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Abstract- This paper aims to investigate the presence of *Gharar* in buying and selling mechanism in the different kinds of market. This is a conceptual paper based on secondary data. This paper finds that, the *Gharar* is highly existed in the imperfect competitive market compared to the perfect competitive market. The level of *Gharar* is higher in monopoly followed by oligopoly, monopolistic market. Finally, this paper recommends some steps to avoid *Gharar* in the buying and selling mechanism in different market structure.

Keywords: *gharar, market, buying and selling mechanism.*

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Identifying the Presence of *Gharar* in Buying and Selling Mechanism Under Different Kinds of the Market Structure

Dr. Muhammad Masrurul Mowla

Abstract- This paper aims to investigate the presence of *Gharar* in buying and selling mechanism in the different kinds of market. This is a conceptual paper based on secondary data. This paper finds that, the *Gharar* is highly existed in the imperfect competitive market compared to the perfect competitive market. The level of *Gharar* is higher in monopoly followed by oligopoly, monopolistic market. Finally, this paper recommends some steps to avoid *Gharar* in the buying and selling mechanism in different market structure.

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I. Introduction

Market is a process where buyer and seller interact to each other and maximize their utility as well as profit by exchanging goods and services (Samuelson and Stephen, 2011). Moreover, perfect knowledge about the product ensures the benefit of both economic agents and generate efficient outcome in the market (Hossain, 2014). In contrast, any kind of anomalies in the specification of the product, may fail the market by creating the inefficient outcomes.

Furthermore, by nature, a producer is always tries to maximize their profit (Mankiw, 2014). A producer usually achieves his goal by manipulating information under imperfectly competitive market such as monopoly, oligopoly and monopolistic market except perfectly competitive market. Such kind of information manipulation creates the market failure by harming the consumer.

Table 1: List of Terminologies that Generate *Gharar* in the Market

S.no.	*Gharar* Related Terminologies
1.	Two in one sale
2.	Sales by touch
3.	Persuasive advertisement
4.	Bulk discount
5.	Conditional sales
6.	Sales by lottery
7.	Sales without touched
8.	Sales of unspecified products in a box

Source: compiled by the author

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On the other hand, in Islam, any kind of transaction including buying and selling is considered as a blessings, if both parties show their kindness to each other (Al-Bukhari, 3:293). Any kind of information manipulation, non-specification of the product and uncertainty in a transaction is called *Gharar* that is strictly prohibited in Islam. Table-1 discloses the list of several terminologies that generate *Gharar* in the buying and selling process under different kinds of market structures.

This paper is an initiative to detect the presence of *Gharar* in the buying and selling Mechanism under different kinds of the Market structure such as Perfect competitive and imperfect competitive market. This paper includes the most common practices of buying and selling methods from the contemporary world.

However, this paper consists of eight sections. First, second, third and fourth sections discuss the Introduction, Objective, Methodology and Literature Review respectively. Section fifth includes the discussion on the the Concept of *Gharar* and Shariah Rulings while section six exposes the Presence of *Gharar* in the different kinds of Markets. Besides, *Gharar* in the Promotional Activities was discussed in the section seven. Finally, section eight presents the Conclusion and recommendations.

II. Objective of the Study

The main objective of this paper is to identify the presence of *Gharar* in the buying and selling Mechanism under the different kinds of the Market structure such as Perfect competitive and imperfect competitive market

III. Methodology

This is a conceptual paper. This paper is prepared by using the secondary information and theoretical background is designed by reviewing the literature from different books, articles and websites.

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IV. Literature Review

Gharar is fundamentally prohibited in the Islamic economics and finance. Several researches have been done on the *Gharar* issue.

