

Gulf University for Science & Technology
~~Islamic Banking and Finance (FIN 351)~~
3rd Midterm Exam, Spring 2014/15
Tuesday, 22nd Dec., 2015

8

True/ False

(A = True & B = False on scantron sheet)

- 3 1. Mitigation of risk while carrying out commercial activities is not permissible in Islam. F
- 4 2. Premiums paid by takaful policyholders are considered as donations towards the common cause to assist those members who suffer any loss. T
3. Islamic law restricts the role of the insurance company to merely an operator who is appointed to manage the portfolio and invest the insurance contribution for and on behalf of the participants. T
4. There are two main parties in the conventional insurance: the insurance company and the operator. F
5. The parties in takaful are many and the participants insure one another against any loss and this is carried out mutually. T
6. The Takaful operator manages the investment activities of the Takaful fund through Mudarabah contracts only. F
7. The Hybrid model includes Mudaraba and Musharaka. F
8. In conventional insurance the underwriting surplus belongs to policyholders. F
9. In Takaful insurance the underwriting surplus is used to pay back debts and build reserves. T
10. Through Tabarru contracts we avoid the Gharar element in Takaful insurance. T
11. Two-tier structure is used when the Takaful is used for commercial purpose. T
12. The Takaful operator provides Qard Hassan to the Takaful fund whenever the need arises. T
13. The Takaful operator manages the investment activities through Musharakah contracts. F
14. The Hybrid model includes Mudaraba and Wakala. T
15. Most of the time the underwriting activities are done by the TO through Wakala contract. T
16. Takaful Operator is a company owned by shareholders. T
17. Malaysia was the first country to establish a Takaful firm in 1970's. F
18. In contrast to the Anglo-American model of corporate governance, the Franco-German model emphasises the interests of the shareholders. F
19. The Franco-German model incorporates the interests of shareholders and non-shareholders but with more emphasis on the non-shareholders who are considered as the stakeholders. T
20. The Anglo-American model is closer and of more relevance for Islamic finance as it aims to align management's interests with shareholders' interests. F
21. Under the Islamic paradigm of corporate governance only selected stakeholders such as executive management are able to serve on the Shari'ah supervisory board to ensure transparency, accountability, fairness, and mutual consultation. F
22. Accountability in business transactions includes true and fair disclosure and transparency so that the interests of all stakeholders, particularly management and employees, will be protected. F
23. IFSB and AAOIFI standards are intended to guide conventional, as well as Islamic financial institutions across the world, to be more competitive. F
24. The role of corporate governance in Islamic financial institutions includes establishing a harmonious relationship among the shareholders, board of directors, management, stakeholders, and, above all, with God. T

25. Sharī'ah governance and corporate governance are so close and cannot be separated in an Islamic corporate entity. **T**
26. The primary objective of Sharī'ah audit in corporate governance is to ensure the compliance of Islamic financial institutions with the Sharī'ah board verdicts. **T**
27. The Sharī'ah system of governance was introduced to replace the corporate governance of conventional financial institutions. **F**
28. The institutionalisation of Sharī'ah governance in Islamic financial institutions is carried out through *hisbah* and collective *ijtihad* models. **T**
29. The function of the Sharī'ah supervisory board is linked to its advisory role in ensuring Sharī'ah compliance of new products. **T**
30. Diverse approaches for corporate governance in IFIs are adopted in different jurisdictions. **T**

Multiple Choice

31. Which ONE of the following BEST describes the two-tier structure of a General Takaful undertaking?
1. The structure consists of underwriting and investment funds which belong to the policyholders
 2. The structure consists of funds which belong to the policyholder and a company with share capital manages the underwriting fund
 3. The insurance operator can manage the capital backing for the fund's structure either on a Murabaha basis or Wakal basis
 4. The insurance operator always has to segregate the policyholders' funds from its own fund
32. Which ONE of the following statements explains the technique used in Takaful to avoid Gharar?
- A/ The owners of the Takaful company are policyholders.
 - B/ Policyholders donate their premium to the Takaful company.
 - C/ The owners manage themselves the Takaful company.
 - D/ The funds of the Takaful company are invested in non-interest bearing assets
33. Which ONE of the following statements concerning the utilization of the underwriting surplus of a Takaful company is FALSE?
- A/ The surplus is used to build up reserves.
 - B/ The surplus is distributed to the policyholders.
 - C/ The surplus is used to re-pay Takaful loans.
 - D/ The surplus is used to pay the management fees.
34. How will the underwriting surplus be applied?
- I/ to repay Qard Hassen from operator
 - II/ to build up reserve
 - III/ to distribute to participants
- A/ I and II
 - B/ I and III
 - C/ II and III
 - D/ I, II and III

