

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 Sharī'ah (Islamic law) that constitute the basis of Islamic banking and finance. ✗ (F)
2. Any form of banking and financial institution that does not charge interest can be referred to as Islamic bank or financial institution. ✗ T
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. While *riba al-nasi'ah* relates to trade, *riba al-fadl* relates to loans. ✗ F
6. Among the prohibited transactions which were common during the prophet's era include excessive risk or speculation. ✓ T
7. 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
8. 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
9. Islamic finance has the potential of being an alternative mode of finance in the modern world. ✓ T
10. Islam establishes the need to lawfully acquire property and validates all measures and policies towards the protection of such right. ✓ T
11. The Prophet (PBUH) entered into series of contracts with merchants and customers while managing the business of his first wife Khadijah. ✓ 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 Sharī'ah puts a cap on the amount of profit one must make while carrying out a particular business. ✗ F

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- T 15. The meeting of minds among the contracting parties is considered one of the most important elements of a contract. ✓
- F 16. *Muwa'adah* is a unilateral undertaking. ✗
- T 17. The concept of *wa'ad* can never be binding. ✗
- F 18. The majority of jurists opine that fulfilling *wa'ad* is obligatory and it is usually enforceable. ✗
- F 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. ✗
- T 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. ✓
- F 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. ✓
- F 25. *Riba al-nasi'ah* relates to loan trade and *riba al-fadl* relates to loan. ✗
- T 26. Bai' al-Gharar contracts are speculative or uncertain contracts which involve excessive risks. ✓
- F 27. Bai' al-Gharar contracts are lawful financial contracts thus are permitted in Islamic Law. ✗
- T 28. 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 29. Speculative contracts which contain uncertain elements constitute the second major prohibition of contracts under the Sharī'ah. ✓
- T 30. *Riba* is forbidden in Islam due to its resultant harmful economic, social, psychological and spiritual effects. ✓

Multichoice 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

- X 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
- X 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
 - X 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
- X 44. A contract that is lawful in its substance but unlawful in its description is considered:
- a) binding contract
 - X 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. 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

47. 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*

48. 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

49. 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

50. "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'*
-
-

Short Answer questions

Answer only 5 questions

- 1 - Explain the main sources of Al Shar'ah (Islamic law). → Ch. 1
- 2 - Identify at least 3 sources for gains that are prohibited in Islamic law. → Ch. 2
- 3 - Identify the 3 types of bilateral contracts sanctioned by Muslim jurists. → Ch. 2
- 4 - When is a contract considered valid (*sahih*) and what is the legal consequence of a valid contract? → Ch. 2
- 5 - What are the four pillars (*arkan*) of Shar'ah Contracts? → Ch. 2
- 6 - What is Legal Capacity in a Contract? → Ch. 2
- 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. → Ch. 1
- 10 - Describe the three models of Islamic banking in practice. → Ch. 1
- 11 - What are the four pillars (*arkan*) of Shar'ah Contracts? → Ch. 2
- 12 - What is Legal Capacity in a Contract? → Ch. 2

↓

Please, write your answers on page 7 with clarity.

①

- Islamic banking
- Islamic non banking financial institutions
- Takaful
- Islamic Capital market

① The main sources of Shar'ah are (Ijtihad) and Quraan, Sunnah.

② Gimar, Riba, Garar

- Intention to create legal relations and meeting of minds.
- Subject matter and price of the contract.
- Parties to the contract.
- Form (signature)

II The Contract Part

- In Egypt- 1963
- DHS the bank in Dubai
- KH in Kuwait
- Islamic bank in GCC

- Intention to create legal relations and meeting of minds.
- Subject matter and price of the contract.
- Parties to the contract.
- Form (signature)

III The Contract Part



Student Name

Course Number

Section

Date

4/10/2016

Student ID Number

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Important Marking Instructions

- Make marks that fill bubbles completely
- Example
- Erase unwanted marks cleanly
- Make no stray marks on this form

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Test Items

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Islamic Banking & Finance (Course: BA 351)
Gulf University for Science & Technology
First Midterm Exam
4th, October 2016

Student's Name Deema Qudus ID No. 8810

True / False Questions

- T 1. The Prophet (PBUH) entered into series of contracts with merchants and customers while managing the business of his first wife Khadijah. ✗
- F 2. It is an ethical behaviour for a trader to exploit unsuspecting buyers who are not aware of the prevailing market price.
- T 3. The resolution of Islamic Fiqh Academy is considered one of the main sources of Al Shari'ah (Islamic law) that constitute the basis of Islamic banking and finance
- T 4. Any form of banking and financial institution that is consistent with the principles of the Shari'ah can be referred to as Islamic bank or financial institution. ✗
- T 5. There are basically two types of *riba/interest in Islam*:— *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 6. Among the prohibited transactions which were common during the prophet's era include excessive risk or speculation. ✓
- T 7. 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. ✓
- F 8. The global financial crises of 2008-2010 has hindered the acceptance of Islamic banking and finance as an alternative to the conventional financial system. ✓
- T 9. Islamic finance has the potential of being an alternative mode of finance in the modern world. ✓
- T 10. Islam establishes the need to lawfully acquire property and validates all measures and policies towards the protection of such right. ✓
- F 11. The form of *riba* prohibited in the Qur'an is *riba al-fadl*, the exchange of superior goods with more inferior ones.
- F 12. While *riba al-nasi'ah* relates to trade, *riba al-fadl* relates to loans. ✗
- F 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 either party.

