



METHODOLOGY OF ISLAMIC ECONOMICS: OVERVIEW OF PRESENT STATE AND FUTURE DIRECTION*

Mohamed Aslam Haneef^a and Hafas Furqani^b

^aDepartment of Economics, International Islamic University Malaysia, Jalan Gombak, 53100 Kuala Lumpur, Malaysia. (Email: mdaslam@iiu.edu.my)

^bDepartment of Economics, International Islamic University Malaysia, Jalan Gombak, 53100 Kuala Lumpur, Malaysia. (Email: hafasf@gmail.com)

ABSTRACT

This paper argues that research and publications in the area of methodology of Islamic economics is very significant for a meaningful development of the discipline. Although the discussion on methodology of Islamic economics in contemporary Islamic economics literature is rather limited, this paper reviews the works of selected scholars who have attempted to present works on ‘methodology’ and their approach to the process of theory building in Islamic economics. The paper then presents some implications of these views based on the position that methodology investigates the criteria, rationalizations, arguments and justifications used in theory appraisal as well as evaluating the reliability of theories, this paper concludes that greater resources, both human and financial, need to be channeled to developing *uṣūl al-iqtiṣād*, a fundamental, but vastly, neglected area of research in contemporary Islamic economics.

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1. INTRODUCTION

Compared to other areas in Islamic economics, methodological works are relatively scarce. It has also not been given sufficient emphasis in conferences or in research funding for at least two decades. Scholars, such as Nasr (1987), Sardar (1988), Haneef (1997) and Choudhury (1999) see the lack of methodological studies in Islamic economics as one reason for the dependence, consciously or unconsciously, on the methodology of conventional economics. They view this as a serious deficiency that needs remedy. For example Choudhury (1999) claims that Islamic economics has missed its core orientations of methodology and analysis because Islamic economists have borrowed ensemble from mainstream economics. Therefore, Islamic economics has currently become a study in piecemeal application of mainstream neoclassical methods to Muslim thought and societies. Haneef (1997) on the other hand connects the failure to develop a stable body of knowledge and a methodology or methodologies that can be used in developing the discipline to the 'lack of philosophical studies' by Islamic economists. Furthermore, the neglect of philosophical studies of Islamic economics will further impede the ability to promote a coherent school or schools of economic thought in Islamic economics and retard the development of Islamic economics as a scientific discipline (Nasr, 1987; Sardar, 1988, 198-217).¹

What this paper tries to do is to present what Islamic economists have been writing on the topic of methodology (or to be more correct, their views on the steps involved in developing models/theory), attempting a preliminary evaluation of their views and then trying to present an outline of what methodology in Islamic economics should be addressing.

Section 2 discusses what methodology is and why it is necessary in Islamic economics. Section 3 reviews the process of theory building, i.e. of the stages involved in model building in Islamic economics as proposed by selected scholars of Islamic economics namely Naqvi (1981), Mannan (1983), Baqir al-Sadr (1983), Anwar (1990), Chapra (1996), Haneef (1997), Hasan (1998), Zarqa (2003), Kahf (2003) and Choudhury (various publications). Section 4 analyses these views on Islamic economic methodology by revisiting the meaning of methodology found in modern scholarship, highlights some areas of confusion in the writings of Islamic economists, and proposes some future research areas. Section 5 concludes.

2. METHODOLOGY OF ISLAMIC ECONOMICS: WHAT AND WHY?

Methodology can be seen as a specific part of that branch of philosophy called epistemology. In epistemology, we study the theory of knowledge, the sources of knowledge, the application of knowledge and the limitations of knowledge; whilst in methodology, the study is narrower and more specific on how to develop knowledge (theories) and how to evaluate the knowledge (theories) produced.

Blaug (1993) defines the methodology of economics as the branch of economics where we study how economists justify their theories, and the reasons they offer for preferring one theory over another. Methodology as defined by Safi (1996) is the field of scientific inquiry into the justification, description, and explanation of the rules and procedures which constitutes scientific methods. Fox (1997) sees methodology as dealing with theory appraisal while Haneef (2005) views methodology of economics as including discussions and analyses of the process of building models, developing theories, testing hypotheses (where necessary), as well as establishing and using criteria to evaluate the process. Methodology deals with standards and benchmarks that determine the authority of scientific statements. While many writers in Islamic economics do discuss the process in rather general terms, not much is discussed regarding the criteria and principles on which evaluation of theory, or claim of knowledge, is made.

Since its main interest is theory development and appraisal, the methodological study of Islamic economics is indeed a very significant subject and should be seen as a foundational pre-requisite for developing sound Islamic economics. Although Islamic economics is a religious based economics, which considers normative guidance in the *Qur'ān* and *Sunnah* as its primary source of knowledge, it should also be seen as a scientific discipline which requires proper 'scientific' methodology from which we can develop theories as part of developing the body of knowledge called 'Islamic economics'.

In addition, the following are further reasons why methodological knowledge of Islamic economics is important:

- The successful development of Islamic economics as a discipline very much depends on methodological development that would give a clear direction on *how to develop economic theories* that conform to Islamic economics doctrines (Anwar 1990). If we say that conventional economic theories are infused with vision or values that are not in-line with Islamic vision and values, then, one main task is how to develop economic theory that can be, and is, infused by Islamic vision and values (Kahf, 2003).

Without a proper methodology of Islamic economics this task could not be done properly.