35. Which of the following relate to Islamic insurance contract?

- I/ Tabarru'
- II/ Qard Hassen
- III/ Wakala
- IV/ Mudaraba

- A/ I and II only
- B/ II and III only
- C/ I and III only
- D/ II and IV only
- E/ I, II, III and IV

36. Major definitions of corporate governance are given by:

- a) Organization for Economic Corporation and Development (OECD)
- b) International Chamber of Commerce (ICC)
- c) the Cadbury Report
- d) all of the above

37. The following are common features shared by the majority of corporate governance' definitions EXCEPT:

- a) a system of relationships defined by structures and processes
- b) relationships with different and in some cases contrasting interests
- c) stakeholders, by and large, play a passive role in the direction and control of the company
- d) rights and responsibilities are properly distributed among the stakeholders

38. _____ defined Corporate Governance to be "a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined".

- a) Organization for Economic Corporation and Development (OECD)
- b) International Chamber of Commerce (ICC)
- c) the Cadbury Report
- d) none of the above

39. The Anglo-American model accomplishes its scheme though a number of mechanisms such as:

- a) shareholder representation on the Board of Directors
- b) manager compensation scheme
- c) external market discipline
- d) all of the above

40. Which one of the following models tends to emphasise the stakeholder-value system?

- a) the Anglo-American model
- b) the middle Eastern model
- c) the Franco-German model
- d) the Southeast Asian model

Fill the Blanks

1. In Takaful, the contributions of the ~~insured~~ to the Takaful underwriting fund are made with the intention of sale contract. donation
2. Under two-tier Takaful structure the Takaful underwriting fund will be managed by operator
3. Whenever there is deficit in the underwriting fund, the ~~Participant~~ provides back-up capital.
4. There are 3 possible legal models that organize the relationship between TO and Takaful underwriting fund:- Pure Mudaraba model, pure Wakala model, and Combined model.
5. In Takaful the underwriting surplus belongs to policyholders.
6. The Islamic insurance/ Takaful functions on two-tier structure to separate the underwriting fund from the Takaful operator's fund.
7. The first Islamic insurance/ Takaful company was established in 1979 in Sudan.
8. Corporation is a legal entity that is separate and distinct from its owners. Corporations enjoy most of the rights and responsibilities that an individual possesses; that is, a corporation has the right to enter into contracts, loan and borrow money, sue and be sued, hire employees, own assets and pay taxes. The most important aspect of a corporation is limited liability.
9. Corporate Governance is a system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.
10. Guiding Principles: IFSB-10 for Shari'ah Governance Systems for Institutions Offering Islamic Financial Services was issued by IFSB in 2009.

Islamic Banking & Finance (FIN 351)
College of Business Administration
Gulf University for Science & Technology
2nd Midterm Exam, 22nd Nov. 2015
(Chapters 3 & 7)

Name: _____ ID No. _____

True / False Questions

1. It is not a condition for the validity of the *murabahah* contract that the buyer knows the original cost price of the commodity or the additional profit that has been added by the seller. **F**
2. The modern practice of *murabahah* is restricted to Islamic banks and financial institutions where standard *murabahah* contracts are signed by the parties and conducted on deferred payment basis. **T**
3. The *istisna'* (manufacturing contract) will only be complete when the bargain has been completed with clear stipulations of the price, quality, and specifications. **T**
4. A *salam* contract can be defined as a contract of sale where the seller agrees to supply specific goods to the buyer on a deferred basis in exchange of an advanced price fully paid on the spot. **T**
5. *Bay al-salam* is specifically meant to facilitate the commercial activities of manufacturers, traders, and investors. **F**
6. Muslim jurists are unanimous on the permissibility of *bay al-layn*. **F**
7. The *hadith* "gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates... hand to hand...." implies that trade in currency is permissible in Islamic law. **T**
8. Permissibility of *tawarruq* is based on the general principles of a typical contract of sale and the absence of any modicum of interest in this transaction. **T**
9. In Islamic jurisprudence the term '*ijarah*' has been used in two different ways: employing another person to do a particular job for a consideration known as wages, and transferring of usufruct in an asset for a consideration. **T**
10. *Ijarah thumma al-bay* transactions are concluded under one contract. **F**
11. The bank services utilised by customers should be paid for through the *ujrah* scheme. **T**
12. Lease contract is considered an impractical mode of financing in modern Islamic banking and finance and does not represent a genuine alternative to the charging of interest. **F**
13. Both the *mudharib* and *rab al-mal* in the partnership contract are active partners in the day-to-day running of the business. **F**

