



Enriching the Theory of Factor Pricing and Income Distribution in Islamic Perspective

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ABSTRACT

The paper aims to elaborate the theory of factor pricing and income distribution in Islamic perspective. We place Sadeq's thought as the benchmark and expand it. Using calculus differential, we construct factor pricing and income distribution under mudharabah scheme, which can describe the behavior of producer (mudhaarib) in making decision on business operation appropriately

The paper can prove mathematically that when Islamic principles are internalized, income distribution becomes more equal. This is expressed in parameters s , $1-s$, and $1/1-s$, as a share of profit goes to capital owner (shahibulmaal), entrepreneur (mudhaarib) and worker, respectively. The paper also proposes that wage level will be determined not only by perception or the mind set of capital owners and workers on the value of their assets, but also the standing moral of entrepreneurs and capital owners.

Keywords: Factor Pricing; Income Distribution; Mudharabah; Profit Share

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