- The interest of methodological discussion is to elaborate and specify the rules, procedures, standards, and most importantly ‘scientific criteria’ by which we can distinguish between what is false and true in appraising and evaluating Islamic economic theories. The product of methodological inquiry is a set of criteria for theory appraisal. These criteria will help us distinguish between valid theories and invalid ones (Fox, 1997, 34; Khan, 1987; Anwar, 1990). Islamic economics will have its own criteria for theory appraisal since its sources of knowledge are not limited to human reasoning and fact observation. Islamic economic methodology will also have to be concerned with divine revelation (*wahy*). Dealing with revelation provides an added challenge to Islamic economists.
- Methodology is not only concerned with how to create a theory, but it is also concerned with how to prove theory reliability and applicability in real life. Islamic economic methodology, although grounded in the normative framework of revelation, will also be concerned about formulation of theories that are workable and can be applied in real life. In this regard, Choudhury (1999) firmly asserts the need for methodological formulation in Islamic economics in order to create a well-defined Islamic economics based on a new worldview and to release Islamic economics studies from an overwhelmingly socio-religious nature that is without a workable content. Likewise, Naqvi (1994) opines that Islamic economic methodology is directed to raise a “unified” economic discipline, on testable foundations, in a typical Muslim society or society that follows *Qur’ānic* injunctions and not in some Islamic utopia.
- In addition, Islamic economic methodology is important to link the *ontological* aspects of Islamic economics, which constitute the ideals and principles of Islamic economics, to the axiological aspect (ethics) that is a practical application of Islamic economics. Its role is to unify both elements (ontology and axiology) at the level of conceptualization and its application through systematic and consistent methodologies (Furqani, 2006).
- Finally, Islamic economic methodology aims to lay down the scientific operational process of Islamic economics as a discipline so that the ‘gaps’ in Islamic economic studies — as termed by Siddiqi (1982), Khan (1989) and Zarqa (2003) — between those who are well-versed in Islamic

legacy but lack modern economics on the one hand, and those who have understanding of modern economics but are lacking in Islamic legacy, could be eliminated. The methodology can be used by both types of scholars in order to reach a consensus (convergence of thought), and to create a well structured Islamic economics.

If it is accepted that methodology helps to achieve all the above, then it must also be true that no discipline can be sustained as a scientific discipline without a coherent and sound methodology.

3. ISLAMIC ECONOMIC METHODOLOGY: SCHOLARS' VIEW OF THEORY BUILDING

It can be noted from previous discussion that methodology of Islamic economics essentially discusses two aspects; how to appraise theory in Islamic economics and/or how to evaluate the reliability of that theory. To achieve these goals, methodology also discusses the criteria and principles that make up the subject matter. However, Islamic economists' writings on methodology have generally not discussed these aspects in detail.

Instead, they have attempted some discussion of theory building, i.e. steps involved in model or theory development. As a whole, the state of discourse on Islamic economic methodology is still very elementary and far from reaching levels that can be considered academically sufficient to sustain the discipline. For example specific discussion on the principles to be used in dealing with sources of knowledge and criteria for theory appraisal are still not well elaborated, if attempted at all. In the following pages we attempt to briefly survey the writings on methodology of Islamic economics that have been proposed by selected Islamic economists. We have in general taken a chronological order in presenting these views. One major shortcoming of this list is that it has left out some scholars who may have discussed aspects of methodology but may not have written exclusively on the methodology of Islamic economics.

S.H. Naqvi (1981)

Naqvi (1981) in his *Ethics and Economics – An Islamic Synthesis* argues for a science of economics on the basis of four axioms grounded in the ethical teachings of Islam namely unity, equilibrium, free will and responsibility. Those ethical axioms derived from the main sources, *Qur'ān* and *Ḥadīth*, could be a reference to enable us to make valid statements about the basic

economic motivation and Islamic economic theories. From these axioms we can deduced/derived various economic theories to be applied in the real life. In the Islamization of economics program, those axioms could be the reference points that guide the development of theories of economics. This approach to derive basic economic propositions (statements) from the first principles of religious ethics is called as the axiomatic approach. Such an approach is argued will give 'fuller perspective' in economic studies as it attempts to combine the four described axioms, which are considered as the vertical level of Islamic ethical philosophy with the scientific method of deduction through which an economic system can be developed at the horizontal level of Islamic society.

While generally a valid and acceptable approach, some like Sardar (1988) question why the axioms are limited to just four, arguing that to produce a genuine Islamic approach to developing an Islamic economic conceptual framework, more axioms and concepts from the *Qur'ān* (and would argue *Sunnah* as well) should be utilized. Naqvi on the other hand argues that for the axiomatic approach to be 'valid' one needs to limit the number of axioms.

M. A. Mannan (1983)

Mannan (1983) starts by arguing that the analysis in Islamic economics should be based on the distinct Islamic responses to diverse economic problems. The underlying assumptions on which neo-classical paradigms are based are considered to be inappropriate, inadequate or incapable of explaining the Muslim worldview in economic matters. However, this does not to suggest that every institution and practice operating in the system is un-Islamic in character as there will be some assumptions and ideas in common with other system of thoughts. The Islamization of economics will be done to emphasis or de-emphasis, modify or reject those assumptions in Islamic framework.² To formulate Islamic economic theories, Mannan (1983) proposed seven integrated steps started with identification of problems, formulation of theory, policy implementation and empirical evaluation.

The process of creating Islamic economic theories begins with (1) the identification of issues (economic problems); (2) search for the explicit and implicit guiding principles of the *Sharī'ah*; (3) the conceptualization and theoretical formulation of the economic problems based on those principles found in the *Qur'ān* and *Sunnah*; (4) prescriptions of appropriate economic policy and (5) implementation of policy created from the theoretical formulation; (6) as an *ought* statement is to be linked not only at the level of theoretical formulation but also at the level of prescription of policy hence the theory and policy should be reviewed and evaluated to identify any gap

between the actual achievement and perceived goal; and finally (7) exposing the results of evaluation. If the gap is found between the achievement and actual or perceived goal or target, Mannan considers it as the inadequacy of the theoretical formulation and consequent policy prescription and hence needs for a review of principles as in step 2 and to reconstruct Islamic economic theory and policy as in step 3,4 and 5.