14. The parties to the *mudarabah* partnership contract share any losses of the business venture based on agreed percentage.
15. Murabah does not necessarily imply the concept of deferred payment.
16. Sukuk subscribers are investors.
17. SPV represents obligor.
18. We cannot buy gold and silver with Bay Muajjal contract.
19. *Sukuk* are singled as the best way of financing small enterprises.
20. The process of modelling and structuring Islamic bonds does not requires a basic knowledge of the major Islamic finance products such as *mudarabah*, *musharakah*, *ijarah*, *murabahah*, *wakalah*, *istisna'a*.
21. There are more than ten types of *sukuk*.
22. Murabaha *sukuk* are usually structured as an agreement between the *rabb al-mal* who provides the capital and the entrepreneur which may be an investment company or a Special Purpose Vehicle (SPV).
23. The *mudarabah sukuk* holder has no right to transfer the ownership by selling the *sukuk* in the securities market at his/her discretion.
24. It is permissible under *mudarabah sukuk* agreement to create reserves for contingencies, such as loss of capital, by deducting from the profit a certain percentage in each accounting period.
25. The returns and losses on *mudarabah sukuk* are shared and borne in accordance with the percentage of ownership of shares of each of the *sukuk* holders.
26. The *musharakah* certificates are treated as negotiable instruments that can be bought and sold in the capital markets.
27. The *musharakah* certificate given to all *sukuk* holders represent their proportion of ownership in the assets of the project being undertaken.
28. Under *musharakah sukuk* agreement, management of the business is the sole responsibility of the entrepreneur.
29. The contract of *ijarah* has been used as a means of securitization of a tangible asset such as a hospital or airport which allows the issuance of *sukuk* to prospective investors.
30. In a Salam contract the payment is deferred.
31. We can buy Gold & Silver through Bay Salam.
32. In Ijarah Muntahiya Bitamlik the lessee is obliged to buy the asset at the end of the lease period.

33. Salam can be effected on a particular commodity or product of a particular farm like 100 kg of wheat from the farm of XYZ (only). **F**
34. In Istisna contract the payment should be made in advance fully. **F**
35. Time of delivery is not a necessary condition for the validity of Salam contract. **F**
36. We can buy laptops from Sony Company through Istisna contract. **T**
37. Any negligence or mismanagement by the Mudarib will make him responsible for any loss in a Mudaraba contract. **T**
38. In Musharakah contract the contracting parties can share any loss according to their agreement. **T**
39. In Ijarah Mausufa Bithima, we pay rent for the existing asset. **F**
40. In Ijarah Muntahiya Bitamlik we have two contracts (lease & sale) at the same time for the same subject matter. **F**
41. In Bay Muajjal/Murabaha the due time of payment can be fixed with reference to a future event whose exact date is unknown. **F**
42. In Bay Muajjal/Murabaha the deferred price should be equal to the spot price. **F**
43. In Bay Muajjal/Murabaha once the price is fixed it can be increased in case of default and decreased in case of early payment contractually. **F**
44. Murabaha means cost plus. **T**
45. In diminishing *musharakah*, the bank is not allowed to sell its share at a price which is higher than its original value to make a profit. **F**

Multiple Choices Questions

46. Under Ijara contract, the lessee is only held liable for damage to the underlying asset if :
- A. the parties signed a separate warranty on the condition of the asset
 - B. the resulting fall in value of the asset is significant
 - C. he was negligent
 - D. the lease term was open ended
47. Which one of the following is not part of the main types of Sukuk contracts?
- A. Istisn'a Sukuk
 - B. Ijarah sukuk
 - C. Musharaka sukuk
 - D. Salam sukuk
 - E. None

48. Which of the following sukuk cannot be traded in the stock exchange?
- A. Mudaraba
 - B. Musharaka
 - C. Salam
 - D. Ijarah
 - E. None
49. In sukuk contracts the SPV
- A. represents the obligor
 - B. represents the investors
 - C. represents the sukuk holders
 - D. B&C
 - E. None
50. What is the role of the SPV in a Muadaraba Sukuk?
- A/ Rab al Mal
 - B/ Mudarib
 - C/ A profit and loss sharing partner
 - D/ The buyer
51. What is the role of SPV in Musharaka Sukuk?
- A/ Rabu al Mal
 - B/ Mudrib
 - C/ A profit and loss sharing partner
 - D/ The buyer
52. Which of the following will be an appropriate way for a bank to raise short-term liquidity?
- A/ Mudaraba Sukuk
 - B/ Musharaka Sukuk
 - C/ Salam Sukuk
 - D/ Ijara Sukuk
53. One of the key differences between a conventional bond and a sakk is that:
- A. a conventional bond exposes the holder to asset level risks.
 - B. a conventional bond has a fixed maturity date.
 - C. a sakk grants the holder undivided beneficial interest in the underlying asset.
 - D. a sakk will not result in the holder incurring a loss.
54. In which sukuk contract are the investors not obliged to pay all the investment in advance?
It means they can pay it gradually at different stages.
- A. Musharak
 - B. Mudaraba
 - C. Istisn'a
 - D. Ijarah
 - E. All