Nehad and khanfar (2016) analyzes the concept of *Gharar* according to the teaching of Quran. Sultan (2016) reviews the Ribā, *Gharar* & Maysir in Classical Shari'ah and shows its implications in the contemporary World. Haron (2015) scrutinizes the issue of *Gharar* in the embedded options in Malaysian perspective. Uddin (2015) discusses the principles of Islamic finance regarding Riba, *Gharar* and Maysir. Cizakca (2010) exposes the issue of *Gharar* and sukuk regarding the domestic borrowing. El-Gamal (2006) discusses the features and Prohibition of *Gharar*.

However, the earlier researchers discusses the features of *Gharar*, *Gharar* in the financial transactions, etc. But this paper raises the issue if *Gharar* in the buying and selling mechanism under the different kinds of market such as perfectly competitive market, monopoly, oligopoly and monopolistic market, that was totally untouched in the earlier researches.

V. An Overview of the Concept of *Gharar* and Shariah Rulings

Gharar (غَرَر) is an Arabic word that is originated from garrun (غَرَّ). The literal meaning is; hazard, trouble, uncertainty, excessive risk, peril, mislead, swindle; seduce, ambiguity, aleatory, etc. (al-maany, 2018). Terminologically, it can be defined as the sales of unknown, unspecified, non-existed goods. Further more, it can be defines as the trade of an objects whose existence or features are uncertain and the perilous nature of the object makes the deal akin to wagering or gambling. Also, in encompasses the cheating, game of chance through random events, and imperfect information in the dealing contract or uses imprecise language Al-Zuhayli, 1997). Moreover, cheating (*tadlis*) and fraud (*ghubn*) is considered as Gharar in the Encyclopedia of Islamic Jurisprudence (Razi, 1995). Besides, *Gharar* includes the inadequate information, trickery, excessive risk and uncertainty in the sales of an object or in the contract (El-Gamal, 2006, 58-60).

For example, sales of unborn cow, sales of unknown goods in the container, Sales of fish in the pond to be caught, sales of goods without measuring, selling the birds in the sky, unborn calf etc.

Moreover, *Gharar* can be classified into two types. *Gharar* al kasir and *Gharar* al kalil. *Gharar* al kalil means nominal or trivial risk that can be lessened easily. Such as business risk, risk in the sales of new products, etc. In contrast, *Gharar* al kasir refers to the excessive risk or uncertainty that cannot be mitigated easily (Khan, 1990).

Causes of Emerging the Gharar:

i *Asymmetric information:* Asymmetric information arises when in an economic transaction, one economic agent in the market has better information and he can manipulate it. Moreover, it can be defined as the information that is imperfect or partially correct or completely wrong information. Moreover, it is quite impossible to determine whether the provided information is correct or not (Black, 1997),

ii *Un-specification of the products:* a product is said to be unspecified if its characteristics is not clearly disclosed. Such as not exposing the information regarding useful as well as harmful side of the products,

iii *Uncertainty:* it can be defined as the doubtful or distrustful consequences of an event, transaction, etc. (Bishop, 2004). Such as, selling of an unknown product, selling a precious product within a box but without disclosing the nature of precious things.

Shariah rulings on Gharar:

In Islamic economics and finance, Gharar al kasir is permanently prohibited in all kinds of financial and nonfinancial transactions (El-Gamal, 2006, 58-60).

VI. The Presence of *Gharar* in the Different Kinds of Markets

As mentioned in the section-5 that, the *Gharar* arises due to the Asymmetric information, non-specification of the product and Uncertainty. These three anomalies can be found in any events where information failure occurred. Moreover, the information failure is highly related with market controlling power of a firm. Market power refers to the degree of control that a single firm or a small number of firms have over the price and production decisions in an industry (Samuelson & Nordhaus, 2010). Figure-1 discloses the factors that determine the Market Power.