Bāqir al-Ṣadr (1983)

Al-Ṣadr (1983: vol. II, pt.1, 6) considers Islamic economics as “the way Islam prefers to follow in the pursuit of its economic life and in the solution of its practical economic problems in line with its concept of justice”. Hence, al-Ṣadr’s approach in his seminal work, *Iqtisādunā* is to discover the doctrinal basis of Islamic teaching concerning economics areas/issues, such as ownership, consumption, distribution and production. The discovery process attempts to build an ideological doctrine of various economic problems. In this process, all economic laws and injunctions, together with numerous concepts related to economics and society (such as *khilāfah*, *‘adālah*, *ibādah*, etc.) are studied together and then used to ‘discover’ the economic doctrine. He termed the doctrine as the ‘upper structure’ of Islamic economics which is going to be the base and foundation where numerous particular theories can be derived (1983, vol. II, pt. 1, 22). According to him, Islamic economics is not a science as it is understood today in modern economics; Islamic economics instead, is a doctrine. The empirical study of economics comes much later to evaluate whether the application of the ideological theory in the realm of life has an adequate basis in reality. The science of Islamic economics can only be discussed once there is a doctrine that is understood and practiced by agents in the system, having the legal and social/etical institutions in place.

Muhammad Arif (1987)

Arif (1987) attempts to provide scientific justification of the Islamization of knowledge workplan. He sees the IOK agenda and vision as an acceptable scientific research programme (SRP) with legitimate scientific criteria. Following Einstein’s stratification process and Kuhn’s paradigm building/scientific revolution views, he argues methodology of Islamic economics in the Islamization of economics project aims to develop stratification of primary concepts and building paradigm of Islamic economics. This is done by *idealization* of a broad picture of the perfect functioning of the system to project the worldview resulting from the ‘philosophical foundations’ and a generalized view of the ultimate natural outcome of the perfect

functioning of the system (without getting into specifics and details). This is followed by *stratification* (abstraction) of the primary concepts generated from the philosophical foundations of *Sharī'ah*. The stratification is done continuously in such a way that each new and higher level of stratification produces a higher conceivable unity. And the last stage is paradigm building that is to develop relevant models and theories, identify the variables needed, and determine their inter-relationships, and conduct experiments to interpret the data appropriately in accordance with the idealization.

Muhammad Anwar (1990)

Methodology of Islamic economics, according to Anwar (1990) aims at promoting the growth of knowledge of economics within an Islamic framework. Therefore, he suggests this process can be done in two ways; either to Islamize modern economic theories and models or to develop economic theories independent of Western thought based on Islamic values. He focuses on the former and sees the process beginning with contrasting the components of conventional economic theories with components that make-up an Islamic corpus and nucleus. The process requires *ijtihād* from the scholars to classify the components of conventional economic theories and models into Islamic, un-Islamic, or neutral elements. The Islamized economic theories and models produced will represent a combination of (1) a nucleus including an appropriate corpus from the *Qur'ān* and *Hadīth*; (2) the accommodation of functionally Islamic as well as neutral assumptions, postulates and principles from the existing non Islamic literature; and (3) the addition of new thoughts consistent with the corpus developed on the basis of *ijtihād*.³ The product of this *ijtihād* could enable us to identify the Islamic and neutral elements in a theory and therefore, be applied in the case of Islamic economics. The 'contrasting' stage in Anwar's process implicitly requires a benchmark of sorts that will act as the reference point to decide the Islamicity of the different components in conventional economics.

M.A. Choudhury (1992)

Choudhury has been one of the most prolific writers on Islamic economics over the years, with many of his publications focusing on the importance of developing a philosophy of Islamic economics, including his *Principles of Islamic Political Economy: A Methodological Inquiry* (1992). In building an Islamic economics, Choudhury has two main differences in his approach. Firstly, is his strong views on the need to disassociate from modern mainstream economics, whose basic assumptions of (markets and competition, rationality based on the axiom of

transitivity (including bounded rationality), full-information and methodological individualism) are, to him, unacceptable in an Islamic world-system approach. In turn he calls the need for ethical endogeneity, i.e., ‘endogenizing morality’ by referring to the *tawhīdī* episteme or a methodology based on the principle of *tawhīd*.⁴ Secondly, in trying developing this Islamic framework and in trying to move away from discussions of philosophy that mainly remains in the metaphysical realm to one that informs the ‘sub-system of economics’, he puts forward his phenomenological model (represented by a completely modified Debreau model) that builds on the principle of conscious oneness along with its logical formalism and applies it to the social-political economy setting. His writings extensively refer to the *Qur’ān* and the *Sunnah* (as the primary sources of knowledge) and the views of the ‘*ulamā*’ (scholars) who interpret these sources and extensively use simulation, mathematical symbolism and set theory in what he claims is the embodiment of the complex Interactive, Intergrative and Evolutionary (IIE) framework (reflecting a circular causation) of the learning process. He is certainly among a few writers who have attempted a sort of ‘systems’ approach to developing Islamic social political economy.

M. Umer Chapra (1996)

Methodology of Islamic economics, according to Chapra (1996) in his IDB prize winner’s lecture series entitled “*What is Islamic Economics*”, aims at developing an economic theory that fits the logical structures of the Islamic paradigm, has strength in logical reasoning, and reliable in real life. To achieve that goal, Chapra proposes a methodology that first examines whether the economic hypotheses developed fits within the *logical structure of the Islamic paradigm* that is defined by the *Qur’ān* and the *Sunnah*. If found to be so, the next step would be to evaluate the hypotheses through *logical reasoning vis-a-vis* the rationale behind the teachings of the *Sharḫah*. If this step is satisfactory, then possible empirical testing of hypotheses may proceed to a feasible extent, against historical records and statistical data available for Muslim and non-Muslim societies in the past and present to see its reliability in practical life. In his works, Chapra (1996, 38) also proposes ‘methodological pluralism’ (i.e., the possibility of using different methodologies) in developing Islamic economics. In this regard, Islamic economics might use the techniques of testing and the tools of analysis developed by conventional economics and other social sciences. Islamic economics may also adopt the theories of conventional economics that have become a part of conventional wisdom, if these theories are not in conflict with the logical structure of the Islamic worldview.