55. Conventional securities are forbidden in Islam because
- they are linked to an underlying asset.
 - they are issued on financial markets.
 - C they are equivalent to debt trading.
 - they are reevaluated if the asset is over performing.
56. Sarah enters into a Musharaka transaction with the bank to set up a graphic design studio. Sarah provides 25% of the capital and the bank remaining 75%. How will any profits and losses be shared?
- Profits according to pre-agreed ratio, losses in proportion to capital provided
 - Profits and losses according to pre-agreed ratio
 - Profits and losses in proportion to capital provided
 - D Profits according to pre-agreed ratio, losses are shared equally
57. Fahad is expanding his car dealership and wishes to issue sukuk. He approaches a Bank which advises him to enter into an Ijarah Sukuk, using the premises he owns as an the asset. In this scenario, which of the following is correct?
- The SPV is the lessee and the Sukuk holders are the lessor
 - The SPV is the lessor and the Sukuk holders are the lessee
 - Fahad is the lessee and the SPV is the lessor
 - D Fahad is the lessor and the SPV is the lessee
58. The two types of *mudarabah* are:
- short term and long term *mudarabah*
 - restricted (*muqayyad*) and unrestricted (*mutlaq*) *mudarabah*
 - C personally oriented and business oriented *mudarabah*
 - none of the above
59. *Musharakah mutanaqisah* is a chain of three contracts where the first contract is:
- a contract of lease between the financier and the client under the joint ownership.
 - a joint ownership between a client and an enterprise (financier).
 - C a contract with a third party to guarantee the proper implementation of the agreement
 - where the client partner concludes another contract with the financing partner.
60. Differences between *musharakah* and *mudarabah* contracts include all the following except:
- sources of financing the business
 - rights of partners to participate in the management of the business
 - legality of the contracts
 - D liability of the partners
61. ----- can be defined as the contract of entrusting one's precious property or money to the care of another, usually a trusted person or a secured corporate entity.
- A *rahn*
 - wadi'ah*
 - kafalah*
 - ijarah*

62. The waiving of one's financial right or ownership that is owed to him/her in totality or partially is known as:

- A. *'tabarru'* (donation)
- B. *ibra'* (foregoing of right)
- C. *hibah* (gift)
- D. *wa'ad* (promise) *tabarru'*

63. *Waqf, ibra', hibah, wa'ad*, and *tabarru'* contracts are considered:

- A. unilateral supporting contract
- B. profit and loss sharing contracts
- C. accessory contracts
- D. religious contracts

64. _____ are certificates of equal value representing undivided shares in the ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity.

- A. alternative investments
- B. *Sukuk*
- C. Islamic stocks
- D. charitable endowments

65. All the followings are benefits of *sukuk* EXCEPT:

- A. *sukuk* is among the best ways of financing large enterprises
- B. *sukuk* represent an excellent way of managing liquidity for banks and Islamic financial institutions
- C. *sukuk* enable investors to deploy small sums of capital without the ability to liquidate their positions easily whenever the need should arise
- D. *sukuk* are a means for the equitable distribution of wealth

5

Islamic Banking & Finance (Course: BA 351)
Gulf University for Science & Technology
First Midterm Exam
13th Oct. 2015

Student's Name _____ ID No. _____

True / False Questions

1. The resolution of Islamic Fiqh Academy cannot be considered one of the main sources of Al Shari'ah (Islamic law) that constitute the basis of Islamic banking and finance. T ✗
2. Any form of banking and financial institution that does not charge interest can be referred to as Islamic bank or financial institution. F
3. There are basically two types of *riba*—*riba al-nasi'ah*, which is the interest on lent money, and *riba al-fadl*, the exchange of superior goods with more inferior ones. T ✓
4. The form of *riba* prohibited in the Qur'an is *riba al-fadl*, the exchange of superior goods with more inferior ones. F ✗
5. The global financial crises of 2008-2010 has improved the acceptance of Islamic banking and finance as an alternative to the conventional financial system. T
6. Islamic finance has the potential of being an alternative mode of finance in the modern world. T
7. Islam establishes the need to lawfully acquire property and validates all measures and policies towards the protection of such right. T
8. The Prophet (PBUH) entered into series of contracts with merchants and customers while managing the business of his first wife Khadijah. T
9. While *riba al-nasi'ah* relates to trade, *riba al-fadl* relates to loans. F ✓
10. Among the prohibited transactions which were common during the prophet's era include excessive risk or speculation. T
11. The acceptance of the practices of Islamic banking and finance has brought new non-Muslim experts, professionals, and financial institutions to Islamic banking and finance. T
12. It is an unethical behaviour for a trader to exploit unsuspecting buyers who are not aware of the prevailing market price. T
13. '*Aqd*' can be defined as an agreement among contracting parties which is concluded through an offer and acceptance with the consequences of binding legal obligation for all parties. T
14. The Shari'ah puts a cap on the amount of profit one must make while carrying out a particular business. F