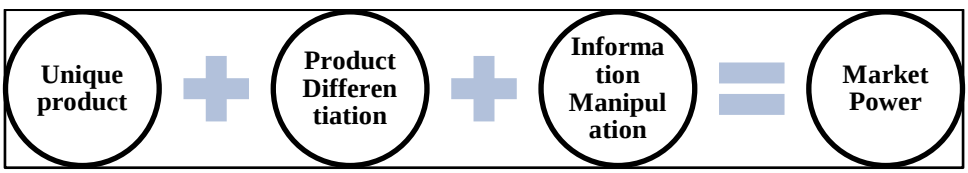

Figure 1: Determinants of the Market Power

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By considering the market power, different firm introduces the product to the customer by manipulating information. Usually, a product is introduced to its customer by the promotional activities such as advertising, describing the features of the product on its body, booklet, brochure, bill board, etc. Moreover, since revenue maximization depends on the sales maximization, a producer always tries to maximize sales by expanding the promotional functions under the marketing department of the firm.

Table 2: Advertising Expenditure in the World by Region

(In billion USD)

Region	2010	2017	2018*	2020*
Asia Pacific	97.54	147.95	157.77	178.75
Central and Eastern Europe	8.29	11.96	12.62	14.03
Western Europe	83.33	99.27	102.97	110.12
Middle East and Africa	7.56	9.87	10.59	12.56
North America	146.3	201.6	215.28	234.44
Latin America	15.95	35.54	40.44	52.48

*Source: Statista (2018), *Projected value*

The promotional activities can be defined as the tools or mechanism employed by sellers to influence or pursue the customers to purchase the products or services. However, it further strengthens the stand of the company in the market (marketing School, 2018). According to the Promotional Products Association, 76% of the recipients of the promotional materials remember the products and the company. Moreover, it induces the customers to buy the products and services. Furthermore, advertising is one of the powerful promotional activities in the world. The table-2 and table-3 expose the advertising expenditure of the world and in the selected Muslim countries.

Table 3: Advertising Expenditure in the selected Muslim Countries of the World

(In million USD)

Country	Advertisement Expenditure
Saudi Arabia	312 (2015)
United Arab Emirates	531 (2015)
Qatar	144 (2015)
Pakistan	485 (2016)
Indonesia	2700(2017)
Malaysia	771 (2017)

Source: Istizada (2016), Shadman (2016),Statista (2018)

Also, *Gharar* practices in the buying and selling process under the different kinds of markets through promotional activities. In the perfect competitive market, a large number of buyers and sellers exchange the identical products. It is assumed that perfect information regarding products is available in this market. So, it is difficult to find the presence of *Gharar*in this market.

Monopoly has unparalleled and sole market power because of unique product and single producer in the market. It can manipulate the information regarding products details or characteristics. So, the presence of *Gharar* is extremely higher in both pure or natural and artificial monopoly. Because, the information provided by the monopolist is only the sources of knowledge that can be gained about the products.

Though oligopoly market is better than monopoly for the consumers, But due to the cartel and collusion, the producer of this market provide little perfect information but mostly provide asymmetric information in the forms of differentiated products. Thus, the producer practices *Gharar* in the oligopoly.

Monopolistic market is operated by the large number of buyers and sellers. By nature, the product is close substitute and information is more available in the market compared to monopoly and oligopoly. But due to the severe competition, the promotional activities and asymmetric information is also higher in this market. Thus, this market practices *Gharar*. Table-4 illustrates the level of *Gharar* in the different kinds of the Market.

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Table 4: Illustration of the Presence of Gharar in the different kinds of Markets

Market	No. of Buyer	No. of Producer	Product type	Entry	Information	Level of *Gharar*
Perfect competitive	Large Number	Large Number 16-unlimited	Identical/ Homogenous	free	Perfect Information	Very low
Monopoly	Large Number	1	Unique	restricted	Imperfect Information/ asymmetric Information	Very high
Oligopoly	Large Number	2-15	Differentiate and close substitute	restricted	Imperfect Information/ asymmetric Information	Very high
Duopoly	Large Number	2	Differentiate and close substitute	restricted	Imperfect Information/ asymmetric Information	Very high
Monopolistic	Large Number	Large Number 16-unlimited	Differentiate and close substitute	free	Imperfect Information/ asymmetric Information	medium

Source: compiled by the author from (samuelson and nordhaus, 2010) and different books

VII. Presence of *Gharar* in the Promotional Activities

The producer practices the several types of promotional tools to maximize the profit in the market. This section identifies the *Gharar* through table-5 on the many promotional tools those are highly practices in the market.