Mohamed Aslam Haneef (1997)

Haneef (1997) in his article “Islam, the Islamic Worldview, and Islamic Economics” explains the role of Islamic worldview in the process of developing Islamic economics. Worldview, according to him, does not only latently specify the philosophical foundation of an economic system but also stipulates the methodological rules of economic discipline in producing theories. He then delineates four stages in developing Islamic economic theories/models. The first stage is to identify all the verses of the *Qur’ān* and *Sunnah* which relate to economics. The Islamic economists in this regard need to identify the central terms and concepts in economics that are found in these two sources. Based on those central terms and concepts, Islamic economists try to systemize them into economic principles, postulates, hypothesis, and precepts. At this stage, the scholars apply their *ijtihad* to interpret derived principles. The next stage, involves the study and filtering of contemporary western economic thought. Islamic economics can utilize the theories and methodologies in contemporary economic thought only after this filtering and evaluations. The process of Islamization of economics by integrating conventional economics and Islamic heritage is also represented at this stage. The last stage will be to evaluate the strength and reliability of the theories. For this stage, he insists that while internal logic, coherence and consistency are necessary conditions for scientific exposition, Islamic economics should be evaluated within its own framework and using its own criteria. Therefore, this stage may involve empirical testing but the whole relationship between the ‘what ought to’ and ‘what is’, must reflect an Islamic view that does not necessarily see empirical facts ‘determining’ theories.

Zubair Hasan (1998)

Islamic economic methodology, according to Hasan (1998), is actually a reversal of conventional economic methodology. In conventional economics, the glide is from economics to methodology, where as in Islamic economics, the movement is from methodology to economics. This is because methodology of Islamic economics does not seek to formalize ‘what economists actually do’ like in conventional economic methodology. Instead, it sets the goals for Islamic economists, prescribes behavioral norms for their achievement, and formulates rules for evaluating the results. According to Hasan, in Islamic economics, one is confronted with an economic doctrine already in existence. For that reason, the methodological task is to bring out the reality underlying it, to make firmer the contours of its framework, to lay bare the basic rules of thought, and to get rid of the impurities that

invaded it over time. Thus Islamic economic methodology is more interested in *rediscovering* rather than *creating* or *modifying* doctrines and systems on the basis of pure reason as in the case of capitalism or socialism. According to him in order to discover the doctrine and to illuminate its shady spots, the Islamic economists can adopt a judicial approach. When the text is unclear on a point, the law relies on some textual conception explained by tradition (*ḥadīth*), analogy (*qiyās*), consensus (*ijmāʿ*) or relevant historical evidence. However, he notes that in the present day of complex and dynamic situation, Islamic economics has to be forward looking, expedient, and pragmatic. The door of *ijtihād* must remain open. The principle of *facility* assumes special importance. But it does not mean freedom to bend religion for justifying the existing realities, or for isolating a *Sharīʿah* provision from its context to support or reject viewpoint.

M.N. Siddiqi (2001)⁵

As with many scholars writing in the 1970s and 1980s, Siddiqi was aware that there was a plurality of methodologies. To him ‘Islamic tradition in economics has always been free of formalism, focusing on meaning and purpose with a flexible methodology’. He was a keen contributor to the Islamization of Knowledge agenda that saw the need to integrate knowledge from Islamic heritage and modern economics, but with the aim to realizing the ‘Islamic vision of good life’. While not writing exclusively on methodology *per se*, Siddiqi was acutely aware that in order to build a viable Islamic economics, there was a need to critically evaluate the foundations of modern economics, but with the Islamic worldview clearly in sight. Together with Chapra, he was very keen to utilize the higher objectives of the *Sharīʿah* or *Maqāṣid al-Sharīʿah* as a major guideline to developing an Islamic economic vision and the corresponding Islamic economic methodology. Hence, the need to move away from limiting Islamic economic methodology to merely fiqh/legal issues and approach. Being a social science within an Islamic framework, Islamic economics had to utilize both revelation (to be understood within the *maqāṣid* approach) and nature/universe (using empirical tools). However, Siddiqi saw Islamic economics as a means to Islamize individuals/society through policies that would change the ‘what is’ in the direction of the ‘what should be’. In order for this to be done effectively, there was a need to give attention to the quality and qualifications of the ‘Islamizers’.

M. Anas Zarqa (2003)

Zarqa (2003)⁶ in his “Islamization of Economics: The Concept and Methodology” the value-fact demarcation is highlighted. The *Qurʾān* according

to him contains both positive and normative statements about economic life. The same can be said about modern economics literature. Some of these positive and normative statements are in congruence, while some are not. By looking at the interface between Islamic economics and modern economics (especially in their common assumptions), Zarqa tries to delineate an intellectual 'space' for Islamic economics that is made up of Islamic normative and descriptive assumptions (category 1 and 2), the conventional normative and descriptive assumptions (category 5 and 6), and normative and descriptive assumptions that are shared between Islamic and conventional economics (category 3 and 4). For Islamic economics, we shall exclude category 5 and attempt to correct, modify and replaced by category 3. This replacement will result in changes in category 6 as those descriptive statements now are molded by Islamic values in the Islamization process. Systematically the Islamization of economics could take place in three simultaneous directions: (1) discover general normative economic rules from the *Sharā'ah* sources and deduce the economic rationale from them, (2) explore postulates and descriptive statements related to economics from the *Qur'ān* and *Sunnah*, and (3) discover economic descriptive assumptions developed by Muslim scholars over the ages.