15. The meeting of minds among the contracting parties is considered one of the most important elements of a contract. T
16. *Muwa'adah* is a unilateral undertaking. F
17. The concept of *wa'ad* can never be binding. T
18. The majority of jurists opine that fulfilling *wa'ad* is obligatory and it is usually enforceable. T
19. A unilateral contract is binding for the person who makes it, as well as on the person in whose favor it has been made. F
20. Classification of contract according to its legal consequences puts emphasis on the extent of validity or binding nature of the contract. T
21. All enforceable (Nafith) contracts are valid contracts. T
22. A contract may be considered deficient if it is lawful in its substance but unlawful in its description. T
23. The terms "void contract" and "voidable contract" are identical so they can be used interchangeably. T
24. The four elements of a valid contract of sale are offer and acceptance, subject matter, consideration or price, and legal capacity of the parties. T
25. The rationale behind the prohibition of any business transaction that involves speculative elements is to avoid unnecessary risk-taking, which will eventually lead to disputes between the parties. T
26. Speculative contracts which contain uncertain elements constitute the second major prohibition of contracts under the *Shari'ah*. T
27. *Riba* is forbidden in Islam due to its resultant harmful economic, social, psychological and spiritual effects. T
28. *Riba al-nasi'ah* relates to loan trade and *riba al-fadl* relates to loan. F
29. Bai' al-Gharar contracts are speculative or uncertain contracts which involve excessive risks. T
30. Bai' al-Gharar contracts are lawful financial contracts thus are permitted in Islamic Law. T

Multiple Choices Questions

31. The following mode(s) of transactions were prevailing during the Prophet's lifetime:
- a) *shirkah* (partnership) based on profit and loss sharing (PLS)
 - b) *al qard al hasan* (benevolent loan)
 - c) *salam* (forward) contract
 - d) all of the above
32. Among the many destructive outcomes of Maisir or Qimar is/are the following:
- a) hostility and hatred is usually generated among the players
 - b) destruction of the source of families' livelihood of
 - c) turning the players away from the remembrance of Allah and to neglect fundamentals of Islamic pillars such as the five canonical prayers.
 - d) all of the above
33. The following items are major components of Islamic banking and finance EXCEPT:
- a) Islamic banking,
 - b) *takaful* (insurance)
 - c) stock Exchange
 - d) capital markets
34. The Islamic banking component of Islamic financial services may be:
- a) fully fledged Islamic banks,
 - b) Islamic subsidiaries
 - c) 'windows' of conventional banks.
 - d) all of the above
35. _____ is not a major component of the Islamic banking and finance industry.
- a) Islamic banking
 - b) conventional insurance
 - c) Islamic capital markets
 - d) Islamic non-bank financial institutions
36. The pillars (*arkan*) of contract in Shari'ah include:
- a) place of the contract
 - b) witnesses to the contract
 - c) subject matter of contract
 - d) date of the contract
37. International bodies dedicated to enhancing Islamic finance industry include:
- a) the International Islamic Financial Market (IIFM)
 - b) Islamic Financial Services Board (IFSB)
 - c) accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)
 - d) all of the above

38. Examples of Islamic non-bank financial institutions include:

- a) Islamic leasing companies,
- b) Islamic microfinance institutions,
- c) *waqf* management institutions,
- d) all of the above

39. All financing in Islamic banking and finance can be conveniently classified under:

- a) sharing modes
- b) sale modes
- c) leasing modes
- d) any of the above modes

40. The rule in *fiqh al-mu'amalat* is that all transactions are permissible as long as they:

- a) are not tainted with prohibited gain
- b) do not involve usury, deception, speculation, and undue profits
- c) do not engage prohibited items
- d) all of the above

41. All of the following are examples of unlawful earnings except:

- a) short-measures in trade through underweight
- b) hoarding to inflate prices at a later period
- c) earning through *musharakah* mode of finance
- d) money-lending that involves usury

42. Which of the following statements is true?

- a) *Wa'ad* is a bilateral undertaking and *muwa'adah* is a unilateral undertaking
- b) *Wa'ad* is a unilateral undertaking and *muwa'adah* is a bilateral undertaking
- c) Both *wa'ad* and *muwa'adah* are bilateral undertakings
- d) None of the above

43. The legal consequences of a contract may result in a(n):

- a) valid contract (*Sahih*)
- b) invalid or deficient Contract (*Fasid*)
- c) void contract (*Batil*)
- d) all of the above