Table 5: List of Terminologies that Generate *Gharar* in the Market

Serial No.	*Gharar* Related Terminologies	Presence of *Gaharar*
1.	Two in one sale	It is difficult to realize that, how do they maintain it? , Doubtful about exact quality and quantity, volatile the market
2.	Sales by touch and pebble	Uncertain events, always one party gainer and another party is looser
3.	Persuasive advertisement	Inducing customer to buy the products, actual information is absent, cheating with the customer
4.	Bulk discount	It is difficult to realize that, how do they maintain it? , Suspicious about the accurate quality and quantity,
5.	Conditional sales	It may induce the customer to buy unnecessary products
6.	Sales by lottery	Uncertainty, always one party gainer and another party is looser
7.	Sales without touch	Customer is in dark about the products.
8.	Sales of unspecified products in a box	Customer is in dark about the products.
9.	Buy-one-get-one-free	It is difficult to understand that, how do they maintain it? , distrustful about exact quality and quantity, volatile the market
10.	Selling the unknown products	Uncertainty

Source: compiled by the author

It can be said that, *Gharar* is highly present in the promotional activities. Moreover, it creates doubtless that, whether the producers provide the exact quality and quantity of the products or not? Moreover, sometimes, it is argued that, the producer writes the higher price on the product, then offer discount on the price. But it is itself a *Gharar* or ambiguousness about the determination of the price. Because, price is a representation of the cost of a product, and company's profit. So such type of practices is considered as *Gharar* is Islam.

VIII. Conclusion and Recommendations

Finally, it can be said that, *Gharar* in a transaction deprives the customer in getting the actual products or services while it make the producer as deceiver, and thereby generates the market failure. This paper discloses the presence of *Gharar* in the buying and selling methods under the different kinds of the market. Furthermore, this paper identifies the *Gharar* in the promotional activities those are practices by the producer in the market. Finally, this paper recommends the following steps to avoid *Gharar* from any kind of financial and non-financial transaction:

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- The promotional activities should be designed in a way so that, it discloses the perfect information (including positive and negative sides) about the products. Moreover, the exaggerating and concealing the information must be avoided.
- n Islamic economic system, pure monopoly is conditionally allowed if and only if it provides (a) the maximum information about the products and (b) reduces price by the maximum production. In contrast, the artificial monopoly (created by hoardings or any other ways) is strictly prohibited in Islam. By full filling the first condition, *Gharar* can be suppressed from the buying and selling transactions.
- In the oligopoly market, the *Gharar* comes in existence through products differentiation, manipulating information and cartel as well as collusion. So the respective authority such as *Hisbah* agency or quality controlling authority of a country should visit the factory and examine the quality of the products by going to the market to impede the *Gharar*.
- In monopolistic market, since the product is close substitute, the firm practices *Gharar* by the promotional activities. So, the government of a country (through its quality controlling authority) should encourage the firms of imperfect competitive market to attain normal profit instead of super-normal profit by the bulk amount of production.
- *Gharar* can be avoided through the religious motivation by publishing *Quranic* verses and *Hadiths* on the buying and selling (as booklet, poster, bill board etc.) among the producer and customer in the market.. Moreover, since *Gharar* is one kinds of cheating with the customer. So revenues from the products by the means of *Gharar* will be considered as *Haram* (illegal in Islamic *shariah*).
- Finally, this paper recommends to open *Shariah* board among the all kinds of companies or in the quality controlling authority of a country (such as Bangladesh standards and testing institution in Bangladesh and *Hisbah* agency in Pakistan, Afghanistan, Malaysia, Indonesia, Bahrain, Nigeria and so many countries) to avoid *Gharar* in the product transactions.

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