Monzer Kahf (2003)

Kahf (2003) in his "*Islamic Economics: Notes on Definition and Methodology*" observes two tasks of Islamic economists in order to formulate and build the Islamic economic system and theories: (1) the elaboration of the Islamic economic system; and (2) the revision of conventional economic theory. Elaborating the Islamic economic system is similar to discovering theories and general rules of *fiqh*. Some of the principles and theories may be taken directly from the foundational text of *Qur'ān* and *Sunnah*, such as the prohibition of *ribā* and the prescription of *zakāh*. In other cases, principles or theories can be derived by surveying several texts to reveal a tendency or make one general rule, such as the preference of equitable income distribution. The theory can also be based on common sense and rationality, such as considering the improvement of *ummah* as a general objective of the Islamic economic system, and planning government policies and decisions accordingly. Those principles, assumptions, axioms and theories that have been discovered are followed by the second step which is the investigation of their economic validity and applicability in the real life. This empirical evidence represents a valid testing ground for the Islamic economic system to provide feed-back process in the working out of the operational rules of the system. Islamic economists need to also do a second task; revision of conventional economic theory. It will include two steps. The first is *takhliyah*; identifying and isolating

the biased postulates, i.e., those loaded with the dogmatic, doctrinal and/or moral view points of the conventional economics. The second is *tahliyah*; the incorporation in economics of positive postulates derived from *Sharī'ah*. Kahf however distinguishes between premises and tools where he sees Islamic economics having little dispute with tools of analysis seen to be necessary for Islamic economics.

4. ANALYSIS OF SCHOLARS' APPROACH TO MODEL/THEORY BUILDING AND ITS IMPLICATIONS FOR METHODOLOGY OF ISLAMIC ECONOMICS

4.1 METHODOLOGY AND DEVELOPING ISLAMIC ECONOMICS

A majority of scholars reviewed in this article tend to prefer an integrative approach for theory building in Islamic economics, i.e., a process involving Islamization of economics. The basic argument is that the positive side of the advanced development of modern economics could be worthwhile and can be utilized for the purpose of developing Islamic economics. The body of Islamic economics that is intended to be created, and later on developed into a new discipline with a distinct body of knowledge, methodology/ies as well as theories, should not necessarily start from zero by ignoring all the wisdom of modern economics which have been generated through the long process of intellectual interaction and debate/discussion. There might be some common ground where (some) conventional theories might be accepted as long as they are not in conflict with the logical structure of the Islamic worldview (Chapra, 1996), they are not against the explicit or implicit injunctions of Islam (Mannan, 1984), or they do not contradict with the principles of Islamic teachings and should be evaluated within an Islamic framework and using Islamic criteria (Haneef, 1997).

The scholars reviewed in this study express this integrative approach of Islamization of economics in various ways. Anwar (1990) proposes to contrast the components of conventional economic theories with components of an Islamic corpus and nucleus in order to "classify" the components of conventional economic theories into Islamic and neutral elements and to then "accept" the Islamic economic theories while 'rejecting' the un-Islamic theories. Kahf (2003) proposes *takhliyah*, (identification and isolation of the biased postulates of conventional economics) and *tahliyah* (incorporation in economics of positive postulates derived from *Sharī'ah*) in order to revise the conventional economic theories.

Zarqa (2003) on the other hand argues that if we replace those values on which the science of economics should be based by Islamic values, and if we 'add' to the secular statements, then Islamic economic theories can be produced. Hasan (1998) accepts the positives ideas of conventional economics so long as "the process of Islamization may take conventional economics in manageable segments in the same vein: it can be sifted, pruned, and modified, where possible, to conform to the *Sharī'ah* tenets". Likewise, Naqvi (1981) also opines that Islamic economics should integrate what relevant knowledge is already available and then transmute it into a 'new frame of thought' where Islamic economics can selectively assimilate elements in modern economics that are not contradictory to Islamic economic axioms.

The one exception in this trend may be Choudhury, whose meaning of 'integrative' may be quite different. Judging from his writings, it would seem that he does not support the use of existing concepts as well as the possibility that their meanings could be merely modified. Integrative to him would mean starting with developing original concepts, with unique meanings that represent a 'reality' that encompasses both the physical and spiritual realms. A new math, a new symbolic logic and formalism is needed.

The implication that we could see for the development of Islamic economics is that the integration of Islamic economics and conventional economics will be in two areas of the discipline; (1) the *substantive dimension of the discipline*, which includes economic concepts, principles and theories in modern economics and economic teachings or views on economic matters in the Islamic heritage, and (2) the *technical dimension of the discipline*, which includes methodology of modern economics and '*uṣūl*' studies in the Islamic heritage (Haneef and Furqani, 2007).

The current state of art of Islamic economic methodology discussions over the last 30 years clearly indicates that Islamic economists have not discussed this area sufficiently and much more research needs to be undertaken especially to set the 'criteria' for theory appraisal in Islamic economics and how to evaluate the reliability of theories in an Islamic framework so that a clear methodology of Islamic economics and a strong foundation of Islamic economics can be established.

4.2 METHODOLOGY VERSUS METHOD

The works on methodology of Islamic economics reviewed in this study have not really discussed 'methodology' in term of producing principles, criteria, justification for theory appraisal and evaluation in Islamic economics. The works mostly discussed how to "interact" between conventional economics and Islamic sources leading to works that have presented steps or stages in model building; or process of how to integrate and assimilate, the conventional economics into Islamic economics, which is not really methodology but more to do with 'methods'.

If we could recall Fox's (1997, 33) distinction between method and methodology, he states that the term methodology is essentially the study of the process of appraisal of theories that are purported to be scientific and it is not meant to mean procedure, technique, or an approach to modeling. The latter is more appropriately called 'method'. Machlup (1978, 55) also clarified that,

“... although methodology is *about* methods, it is not *a* method, nor a set of methods, nor a description of methods. Instead it provides arguments and rationalizations which support various preferences entertained by the scientific community for certain rules of intellectual procedure, including those for forming concepts, building models, formulating hypotheses, and testing theories.”

