of the bank's sharing (T2) and the return rate of depositor's sharing can be considered as a residual of the return rate of investor's sharing (T3).

$$M = T - T3 \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (7)$$

Where: T is the total return

$$M = T1 + T2$$

Thus,

$$T1 + T2 = T - T3$$

$$T_3 = T - (T_1 + T_2) \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (8)$$

The residual return (M) is distributed after the return rate of Investor's sharing (T3) between the bank and depositor according to the return rate of depositor's sharing (T1) and the return rate of the bank's sharing (T2).

Therefore, the marginal efficiency rate of investment, assuming that the revenues are regular, as the following:

$$C = \frac{CF}{1+E} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (9)$$

Where:

C: The cost of replacement for new capital

$$(1+E) \times C = CF$$

$$C + CE = CF$$

$$CE = CF - C$$

$$E = \frac{CF - C}{C} \quad \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots$$

(10)

In terms of the investor:

$$E = \frac{CF(T - T2) - CT3}{CT3}$$

$$E = \frac{CFT - CFT2 - CT3}{CT3} \quad \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots$$

(11)

In the case that the revenues are irregular, the marginal efficiency rate of investment as follows:

$$E = \frac{CF1}{(1+E)} + \frac{CF2}{(1+E)2} + \dots\dots\dots\dots\dots + \frac{CFn}{(1+E)n} \quad \dots\dots\dots\dots\dots\dots$$

(12)

Where E: The marginal efficiency rate of investment

Therefore, the marginal efficiency rate of investment increases when the total revenues increase, as well as when the return rate of investor's sharing increases.

Therefore, according to the Profit and Loss Sharing Model (PLS), the return rate of the investor's sharing can be used as instruments of the monetary policy in influencing the level of economic activity. In the case of a recession, the central bank can increase the investor's sharing percentage, which leads to an increase in the investor's return, as well as the marginal efficiency rate of investment, consequently, increase the investment. Therefore, the central bank can remedy the recession through the integration between the monetary market and the real market without lags, which causes a slow response of the economic activity to the monetary policy as in the conventional economy.

Also, in the case of a boom that about to turn into inflation, the Central Bank can contract the investor's sharing ratio, which leads to decrease the investor's return, as well as the marginal efficiency rate of investment, consequently, contract the private investment expenditure and economic activity.

Also, Zakat is the cost of keeping the money liquid, so it impacts the preferences to retain the liquidity. It stimulates the exploitation of funds in a type of economic activity that relatively generates a higher return than the Zakat rate, inflation rate,

and the rate of operational risk. Therefore, it contributes to the allocation efficiency of economic resources and increases economic activity.

Therefore, the individuals would not leave their funds idle, where Zakat rate and the inflation rate devaluate it; they have three options to dispose of their funds:

1- Investing their funds on financial assets such as stocks and Islamic instruments.
2- Spending their funds on fixed assets and real estate to compensate for the shrinking of purchasing power of money and avoid bearing Zakat.
3- Depositing their funds in banks to gain the sharing rate.

In the case of the third option, the depositors must earn a return in terms of the following relation:

$$\frac{CFT1}{A} \geq CF\,z + CF f + CF\,T_1 \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (13)$$

Where: A is the value of invested assets

$$CFT_1 \geq CFAz + R\,A\,f + CFAT_1$$

$$CFT_1 - CFAz - CF\,A\,f \geq CFAT_1$$

$$(T_1 - z - A\,f) \geq AT_1 \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots. \ldots\ldots (14)$$

The equation is accepted for both the depositor and the bank at the low level of the follows formula:

$$(T_1 - z - Af) = AT_1 \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots........\ldots..\ldots (15)$$

The increase in the returns of depositor's sharing raises available funds for investment. Also, the increase in the inflation rate leads to a decreasing in the available deposits for investment. As well as Zakat decreases available funds for reinvestment by the ratio of Zakat

Therefore, the central bank can attract the financial surplus of individuals and institutions to increase investment by increasing the percentage of depositor's sharing (T1) and decreases the percentage of bank's sharing (T2). This leads to the increase of the depositors sharing rate of profits, in return, decreasing in the bank's sharing rate, consequently, encouraging the savers to raise their savings through the Profit and Loss Sharing Model.

Conclusion:

The discount rate is an essential instrument of the monetary policy in influencing the volume of credit given by commercial banks in the conventional economy, whether for the short term through dealing in commercial papers or the long term

through the rediscounting rate. It also a significant criterion for determining the interest rate, which is considered the most important instrument of the monetary policy to affect economic activity by influencing both saving and investment. The return rates of sharing through the Profit and Loss Sharing Model (PLS) in the Islamic economy is considered more efficient and flexible in affecting economic activity. That includes three rates of return; the return rate of depositor's sharing, the return rate of bank's sharing, and the return rate of investor's sharing, which can be used to achieve the equilibrium in both the monetary market and the real market simultaneously without lags as the conventional economy.

The inflation rate as a component of the Marginal efficiency rate of investment for discounting the project returns, as well as a discount rate for commercial papers and loans instead of the interest rate reduces the Central bank control of determining the legal reserve ratio and the reserves of commercial banks due to the influence of individuals' preference. The Central bank can remedy this influence by changing the volume of the money supply. The Central bank determines the return rates of sharing, between the bank and investors on the one hand, and between the bank and depositors, on the other hand, to influence the volume of reserves at commercial banks, money supply, and economic activity.

In the case of the economic boom, that about to turn into inflation that increases the demanded funds for the investment. The central bank reduces the ratio of investor's sharing, which causes a decrease in the investor's return and the marginal efficiency rate of investment. Therefore, the demanded funds for the investment decrease. In return, the sharing ratio of the depositor and the bank increases. So, the savings and liquidity that arise at banks have a positive impact on the shrinking of economic activity.

In the case of a liquidity crisis, that is about to turn into a recession and the demanded funds for the investment decrease. The central bank can facilitate the funding for the banks by shrinking the ratio of banks' sharing and increase the depositors' sharing, which increases the savings at the bank to arise the liquidity. Also, the Central bank rises the investor's sharing to increase the funds demand for investment

The Central bank can influence the structure of economic activity through the Profit and Loss Sharing Model (PLS), as well as the efficiency of resources allocation by using the return ratio of sharing. If the allocation of resources for the public sector is less efficient, the central bank can reduce the sharing ratio of the bank and raises the sharing ratio for both depositor and investor. This leads to an increase in the money supply for savings and the demanded funds for investment, as well as increase the growth rate of the private sector. Also, if the allocation of resources for the public sector is more efficient, the Central bank can increase the

sharing ratio of the bank and reduce the sharing ratio for both depositors and investors. That increases the funds of the banking system and provides the liquidity to fund the public sector projects, consequently, increasing its contribution to the economic activity.

Zakat has a positive impact on economic activity through the Profit and Loss Sharing Model (PLS), whereas it limits the retention of money idle due to shrinking by Zakat. Also, it contributes to decreasing the funds for speculation as it gets a negative return rate equal to the zakat rate.

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