

Optimizing Input and Output under the Scheme of *Mudharabah*

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Abstract: *The research will elaborate producer behavior, specifically on input and output optimization under mudharabah scheme that will determine income distribution. We used calculus to derive propositions. Mudharabah economic principle shows that the increase in mudharib's barakah (blessing) due to the increasing amount of labor in a maslahat manner is equal to the maslahat value of net marginal product of labor. The increasing mudharib's barakah due to the increasing amount of raw material used in a maslahat manner equals to the maslahat value of net marginal productivity of raw material. The proposition related to wage level shows that wage level determined simultaneously by musyatarak akad (contract) reflects the value of net labor productivity weighted by mudharib's share of profit sharing. The higher certification cost per product unit, the lower the wage level. The increasing share of profit sharing for mudharib from shahibul maal will increase wage level. Increasing the share for mudharib from profit sharing by shahibul maal will increase the wage level per worker. Profit sharing contract between mudharib and shahibul maal highly determines wage level. In the agreement, both parties should calculate the impact of shares on labor wage.*

Keywords: Producer Behavior, Factor Pricing, *Mudharabah*, Profit Share

1. Introduction

Income inequality is a crucial problem encountered by Muslim countries, including Indonesia. The popular indicator reflecting income inequality, the Gini Ratio, shows a quite alarming increase, especially in Indonesia. In 2008, the Gini ratio was only 0.38, while in the end of 2013, it reached 0.41. The increase means that income distribution is increasingly unequal. Various approaches and policies adopted from conventional economic framework have been attempted to be applied. Unfortunately, they did not work as expected, so that other breakthroughs able to ensure improvement in income distribution should be found.

Islam provides a comprehensive spectrum in directing human behaviors, both as individual and social beings, in performing economic transaction among economic actors. Several previous writings and research results in the scope of *fiqh* discipline of science, such as one by Chalil (2009), have elaborated the sources of Islamic teachings, namely Al-Qur'an and Hadith, in order to find concepts pertaining to equal wealth distribution. Chalil's findings inform that Islamic teachings introduce two kinds of primary distribution systems of income, namely commercially, which follows market mechanism; and one that relies on the aspect of social justice (non-market mechanism). The market mechanism version is related to revenue for the owners of production factors, namely salary or wage, land leasing, and profit; while the non-market mechanism pertains to *zakat* (alms), *infaq*, and *shadaqah* (Chalil, 2009).

In certain literature of development economics, such as Nafziger (1997), Hayami (2001), Todaro (2012), the market mechanism version is familiarly termed functional income distribution or income distribution among owners of production factors. To understand factor prices and income distribution, demand for factors of production should be tested. Because the demand factors emerge from a number of companies using capital and labor, then the decision taken by certain companies in exploiting the factors should be

examined (Mankiw, 2000), so that maximal output can be obtained.

The present research will explore ways to internalize Islamic values into decision makings of Muslim businessmen in determining the amounts of optimal input and output under *mudharabah* scheme. *Mudharabah* is one of the forms of *syirkah* (business cooperation) between *shahibul maal* (capital owners) and *mudharib* (fund managers) restrained by several agreements in the framework of Islamic values.

2. Literature Review

2.1. The Theory of Producer Behavior

In production process, each company is posed with three decisions, namely how much output is to be offered? What kind of technology will be used? and, how much is the demand for inputs? (Case & Fair, 2010). Demand for an input is a type of demand derived from the demand for the resulted output. Companies will use inputs or factors of production up to the level where maximum profit is achieved. Profit in this case is economic profit, namely the difference between Total Revenue (TR) and Total Cost (TC), covering explicit and implicit costs (Frank, 2008; Sukirno, 2002). TR and TC are each a function of the same variable, namely the amount of output resulted (Q). Through a mathematical expression, it will be proven that the maximization of profit is achieved when marginal revenue is equal to marginal cost. Producer behavior theory in conventional economic perspective is condensed with marginal concept, profit maximization, and cost minimization. Islamic teachings have a disparate perspective. According to Choudhury, Islamic economy is laden with ethics originating from Al-Qur'an and Hadith. Production level to meet social needs is related to or limited by rules, both from the aspects of production and consumption, and the necessity of just distribution. The average production will ensure the achievement of social production level. Hence, the classical economic case of "free