Methodology implies not merely the technical procedures (modeling techniques) used, the choice of categories and preferred integration procedures, but the underlying conceptualization of reality (the worldview) in relation to the preferred mode of reasoning as well as the standards used to appraise theories (Dow, 1996; Machlup, 1978).

Again Machlup (1978, 55) states that,

“Methodology is neither a study of good methods nor a study of methods used *per se* (emphasis added) but rather a study of the reasons behind the principles on the basis of which various types of propositions are accepted or rejected as part of the body of ordered knowledge in general or of any special discipline.”⁷

Methodology analyses the process through which knowledge about economic phenomena is authenticated. Methodology does not simply mean methods, techniques or several procedural steps needed for appraising theories. Methodology is beyond that. Its interest is to investigate the criteria, rationalization, arguments and justifications for theory appraisal as well as testing and proving the reliability of that theory. The techniques, methods and steps of interaction come much later after the criteria and arguments are clearly established. This meaning and understanding of methodology is not fully reflected in the works of the Islamic economics scholars reviewed.

Methodology of economics, and we would argue the same is the case for methodology of Islamic economics, would then be an 'infrequently traveled middle ground' between economics and philosophy. Delving into this area would be an interdisciplinary inquiry. While being interdisciplinary

may not be a new suggestion to Islamic economists, it is the combination of disciplines/knowledge involved that would be ‘new territory’ to the economist. While Islamic economists always talk about *fiqh* and its methodology, i.e., *uṣūl al-fiqh*, this overly ‘legal’ emphasis may not be sufficient to address economics and its related areas such as banking and finance. Hence our proposal to develop a new area called *uṣūl al-iqtisād*.⁸

4.3 OVERVIEW OF UṢŪL AL-IQTISĀD

Uṣūl al-iqtisād would involve a much wider scope of subjects than *uṣūl al-fiqh* as understood in today’s narrowly legalistic perspective. On the contrary, *uṣūl al-iqtisād* would include knowledge of areas such as the Islamic worldview, its Islamic economic vision, philosophy, including its ontology, axiology, and especially epistemology (including methodology) relevant for Islamic economics and other social/human sciences (Hannef and Furqani, 2007).

Uṣūl literally means “origin”, “roots”, “principles”, “fundamentals”, “rudiments” or “elements” of a particular thing. *Iqtisād* literally means “moderation”, “in the middle” and also means economics. Nowadays, economic science is translated into Arabic as *‘ilm al-iqtisād*. Putting both these meanings together would therefore mean the principles, fundamentals or even foundations of economics, including its methodological dimension.

For the purpose of this paper, we can focus more on methodological aspects and define *uṣūl al-iqtisād* as the methods of how to derive and appraise the organizing principles, concepts and theories of Islamic economics from the primary sources of Islam (*naqliyyah*), i.e., the *Qur’ān* and *Sunnah*, as well as the secondary sources (*‘aqliyyah*) — through *ijtihād* — that would include reasoning, experimentation, and observation. Whereas the former provides the basic evidence and indications from which detailed rules may be derived, the latter is needed for the elaboration and detail of the former, including procedural guidelines to ensure correct utilisation of the primary evidence.

In brief, several characteristics and purposes of *uṣūl al-iqtisād* as the methodology of Islamic economics can be delineated as follows:

1. *Uṣūl al-iqtisād* is an integration of methodology developed in our Islamic heritage (including *uṣūl al-fiqh* and other *uṣūl* of sciences developed in our heritage) and contemporary economics (which may involve the whole spectrum of conventional economics and not just the neoclassical school). *Uṣūl al-iqtisād* would have to deal with the primary sources of Islam (*naqliyyah/revealed*); *Qur’ān* and *Sunnah* as well secondary

- sources (*‘aqliyyah/reason*); reasoning, experimentation and observation of both our legacy and of modern economics.
2. As a methodology of Islamic economics, *uṣūl al-iqtisād* aims at delineating the principles that could be used to appraise Islamic economic theories. It would have to develop principles that would have to deal simultaneously with both types of knowledge, *naqliyyah* and *‘aqliyyah*. Rather than treating the heritage and modern economics separately, these principles must be integrated through a methodological dialectic and creative synthesis.
 3. One thing should also be noted is that Islam has revealed sources (*Qur’ān* and *Sunnah*) and non revealed sources, such as analogical reasoning (*qiyās*), consideration of public interest (*istiṣlāḥ*), juristic preference (*istiḥsān*), presumption of continuity (*istiṣḥāb*), and so forth. Whereas the revealed sources may have clear injunctions and command permanent validity, their interpretation via *uṣūl al-iqtisād* and its non-revealed sources are not permanent, for they are mainly the product of an *ijtihād*.

4.4 THE ABSENCE OF AN ISLAMIC CRITERIA

Keeping the previous paragraphs in mind, it is relevant to mention that Fox (1997, 16) suggests that discussions on methodology have to keep four questions in mind: what is the purpose of economic inquiry, what are the legitimate sources of economic inquiry, what is the scope of application of economic knowledge and what is the appropriate structure of an economic theory? Of the four, Islamic scholarship seems to have focused only on the second question. Consequently, real ‘methodological’ discussions of Islamic economics do not really exist in the works of Islamic economists. Most works purported to be on methodology lack discussion on the principles and criteria that would justify ‘Islamicity’ of a theory in the process of interaction and assimilation of conventional concepts/theories into an Islamic framework. Even this article merely surveys briefly the writings and points out the issues and challenges, but does not discuss methodology of Islamic economics itself. It is probably here that Choudhury’s writings appeals to some in that he is calling for rather fundamental reforms bordering on a ‘revolution’ in approach.

Whether you agree with Choudhury or not, what is needed next can be divided into three tasks: first, Islamic economists should critically review the methodological principles or criteria that are widely discussed in conventional economics such as falsification, verification, rhetoric, etc. These have not received responses from Islamic economists writing on the subject so far. Second, principles on dealing with the heritage especially

its economic/social science dimension, needs to be elucidated. Third, integrating the results of the first two tasks in an organic manner should be attempted. The ‘creative synthesis’ talked about in the Islamization of Knowledge agenda, should include methodological principles and criteria.

