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ABU YUSUF'S THEORY OF PRICE FORMATION AND ITS RELEVANCE TO MODERN MARKET MECHANISMS

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Abstrak

Perkembangan ekonomi Islam kontemporer berakar kuat pada warisan intelektual para cendekiawan Muslim klasik yang merespons berbagai persoalan sosial-ekonomi pada masanya. Salah satu tokoh paling berpengaruh dalam tradisi ini adalah Abu Yusuf, yang gagasannya mengenai mekanisme pasar, khususnya penetapan harga, tetap memiliki signifikansi hingga saat ini. Penelitian ini bertujuan untuk mengkaji pandangan Abu Yusuf tentang penentuan harga serta menganalisis relevansinya dalam sistem pasar modern. Penelitian ini menggunakan pendekatan kualitatif dengan metode studi kepustakaan, dengan memanfaatkan literatur klasik dan kontemporer sebagai sumber data utama. Data dikumpulkan melalui teknik dokumentasi dan dianalisis menggunakan analisis isi. Hasil penelitian menunjukkan bahwa Abu Yusuf menentang intervensi langsung pemerintah dalam penetapan harga, dengan mendasarkan argumennya pada hadis Nabi yang menekankan mekanisme pasar yang berjalan secara alami. Ia menegaskan bahwa tingkat harga tidak semata-mata ditentukan oleh volume produksi, tetapi juga dipengaruhi oleh interaksi antara permintaan dan penawaran. Oleh karena itu, harga pasar seharusnya terbentuk melalui persaingan yang adil, bukan melalui penetapan administratif. Meskipun demikian, Abu Yusuf mengakui peran negara sebagai regulator yang bertanggung jawab untuk menjamin keadilan, mencegah praktik monopoli, dan melindungi kemaslahatan publik. Penelitian ini menyimpulkan bahwa pemikiran ekonomi Abu Yusuf tetap relevan dalam mekanisme pasar kontemporer, khususnya dalam mendorong penetapan harga yang etis, mencegah distorsi pasar, dan memperkuat prinsip keadilan dalam perdagangan. Gagasannya memberikan landasan normatif yang penting bagi kebijakan ekonomi modern dengan menempatkan negara sebagai penjaga keadilan, bukan sebagai penentu harga.

Kata Kunci: Abu Yusuf, Penetapan Harga, Intervensi Pemerintah

Abstract

The contemporary development of Islamic economics is deeply rooted in the intellectual legacy of classical Muslim scholars who addressed socio-economic issues in their time. One of the most influential figures in this tradition is Abu Yusuf, whose ideas on market mechanisms, particularly price formation, remain significant. This study aims to examine Abu Yusuf's perspective on price determination and to analyze its relevance to modern market systems. The research employs a qualitative library research design, using classical and contemporary literature as primary sources. Data were collected through documentation and analyzed using content analysis. The findings indicate that Abu Yusuf opposed direct government intervention in price fixing,

grounding his argument in Prophetic traditions that emphasize natural market dynamics. He asserted that price levels are not solely determined by production volume but are also influenced by the interaction between supply and demand. Market prices, therefore, should emerge naturally through fair competition rather than administrative imposition. Nevertheless, Abu Yusuf acknowledged the role of the state as a regulator responsible for ensuring justice, preventing monopolistic practices, and safeguarding public welfare. This study concludes that Abu Yusuf's economic thought remains relevant to contemporary market mechanisms, particularly in promoting ethical pricing, preventing market distortion, and strengthening the principle of fairness in trade. His ideas provide an important normative foundation for modern economic policy by positioning the state as a guardian of justice rather than a price-setting authority.

Keywords: Abu Yusuf; Price Determination; Government Intervention

A. INTRODUCTION

Islamic economics is an integral part of a moral–economic order grounded in the principles of balance (*tawāzun*) and justice (*'adl*), positioning it as a distinct alternative to conventional economic systems. It does not merely seek material efficiency, but aspires to harmonize economic activity with ethical and spiritual values. In this framework, wealth is viewed as a trust (*amanah*) from God, and economic behavior is expected to reflect responsibility, fairness, and social solidarity. This ethical foundation differentiates Islamic economics from purely profit-driven models by embedding moral accountability into market and policy decisions (Ahmadi et al., 2024).

Although Islamic economics as a formal academic discipline emerged in the 1970s, its foundational ideas originate from the Qur'an and Sunnah and have been practiced since the era of the Prophet Muhammad SAW. Early Islamic governance demonstrated concrete applications of these principles through market supervision, fair taxation, public welfare policies, and regulations to prevent exploitation. These historical practices illustrate that Islamic economics is not merely a theoretical construct, but a lived system of economic governance that continues to offer relevant guidance for contemporary macroeconomic policy and market regulation.

