

ECO356H1F Special Topics in Financial Economics (Islamic Banking and Finance)

Background

Islamic finance is based on the premise that Islamic scripture forbids all forms of interest. To get around this prohibition, Islamic finance uses legal devices to restructure interest-bearing debt, collecting interest in the form of rent or price mark-up. The practice of designing such structures and their certification as "interest free" is commonly referred to as "Sharia arbitrage".

Helped by the accelerated growth in Arab petrodollars, Islamic banking has been gaining momentum on a global scale, particularly in the last several years. Industry size is currently estimated at more than \$500 billion, with projected growth of 15% per annum. To date, most of the activities in Islamic banking have been concentrated in emerging financial centers in Bahrain, Dubai and Malaysia but the size and growth profile of Islamic finance has now attracted the attention of more traditional financial centers in Europe and North America. In Canada, most of the big banks are contemplating offering "sharia-compliant" products to expand their reach among Canada's fastest-growing immigrant population, with products ranging from mortgages to mutual funds, car finance and bonds. The Office of the Superintendent of Financial Institutions is currently reviewing two proposals for banks that would operate entirely within the strictures of Islamic religious laws. These proposals have raised considerable debate about how such banks would be regulated.

The growth in Islamic banking has also caught the attention of academics. Rice University in Houston has a Chair of Islamic Economics, Finance and Management. Tufts University's School of Law & Diplomacy offers a course in "Islamic Banking & Finance". Similar courses are offered at the University of London's School of Oriental and African Studies and at the Georgetown University Law Centre. As far back as 1995, Harvard launched the Harvard Islamic Finance Project to study and analyze the growth of Islamic finance (the 8th Harvard University Forum on Islamic Finance will be held in April 2008).

The growth in Islamic finance has led to an increasing demand for qualified personnel. The Department of Economics at the U of T is offering its multicultural student population the opportunity to study this expanding area with a Special Topics course.

Course Description/Outline

The course provides an overview of Islamic Banking and Finance. The students will develop basic understanding and principles governing Islamic Banking and Finance, its history, growth and place in the world economy. The course will also cover different modes of financing (debt and equity based) and their unique attributes. It will cover a comparison between Islamic and conventional banking.

Tentative list of topics to be covered:

- I. Introduction to Islamic Economics
- II. Role of Factors of Production
- III. The Islamic Finance System
- IV. Concept of Riba (Interest) and Gharar (uncertainty)
- V. Islamic Finance Contract
- VI. Modes of Financing (Equity) Part I
- VII. Modes of Financing (Equity) Part II
- VIII. Modes of Financing (Debt) Part I
- IX. Modes of Financing (Debt) Part II
- X. Islamic Financial Institutions
- XI. Islamic Banking vs. Conventional Banking

Texts

Usmani, M. Taqi, *An Introduction to Islamic Finance*, Springer, 2002.
El-Gamal, Mahmoud A., *Islamic Finance: Law, Economics and Practice*,
Cambridge University Press, 2006

Supplementary Reading:

Mohammed Obaidullah, *Islamic Financial Services*, Islamic Economics Research Center, King Abdulaziz University Jeddah

Prerequisites:

ECO358H/MGT337Y (no exceptions will be allowed)

Instructors:

Reza Ghaeli, Ph.D., is a Sessional Lecturer in the Department of Economics at the University of Toronto. He specializes in Macroeconomic policy and Public Sector Economics and Finance. He is currently a Risk Policy Coordinator at the Ontario Financing Authority in Toronto, Ontario.

Mr. Parvez Daruwalla earned an MBA from Katholieke Universiteit in Leuven, Belgium, specializing in Accounting & Finance. He has extensive background and expertise in investment management, treasury and risk management. He is presently a Manager, Pooled Investments with the Ontario Financing Authority in Toronto and has previously worked with Bank Muscat International in Muscat, Oman as well as with Over the Counter Exchange of India (OTCEI) in Bombay, India. He also holds the Chartered Financial Analyst (CFA) designation.