44. A contract that is lawful in its substance but unlawful in its description is considered:

- a) binding contract
- b) deficient contract
- c) void contract
- d) none of the above

45. Which one of the following is not an element of a valid sales contract?

- a) offer and acceptance
- b) subject matter
- c) witnesses
- d) consideration or price

46. The power to sell is denied in the following circumstances in order to avoid elements of uncertainty (Bai' al-Gharar)
- a) things which, as the object of a legal transaction, do not exist.
 - b) things which exist but which are not in possession of the seller or the availability of which may not be expected
 - c) things which are exchanged on the basis of uncertain delivery and payment.
 - d) all of the above
47. "A contract among two or more persons involving the exchange of money or other valuables depending upon the uncertain outcome of a staged event" is:
- a) *gharar*
 - b) *qimar*
 - c) *musharakah*
 - d) *Bai'*
48. Which one of the following is not an element of a valid sales contract?
- a) offer and acceptance
 - b) subject matter
 - c) witnesses
 - d) consideration or price
49. Types of legal capacity in a contract (*ahliyyah*)
- a) *ahliyyah al-wujub and ahliyyah al-'ada*
 - b) *ahliyyah al-wujub and ahliyyah al-fard*
 - c) *ahliyyah al-'ada and ahliyyah al-fard*
 - d) *none of the above*
50. Classical examples of *gharar* mentioned in the Sunnah include contracts of sale for the following:
- a) newly born calf
 - b) fish in the sea
 - c) ripe fruits in the market
 - d) all of the above

Short Answer questions

Answer only 5 questions

- ①- Explain the main sources of Al Sharī'ah (Islamic law).
- ②- Identify at least 3 sources for gains that are prohibited in Islamic law.
- 3 - Identify the 3 types of bilateral contracts sanctioned by Muslim jurists.
- 4 - When is a contract considered valid (*sahih*) and what is the legal consequence of a valid contract?
- 5 - What are the four pillars (*arkan*) of Shar'ah Contracts?
- ⑥- What is Legal Capacity in a Contract?
- 7 – Name the major four components of the Islamic banking and finance industry.
- 8 – Give 3 examples of fully fledged Islamic banks in the GCC.
- ⑨- Explain briefly how Islamic banks mobilize their funds.
- 10 - Describe the three models of Islamic banking in practice
- ⑪- What are the four pillars (*arkan*) of Shar'ah Contracts?
- 12 - What is Legal Capacity in a Contract?


Please, write your answers on page 7 with clarity.

1 - The two sources of Islamic Banking are the Quran and Sunnah. The International Islamic Fiqh Academy (IIFA) is considered to be the body to the Shari'ah.

- 11 - Pillars of the Shari'ah contracts include:
- 1 - Form: offer and acceptance.
 - 2 - Subject matter and price consideration.
 - 3 - Legal capacity.
 - 4 - Meeting minds and obligation.

9 - Islamic banks mobilize their funds through the sale of shares to investors and receiving funds from depositors.

6 - Legal capacity is the ability to acquire rights and exercise them and accept duties and perform them accordingly.

- 2 - Sources of gains that are prohibited in Islam include:
- 1 - Selling prohibited items (alcohol, pork, etc.).
 - 2 - Interest (Riba).
 - 3 - Gambling or gimar.
 - 4 - Excessive risk or speculation.
 - 5 - Exploitation of buyers unaware of market price.
 - 6 - Undue profits.

Islamic Banking & Finance (FIN 351)
College of Business Administration
Gulf University for Science & Technology
2nd Midterm Exam, 22nd Nov. 2015
(Chapters 3 & 7)