One of the core concerns of Islamic economic thought is the mechanism of market and price formation. The Prophet Muhammad explicitly rejected price fixing, emphasizing that prices should be determined naturally by market forces under divine order (HR. Ibn Mājah). This principle underscores the role of supply–demand dynamics while simultaneously embedding ethical constraints to prevent injustice and market distortion.

Among early Muslim scholars, Abu Yusuf (d. 798 M) stands out as one of the earliest thinkers who systematically discussed price formation and market autonomy. In *Kitāb al-Kharāj*, he rejected state price intervention and argued that

prices are not solely determined by the quantity of goods but by complex demand dynamics and divine order. He observed that abundance does not always lead to lower prices, nor does scarcity automatically cause price increases, indicating a more nuanced understanding of market behavior than simple classical supply demand assumptions (Mukaromah & Rizal, 2021).

In the context of modern markets particularly the rapid growth of modern retail systems that reshape consumer behavior and price structures the relevance of Abu Yusuf's theory becomes increasingly significant. This study therefore aims to analyze Abu Yusuf's theory of price formation and examine its relevance to contemporary market mechanisms, contributing to the discourse on ethical and autonomous market governance within Islamic economics.

B. THEORETICAL FRAMEWORK

Islamic Economics

Economics originates from the Greek terms *oikos* (household) and *nomos* (management), referring to the management of resources to fulfill human needs. In modern economic theory, economics is understood as a social science that examines human behavior in allocating limited resources to satisfy unlimited needs (Mannan, 1987).

Islamic economics is a normative–positive discipline grounded in the Qur'an and Sunnah, integrating material welfare with moral and spiritual values. It views economic activity as an inseparable part of religious life and defines economics as a means to achieve comprehensive welfare (*falah*). According to Manan (1980), Islamic economics studies economic problems based on Islamic values; Chapra defines it as a system aimed at realizing human well-being through just and efficient allocation and distribution of resources; while Naqvi emphasizes its focus on Muslim economic behavior in modern society. Thus, Islamic economics integrates material efficiency, social justice, and ethical responsibility into a unified economic framework (Khan, 2023).

Islamic economics is guided by fundamental principles that shape market behavior and economic governance. These principles include (Mannan, 1987):

a. Tawhid (Divine Unity): All resources belong to Allah, and economic activities must reflect accountability before God.
b. Justice (*'Adl*): Economic transactions must prevent exploitation and ensure fair treatment of all parties.
c. Responsibility (*Mas'uliyyah*): Economic actors are accountable to God, society, and the environment.

d. Truthfulness and Honesty: Transparency and integrity form the ethical foundation of business transactions.
e. Mutual Consent (*Taradhi*): Transactions must be based on free will without coercion.
f. Prohibition of Riba: Islam forbids usury as it contradicts justice and social welfare (Q.S. Ar-Rum:39).

These principles ensure that market mechanisms operate within ethical boundaries while promoting equitable distribution and sustainable welfare.

Islamic Economic Thought

Islamic economic thought represents the cumulative intellectual efforts of Muslim scholars in formulating economic principles grounded in Qur'anic and Prophetic guidance. It is not a static body of doctrine, but a dynamic and context-responsive tradition that continuously engages with changing social and economic realities. The primary objective of this intellectual tradition is the realization of *maslahah* (public welfare), which serves as a normative compass for directing economic behavior toward the attainment of comprehensive human well-being.

The Qur'an functions as the main normative reference in shaping Islamic economic thought. It provides foundational principles that emphasize equitable distribution of wealth, social responsibility, and moral accountability in economic activities. Within this framework, Islam strictly prohibits exploitative practices such as *riba* (usury) and *gharar* (excessive uncertainty), as these practices undermine justice, distort market fairness, and harm vulnerable segments of society (Wilson, 2019). Consequently, economic transactions are expected to uphold transparency, fairness, and mutual benefit.

Several key theoretical constructs further articulate the ethical and institutional dimensions of Islamic economics. The concept of *maslahah* underlines the pursuit of collective welfare, while *gharar* functions as a regulatory principle that discourages speculative and deceptive transactions. *Tadbir al-mal* (responsible wealth management) emphasizes prudent and productive use of resources, ensuring that wealth circulation contributes positively to economic stability and social development (Elbanna & Syukur, 2025).

In addition, institutional instruments such as zakat and waqf strengthen the redistributive and social solidarity dimensions of Islamic economics. Zakat operates as a mandatory mechanism for wealth redistribution, reducing inequality and supporting vulnerable groups, while waqf promotes long-term social investment in education, health, and public services. Together with community-based economic solidarity, these principles establish justice, transparency, and sustainability as

central values, positioning Islamic economic thought as both ethically grounded and socially responsive.