In addition, in attempting to build an Islamic economic methodology, there may also be a need for Islamic economists to answer the first question put forward by Fox, i.e., ‘what is the purpose of economic models and theory’. Is the purpose for understanding, description, explanation, prediction, or persuasion; or something else; or all of the above? More than 30 years ago Dugger (1979), in his study comparing institutionalist and neoclassical economic methodology, showed that their purposes of building models were different. In neoclassical economics, prediction is the main goal of economic models and theory, hence basic postulates (such as assumptions of utility maximization) in a predictive model is tested, i.e., by empirically comparing deductions (quantitative predictions) with observations, i.e., seeking ‘empirical validity’. However, in institutional economics, the main aim is to understand behavioural patterns given certain institutional settings. Hence, ‘pattern models’ are tested by comparing hypothesized institutional structures with observations. The former could be characterised as more ‘outcome’ focused, while the latter is more ‘input focused’. Hence the approach, unit of analysis, principles and criteria used in both schools legitimately vary. Very few, if any Islamic economist asks this question or is aware of its implications for developing Islamic economic methodology.

What adds to the challenge faced is that those principles or criteria (that are discussed in mainstream economics) are taken as ‘given’ although they only represent one school of economics. Hence, may have been designed in accordance with a framework in mind. This mainstream methodology may need to be critically evaluated from Islamic perspectives as it may be unable to cope with contemporary complex realities, nor with the richness and multidimensional nature of Islamic concepts (Sardar, 1988, 212). The resurgence of methodological studies among academic circles in the west over the last 40 years is a reflection of their uneasiness with hegemony of mainstream economics. However, many in the west have realized their ‘foundational’ mistake. Islamic economists should take cue.

If this critical evaluation is not done, it will leave the young Islamic economists who are involved in the process of developing Islamic economics unaware of what is ‘acceptable’ or ‘unacceptable’ and *why this is* so. If the Islamic methodological principles to establishing good theory over bad theory is not developed, one can only see ‘palliative’ works or worse still, patchwork efforts being undertaken since Islamic economists would unwittingly use ‘Western criteria’ for building and evaluating economic

theories and that too of neoclassical economics. Hence, this would distort the potential of Islamic economics as a distinct discipline. By highlighting these points, we hope that future research agenda will include the methodology agenda.

4.5 ISLAMIZATION OF ECONOMICS?

In the discussion of methods rather than methodology and in the absence of Islamic criteria in methodological discussions, the process of Islamization of economics is more likely to be represented by a series of steps or stages or processes that should be followed in creating Islamic economics, as seen from the writings of the scholars discussed in Section 3.⁹ The approach which now has become dominant in developing Islamic economics is criticized as unable to produce a distinct Islamic economics (Sardar, 1988; Kirmani, 1989; Alatas, 2006).

The Islamization of economics seems to be done ‘dichotomously’ between the conceptual (theoretical) and the empirical dimensions. In the conceptual part, Islamic economists attempt to find Islamic justification based on *Qur’ānic* verses over certain theories, while in the empirical part, Islamic economists just utilize and apply the common statistical methods into an Islamic/Muslim case, assuming no contradiction to Islamic heritage. Islamic economics heavily depends on conventional economics especially the dominant neo-classical paradigm as far as the empirical part of economics is concerned.

Consequently, as Syed Farid Alatas (2006) observed, Islamic economics as empirical theory has not done much. It remains within the fold of Western modernist discourse in terms of theoretical concerns and methodology, and has therefore failed to offer alternative principles to modernization and dependency on the dominant paradigm.¹⁰ Sardar (1988; 2002) earlier also warned that,

“Islamic economics is little more than one huge attempt to cast Islamic institutions and dictates, like *zakāh* and prohibition of interest, into a western economic mould. The dominant models guide the analysis and shape the inquiry: everything is compared and contrasted with capitalism and socialism, highlighting the fact that there is an underlying apologia at work.”

Hence, in undertaking ‘simplistic Islamization of economics’, many well meaning Islamic economists often get trapped into the conventional paradigm. They may actually be contributing to the ‘westernization of Islam’, by fitting Islamic teachings into the neo-classical framework rather than the opposite, which is what ‘genuine Islamization of economics’ would

entail. The simplistic Islamization/integration program of modern economics and Islamic teachings has often led into ‘replication’ of conventional theory with no clear supporting evidence of Islamicity (Furqani and Zakariya Man, 2008). At most, the current development of Islamic economics is working within the boundaries of neoclassical theory, with some adjustments to incorporate teachings/norms/values that reflected certain requirements of Islam (Haneef, 2005). Choudhury (1999, 1) also argues that:

“In recent years when Muslim scholars wrote on Islamic economics, they had to turn to mainstream economic theories and clothe these up with a palliative of Islamic values. But no new challenge was posed on the epistemological beginnings of a new field of analytical and scientific study. There was no demand from the Muslim scholars to well-define a distinctive field of Islamic economics. The Muslim scholars thus approached the study of Islamic values in neoclassical economic models of behaviour and resource allocation without questioning either the value-orientation of neoclassicism or the possibility of treating Islamic values in such otherwise value-free models of economic behavior, pricing and allocation.”

As a result, Islamic economics, instead of becoming a distinct discipline that could analyze economics using its own distinct philosophy, concepts, framework and methods of analysis as intended by the project of Islamization of knowledge, has become almost a sub-discipline of conventional neoclassical economics, *without Islamic justification*.