- F 14. The Shari'ah puts a cap on the amount of profit one must make while carrying out a particular business. X
- T 15. The meeting of minds among the parties to the contract is considered one of the most important elements of a contract. ✓
- F 16. *Muwa'adah* is a unilateral promise with binding obligations for both parties. X
- T 17. The concept of *wa'ad* is based on the principle of fulfilment of promise in all dispositions. X
- T 18. The majority of jurists opine that fulfilling *wa'ad* is obligatory and it is usually enforceable. ✓
- F 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. X
- T 20. Classification of contract according to its legal consequences puts emphasis on the extent of validity or binding nature of the contract. ✓
- F 21. All valid contracts are enforceable. ✓
- T 22. A contract may be considered deficient/fasid if it is lawful in its substance but unlawful in its description. ✓
- F 23. The terms "void contract" and "voidable contract" are identical so they can be used interchangeably. X
- 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. *Riba al-nasi'ah* and *riba al-Quran* represent the same *riba* which happens in a loan transaction. X
- T 26. *Bai' al-Gharar* contracts are speculative or uncertain contracts which involve excessive risks. ✓
- F 27. *Bai' al-Gharar* contracts are lawful financial contracts thus are permitted in Islamic Law.
-
- T 28. 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 contracting parties. ✓
- T 29. Speculative contracts which contain uncertain elements constitute the second major prohibition of contracts under the Shari'ah. ✓
- T 30. *Riba* is forbidden in Islam due to its resultant harmful economic, social, psychological and spiritual effects. ✓

Multiple Choices Questions

31. _____ was the first Islamic bank established in 1960s.
- a) Dubai Islamic Bank
 - b) Islamic Development Bank
 - c) Tabung Haji of Malaysia
 - d) Mit Qamar of Egypt
 - e) None
32. Dubai Islamic Bank (DIB) operates the following main business group(s):
- a) retail banking
 - b) corporate banking
 - c) real estate
 - 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 market players in the Islamic Capital Market (ICM) include all of the following EXCEPT:
- a) Brokerage houses
 - b) Islamic leasing companies
 - c) Fund management institutions
 - d) Islamic asset management institutions

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

- a) Islamic leasing and factoring companies,
- b) Islamic microfinance institutions,
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39. All financing in Islamic banking and finance can be conveniently classified under:

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- 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
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- c) do not engage prohibited items
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41. All of the following are examples of unlawful earnings except:

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- b) hording 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 unilateral undertaking and *muwa'adah* is a bilateral undertaking
- b) *Wa'ad* is a bilateral undertaking and *muwa'adah* is a unilateral 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*)
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44. A contract that is lawful in its substance but unlawful in its description is considered:
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 - b) subject matter
 - c) witnesses
 - d) consideration or price
46. Types of legal capacity in a contract (*ahliyyah*)
- a) *ahliyyah al-wujub and ahliyyah al-'ada*
 - b) *ahliyyah al-wujub and ahliyyah al-fard*
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 - 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
49. "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'*

50. The most prevalent form of contract in modern Islamic financial transactions are:
- informal contract
 - bilateral contracts
 - negotiable contract
 - contracts of partnership (*shirkah*)

Short Answer questions

Answer only 3 questions

- 1 - When is a contract considered valid (*sahih*) and what is the legal consequence of a valid contract?
- 2 - What are the four pillars (*arkan*) of valid contracts?
- 3 - What is legal capacity in a contract?
- 4 - What is the role of International Islamic Fiqh Academy (IIFA) in Islamic finance?
- 5 - Name the major four components of the Islamic banking and finance industry.
- 6 - Give 3 examples of fully fledged Islamic banks in the GCC.
- 7 - Identify at least 3 sources for gains that are prohibited in Islamic law.
- 8 - Identify at least 3 types of bilateral contracts sanctioned by Muslim jurists.
- 9 - _____ is the first fully-fledged Islamic commercial bank established in the world in 1975.
10. _____ is the second primary source of the *Shari'ah* comprises the sayings, practices and tacit approvals of the Prophet Muhammad (PBUH) and meant to further explain the injunctions of the Qur'an.

Please, write your answers clearly on the next page.

(A) Islamic Banking - Islamic non Banking

- Islamic
- Ihtakaf
- Islamic Indusions capital market

(2) The contract

- form (siyah)
- Rules to the contract
- state matter and price of the contract
- Intentional to create legal ~~and~~ relations and ~~making~~ making of marks

(8) 3 type of bilateral

- (1) KTH in Kuwait
- (2) NIB the bank in dubai
- (3) In Egypt 1963