PREVENTING THE NEXT FINANCIAL CRISIS:

بسم الله الرحمن الرحيم

DOES ISLAMIC FINANCE HOLD THE KEY?

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A thesis submitted in partial fulfillment of the requirements for the MS degree in Islamic Banking and Finance

University of Management and Technology

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CERTIFICATE OF APPROVAL

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The thesis entitled ***"Preventing the Next Financial Crisis: Does Islamic Finance Hold the Key"*** by **Muhammad Imran Ejaz** (ID # **13004130-002**) has been examined by the undersigned panel of examiners and has been accepted in partial fulfillment for the degree **of MS Islamic Banking and Finance**.

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DECLARATION

I hereby declare that no portion of the work that appears in this study has been used in support of an application for another degree in qualification to this or any other university or institution of higher learning.

This thesis is a presentation of my original research work. Wherever contributions of others are involved, every effort has been made to indicate this clearly, with due reference to the literature and acknowledgement of collaborative research and discussions.

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In my capacity as supervisor of the candidate's thesis, I certify that the above statements are true to the best of my knowledge.

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DEDICATION

This thesis is dedicated to all the people who are working to establish and nourish Islamic Finance in the current International Financial Architecture.

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First of all, I would like to thank Allah Almighty who gave me the courage and energy to accomplish this work in due time and without His help this study, which required untiring efforts, would not have been completed.

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Muhammad Imran Ejaz
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ABSTRACT

The Capitalist system has undergone numerous crises in its history and they seem to come one after the other. The Financial Crisis of 2007-2008 shook the whole foundations of the International Financial architecture and raised further questions as to what was inherently wrong with the system. Eyes turned towards the principles of Islamic Finance to see if here lay the answer to the problems facing the financial system in place in the world. This study has aimed to answer the question as to whether Islamic Finance principles offer a solution to preventing Financial Crises. Initially an analysis of the Conventional (International) and Islamic Monetary systems has been made in this study. This study has then gone on to analyze three crises ; Black Wednesday 1992-the currency crisis that shook Britain ; East Asian Currency Crisis and the Financial Crisis of 2007-2008.The mechanisms and the causative factors of these crises have been studied and isolated. These causative factors have then been studied under the light of Islamic Finance principles. In order to arrive at answers the methodology employed has been analysis of existing literature and use has been made of podcasts of leading financial experts. Access to experts who are at the same time well versed in knowledge of the workings of the International Monetary System and Islamic Finance is very difficult and limited. The study is unique in studying the Black Wednesday Currency Crisis in the light of principles of Islamic Finance. The researcher has not come across any previous study carrying out the above mentioned task. This study is also distinguished, from any previous work, in analyzing these three crises from the perspective of Islamic Finance as the contents of one thesis. The study has shown that the underlying causative factors of the three crises are in violation of the principles of Islamic Finance. The main causative factor behind the Currency Crises is shown to be the ability to carry out a Speculative attack which is possible due to the facility of short sales. The study shows that short sales are contrary to the teachings of Islamic Finance. Likewise the role of speculation in the 2007-2008 crisis is also highlighted along with the other causative factors. The study concludes that if the causative factors isolated in the three crises, which are in violation of the rules of Islamic Jurisprudence and still persist in the system, are removed from the International Financial Architecture then this system would be given great stability and the chances of a further crisis would significantly diminish.

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