5. CONCLUDING REMARKS

For Islamic economics to be truly meaningful especially in times of rising suspicions of the validity of conventional western-based economics, Islamic economists should put more effort in addressing the ‘methodology’ of Islamic economics. This includes investigating and producing Islamic criteria, principles, as well as justification in theory appraisal and evaluation. Methodology is not merely about steps, stages, or process in how to interact conventional economics and Islamic heritage. Methodology is beyond that. The Islamization of economics project therefore should be understood not in mechanistic way of interaction based on certain steps or process.

The emphasis should be to produce truly unique Muslim criteria at the first place before any interaction can take place in the Islamization process. The point of departure, therefore, is definitely the Islamic heritage and not the conventional framework. Islamic principles on economics must

be rediscovered and re-imagined and not taken or adopted from what that have already existed today. Yes, Islamic economics could benefit from the conventional theories, but Islamic proponents must be clear with the principles. The absence of a 'thorough' discussion on methodology of Islamic economics in the proper sense leads to uncritical acceptance of conventional economics in the process of Islamization of economics. A note by Kirmani (1989, 143) asserts that such a situation "deprived the best Muslim brains of the ability to evaluate the western scientific heritage and produce original science, and on the other hand forced them to compromise with the dichotomous situation in which the *Qur'ān* is considered to be emotionally supreme and science is rated rationally high".

In addition, further works as an extension of the existing papers on methodology of Islamic economics that would systematically response to those conventional principles and offering Islamic principles and criteria in theory appraisal by scrutinizing the 'multiple criteria' of *wahy*, reasoning and empirical facts for appraising and evaluating Islamic economic theories remain an uncompleted task that need to be done.

At the end, methodology of Islamic economics should be able to produce a distinct knowledge of economics based on Islamic epistemological sources. Therefore, attempt to bring the philosophy of science discussion into Islamic economics is necessary. Methodological discussion should be viewed in a larger picture of epistemological project by providing a solid structure and foundation where the science of Islamic economics will flourish.

Contemporary Islamic Economics, banking and finance has certainly made a contribution to economics as a discipline and to the lives of Muslims for the last 30 years or so. Islamization of modern economics can certainly be an approach to develop contemporary Islamic economics in the 21st century. Within the Islamization of Modern Economics framework, work on substantive areas of economics, including banking and finance must continue. In addition however, this paper has called on those who support the development of contemporary Islamic economics to also give equal attention to more foundational areas such as methodology. Reasons for this were given by pointing out to the methodological nature of the Islamization process itself. As a discipline, focus should move to discussing *uṣūl al-iqtiṣād* that would involve a much wider scope of subjects covering worldview, philosophy especially epistemology, methodology of Islamic economics and other social/human sciences. If proponents of Islamic economics are determined to develop a truly meaningful and pragmatic alternative to western economics, going back to *uṣūl al-iqtiṣād* should be a primary objective above anything else.

ENDNOTES

1. One can also not find many Ph.D Theses in this area. One recent exception is by Addas (2008). While acknowledging the increase in methodological writings in Islamic literature, Addas states that these are ‘confusing and sketchy’ (p.7). What he does present ‘mainstream economics’ postulates and positions, and tries to then give some Islamic input, on those positions. While a welcome addition to the limited literature in the area, there is still much work to be done.
2. While learning from the entire spectrum of views in both Islamic tradition and modern economics is a welcome endeavour, it must be done with caution as different schools of thought very often have different methodological positions. See Fox (1997) as well as writings of heterodox scholars in www.hetecon.com and www.paecon.net.
3. The *nucleus* is the knowledge of the *Qur’ān* and *Sunnah*. It is the centre for growth around which additional knowledge can be constructed. While a *corpus* is a collection of extractions from the *Qur’ān* and *Sunnah*. Knowledge in the nucleus pertaining to the economic behavior of individuals, families and societies can be collected to form an ‘economic corpus’.
4. In later works he uses the term principle of conscious oneness. He deserves greater study in his own right as he can perhaps be singled out the single most prolific writer on methodology/philosophy of Islamic economics and a mere paragraph on his ideas do not do justice to his voluminous writings.
5. The views of Siddiqi were originally written and presented in seminars in the early 1980s, subsequently also published by IIIT. However, we are using his 2001 book *An Islamic Approach to Economics* published by the Islamic Foundation, UK.
6. The paper was originally written in Arabic in early 1980s and appears in a collection of seminar papers published by the IIIT in 1989.
7. Machlup (1978, 61) then distinguishes between methodology (as defined above) and description of methods used in academic papers/research (what he terms as methodography or simply notes on methods). He takes to task many ignorant writers today who have ‘debased’ the term to the latter (1987, 7-8) and cautions that in the name of steering away from ‘abstract’ discussions, we should not be infected with ‘methodophobia’, a disease that creates a negative over reaction to the mention of the term.

8. Another possible option is to actually go beyond the boundaries of economics/*iqtiṣād*. *Iqtiṣād* may not be having the same scope of study as conventional economics, and could be viewed as a wider, multidisciplinary or even interdisciplinary body of knowledge. The history of economics itself developed from political economy, and earlier still, from moral philosophy. In Islamic scholarship, Ibn Khaldun talked about *‘ilm al-umrān* or the science of civilization. However, this would require a much greater discussion and is beyond the scope of this paper.

9. While many scholars have contributed to the Islamization of Knowledge (IOK) discourse over the years, all attempts at IOK are by definition, ‘step-by-step’, involving interaction between Islamic *turāth* and modern bodies of knowledge/disciplines. Hence, there is no ‘all or nothing’ approach in the IOK process (Hasan, 1998). There may be some scholars who viewed all modern knowledge as ‘unislamic’ hence the need to take nothing; some who saw all modern knowledge as ‘islamic’, hence, take all, but this is not the view of any serious proponent of IOK.

10. Alatas (2006) then continues criticizing Islamic economics as an empirical theory with “neo-classical guise” that “merely substituted Islamic terms for neo-classical ones, retaining the latter’s assumptions, procedures and modes of analysis. As such, it has failed to engage in the analysis and critique of a highly unequal world economic order in which the gaps are ever widening.”

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