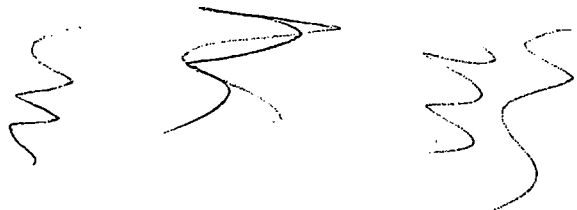
Name: _____

ID No. _____

True / False Questions

1. It is not a condition for the validity of the *murabahah* contract that the buyer knows the original cost price of the commodity or the additional profit that has been added by the seller. ~~False~~ **F**
2. The modern practice of *murabahah* is restricted to Islamic banks and financial institutions where standard *murabahah* contracts are signed by the parties and conducted on deferred payment basis. **T**
3. The *istisna'* (manufacturing contract) will only be complete when the bargain has been completed with clear stipulations of the price, quality, and specifications. **T**
4. A *salam* contract can be defined as a contract of sale where the seller agrees to supply specific goods to the buyer on a deferred basis in exchange of an advanced price fully paid on the spot. **T**
5. *Bay al-salam* is specifically meant to facilitate the commercial activities of manufacturers, traders, and investors. ~~False~~ **T**
6. Muslim jurists are unanimous on the permissibility of *bay al-dayn*. **F**
7. The *hadith* "gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates... hand to hand..." implies that trade in currency is permissible in Islamic law. **T**
8. Permissibility of *ta'warruq* is based on the general principles of a typical contract of sale and the absence of any modicum of interest in this transaction. **T**
9. In Islamic jurisprudence the term '*ijarah*' has been used in two different ways: employing another person to do a particular job for a consideration known as wages, and transferring of usufruct in an asset for a consideration. **T**
10. *Ijarah thumma al-bay* transactions are concluded under one contract. **F**
11. The bank services utilised by customers should be paid for through the *ijarah* scheme. **T**
12. Lease contract is considered an impractical mode of financing in modern Islamic banking and finance and does not represent a genuine alternative to the charging of interest. **F**
13. Both the *mudharib* and *rab al-mal* in the partnership contract are active partners in the day-to-day running of the business. **F**

1



14. The parties to the *mudarabah* partnership contract share any losses of the business venture based on agreed percentage. ~~F~~
15. Murabah does not necessarily imply the concept of deferred payment. ~~F~~ T
16. Sukuk subscribers are investors. T
17. SPV represents obligor. ~~F~~
18. We cannot buy gold and silver with Bay Muajjal contract. T
19. *Sukuk* are singled as the best way of financing small enterprises. F
20. The process of modelling and structuring Islamic bonds does not requires a basic knowledge of the major Islamic finance products such as *mudarabah*, *musharakah*, *ijarah*, *murabahah*, *wakalah*, *istisna'a*. ~~F~~
21. There are more than ten types of *sukuk*. ~~F~~ T
22. Murabaha *sukuk* are usually structured as an agreement between the *rabb al-mal* who provides the capital and the entrepreneur which may be an investment company or a Special Purpose Vehicle (SPV). ~~F~~
23. The *mudarabah sukuk* holder has no right to transfer the ownership by selling the *sukuk* in the securities market at his/her discretion. ~~F~~
24. It is permissible under *mudarabah sukuk* agreement to create reserves for contingencies, such as loss of capital, by deducting from the profit a certain percentage in each accounting period. T
25. The returns and losses on *mudarabah sukuk* are shared and borne in accordance with the percentage of ownership of shares of each of the *sukuk* holders. T
26. The *musharakah* certificates are treated as negotiable instruments that can be bought and sold in the capital markets. T
27. The *musharakah* certificate given to all *sukuk* holders represent their proportion of ownership in the assets of the project being undertaken. T
28. Under *musharakah sukuk* agreement, management of the business is the sole responsibility of the entrepreneur. ~~F~~
29. The contract of *ijarah* has been used as a means of securitization of a tangible asset such as a hospital or airport which allows the issuance of *sukuk* to prospective investors. T
30. In a Salam contract the payment is deferred. ~~F~~
31. We can buy Gold & Silver through Bay Salam. f
32. In *Ijarah Muntahiya Bitamlik* the lessee is obliged to buy the asset at the end of the lease period. ~~F~~

33. Salam can be effected on a particular commodity or product of a particular farm like 100 kg of wheat from the farm of XYZ (only). **F**
34. In Istisna contract the payment should be made in advance fully. **F**
35. Time of delivery is not a necessary condition for the validity of Salam contract. **F**
36. We can buy laptops from Sony Company through Istisna contract. **T**
37. Any negligence or mismanagement by the Mudarib will make him responsible for any loss in a Mudaraba contract. **T**
38. In Musharakah contract the contracting parties can share any loss according to their agreement. **T**
39. In Ijarah Mausufa Bithima, we pay rent for the existing asset. **F**
40. In Ijarah Muntahiya Bitamlik we have two contracts (lease & sale) at the same time for the same subject matter. **F**
41. In Bay Muajjal/Murabaha the due time of payment can be fixed with reference to a future event whose exact date is unknown. **F**
42. In Bay Muajjal/Murabaha the deferred price should be equal to the spot price. **F**
43. In Bay Muajjal/Murabaha once the price is fixed it can be increased in case of default and decreased in case of early payment contractually. **F**
44. Murabaha means cost plus. **T**
45. In diminishing *musharakah*, the bank is not allowed to sell its share at a price which is higher than its original value to make a profit. **F**

Multiple Choices Questions

46. Under Ijara contract, the lessee is only held liable for damage to the underlying asset if :
- A. the parties signed a separate warranty on the condition of the asset
 - B. the resulting fall in value of the asset is significant
 - C. he was negligent
 - D. the lease term was open ended
47. Which one of the following is not part of the main types of Sukuk contracts?
- A. Istisna Sukuk
 - B. Ijarah sukuk
 - C. Musharaka sukuk
 - D. Salam sukuk
 - E. None

48. Which of the following sukuk cannot be traded in the stock exchange?
- A. Mudaraba
 - B. Musharaka ✓
 - C. Salam
 - D. Ijarah
 - E. None
49. In sukuk contracts the SPV
- A. represents the obligor
 - B. represents the investors
 - C. represents the sukuk holders
 - D. B&C
 - E. None
50. What is the role of the SPV in a Muadaraba Sukuk?
- A. Rab al Mal ✓
 - B/ Mudarib
 - C/ A profit and loss sharing partner
 - D/ The buyer
51. What is the role of SPV in Musharaka Sukuk?
- A/ Rabu al Mal
 - B/ Mudrib
 - C/ A profit and loss sharing partner
 - D/ The buyer
52. Which of the following will be an appropriate way for a bank to raise short-term liquidity?
- A/ Mudaraba Sukuk
 - B/ Musharaka Sukuk
 - C/ Salam Sukuk
 - D/ Ijara Sukuk
53. One of the key differences between a conventional bond and a sakk is that:
- A. a conventional bond exposes the holder to asset level risks.
 - B. a conventional bond has a fixed maturity date.
 - C. a sakk grants the holder undivided beneficial interest in the underlying asset.
 - D. a sakk will not result in the holder incurring a loss.
54. In which sukuk contract are the investors not obliged to pay all the investment in advance? It means they can pay it gradually at different stages.
- A. Musharak
 - B. Mudaraba
 - C. Istisn'a
 - D. Ijarah
 - E. All

62. The waiving of one's financial right or ownership that is owed to him/her in totality or partially is known as:

- A. *'tabarru'* (donation)
- B. *'ibra'* (foregoing of right)
- C. *hibah* (gift)
- D. *wa'ad* (promise) *tabarru'*

63. *Waqf*, *ibra'*, *hibah*, *wa'ad*, and *tabarru'* contracts are considered:

- A. unilateral supporting contract
- B. profit and loss sharing contracts
- C. accessory contracts
- D. religious contracts

64. _____ are certificates of equal value representing undivided shares in the ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity.

- A. alternative investments
- B. *Sukuk*
- C. Islamic stocks
- D. charitable endowments

65. All the followings are benefits of *sukuk* EXCEPT:

- A. *sukuk* is among the best ways of financing large enterprises
- B. *sukuk* represent an excellent way of managing liquidity for banks and Islamic financial institutions
- C. *sukuk* enable investors to deploy small sums of capital without the ability to liquidate their positions easily whenever the need should arise
- D. *sukuk* are a means for the equitable distribution of wealth

55. Conventional securities are forbidden in Islam because
- they are linked to an underlying asset.
 - they are issued on financial markets.
 - they are equivalent to debt trading
 - they are reevaluated if the asset is over performing.
56. Sarah enters into a Musharaka transaction with the bank to set up a graphic design studio. Sarah provides 25% of the capital and the bank remaining 75%. How will any profits and losses be shared?
- Profits according to pre-agreed ratio, losses in proportion to capital provided
 - Profits and losses according to pre-agreed ratio
 - Profits and losses in proportion to capital provided
 - Profits according to pre-agreed ratio, losses are shared equally
57. Fahad is expanding his car dealership and wishes to issue sukuk. He approaches a Bank which advises him to enter into an Ijarah Sukuk, using the premises he owns as an the asset. In this scenario, which of the following is correct?
- The SPV is the lessee and the Sukuk holders are the lessor
 - The SPV is the lessor and the Sukuk holders are the lessee
 - Fahad is the lessee and the SPV is the lessor
 - Fahad is the lessor and the SPV is the lessee
58. The two types of *mudarabah* are:
- short term and long term *mudarabah*
 - restricted (*muqayyad*) and unrestricted (*mutlaq*) *mudarabah*
 - personally oriented and business oriented *mu'arabah*
 - none of the above
59. *Musharakah mutanaqisah* is a chain of three contracts where the first contract is:
- a contract of lease between the financier and the client under the joint ownership.
 - a joint ownership between a client and an enterprise (financier).
 - a contract with a third party to guarantee the proper implementation of the agreement
 - where the client partner concludes another contract with the financing partner.
60. Differences between *musharakah* and *mudarabah* contracts include all the following except:
- sources of financing the business
 - rights of partners to participate in the management of the business
 - legality of the contracts
 - liability of the partners
61. ----- can be defined as the contract of entrusting one's precious property or money to the care of another, usually a trusted person or a secured corporate entity.
- rahn*
 - wadi'ah*
 - kafalah*
 - ijarah*