Price Formation Mechanism in Islamic Economics

Price in Islamic economics is defined as the monetary value that emerges from mutual agreement between buyers and sellers through free and fair market interaction. Prices are formed through negotiation processes that reflect the equilibrium between supply and demand, allowing market forces to operate naturally. This mechanism recognizes the autonomy of market participants in determining value while ensuring that transactions remain voluntary and transparent. Thus, price formation is not merely an economic process, but also a social interaction shaped by trust and reciprocity (Rosana, 2023).

Islamic teachings place strong emphasis on ethical boundaries within the price formation process. Honesty (*sidq*), justice (*'adl*), and mutual consent (*taradhi*) are fundamental principles that must guide all market transactions. Rasulullah SAW explicitly discouraged fraudulent behavior, price manipulation, hoarding, and coercive practices that could distort market balance or harm consumers. These ethical injunctions aim to prevent exploitation and to ensure that pricing reflects genuine market conditions rather than artificial scarcity or unfair advantage (Yuldashev, 2021).

By embedding moral responsibility into market mechanisms, Islamic economics seeks to create a pricing system that not only achieves efficiency but also promotes social welfare. Ethical price formation safeguards the rights of both producers and consumers, fosters market stability, and encourages long-term trust within economic relations. Consequently, price is viewed not simply as a tool of exchange, but as a moral instrument that reflects justice, accountability, and social harmony in economic life.

Modern Market

Modern markets are increasingly characterized by digitalization, global integration, and the use of data-driven strategies in business decision-making. The rapid growth of e-commerce platforms, financial technology, and digital payment systems has transformed the way goods and services are exchanged, enabling transactions to occur across geographical boundaries with unprecedented speed and convenience. At the same time, consumers have become more empowered, as access to information allows them to compare prices, evaluate product quality, and influence market trends through reviews and digital feedback (Zunaidi, 2021).

These transformations significantly redefine price dynamics and market efficiency. Algorithms, big data analytics, and artificial intelligence now play a major role in determining pricing strategies, forecasting demand, and managing supply chains. Competition has intensified not only at the local and national levels but also on a global scale, compelling firms to continuously innovate and adjust prices to remain competitive. While these developments increase efficiency and broaden market access, they also create new forms of market concentration and power asymmetry between large digital platforms and smaller market participants (Elbanna & Syukur, 2025).

Alongside these benefits, modern markets generate ethical challenges that demand serious attention. Issues related to data privacy, consumer manipulation, environmental sustainability, and market dominance increasingly shape public debate and regulatory policies. In this context, Islamic ethical frameworks which emphasize justice, transparency, accountability, and social responsibility become highly relevant. These values offer normative guidance for addressing the moral implications of digital and globalized markets, helping to ensure that economic efficiency does not come at the expense of human dignity and social welfare.

Abu Yusuf's Theory of Price Formation

Abu Yusuf, through his seminal work *Kitab al-Kharaj*, is recognized as one of the earliest Muslim scholars who systematically examined market mechanisms and price formation. His analysis went beyond a simplistic understanding of market behavior and offered an advanced perspective for his time. He argued that prices are not determined solely by the quantity of goods available in the market, but are influenced by complex demand dynamics and broader socio-economic conditions operating under divine order (Nur, 2020).

Contrary to the conventional assumption that scarcity inevitably leads to higher prices and abundance to lower prices, Abu Yusuf emphasized that such relationships are not absolute. He observed that in certain circumstances, goods could be abundant yet remain expensive, or scarce yet remain inexpensive. This insight reflects his recognition of multiple variables shaping market outcomes, including purchasing power, money circulation, and behavioral factors among market participants. His view therefore anticipates modern economic perspectives that treat price formation as a multifactorial and dynamic process (Anisa, 2024).

In terms of public policy, Abu Yusuf advocated minimal government intervention in price setting. He maintained that market autonomy should be preserved as long as transactions remain just and free from exploitation. For Abu Yusuf, excessive state interference risks distorting natural market equilibrium and undermining fairness,

whereas the proper role of the state lies in ensuring ethical conduct, preventing fraud, and protecting public welfare (Amrin et al., 2021).

His theory highlights ethical market freedom, transparency, and consumer protection as fundamental pillars of Islamic price governance. By integrating moral responsibility with economic efficiency, Abu Yusuf provides a normative framework that remains highly relevant for evaluating modern market mechanisms. His thought thus offers a foundational basis for developing pricing policies that are not only efficient, but also socially just and ethically grounded (Amani, 2023).

C. RESEARCH METHOD

This study employs a library research design with a qualitative–descriptive analytical approach. It examines classical and contemporary texts to analyze Abu Yusuf's theory of price formation and its relevance to modern market mechanisms. The descriptive stage outlines Abu Yusuf's conceptual framework, while the analytical stage evaluates its contemporary applicability (Mistry, 2012).

Data are derived from; 1) Primary sources: Abu Yusuf's original works, particularly *Kitab al-Kharaj*; 2) Secondary sources: Scholarly books, journal articles, and relevant academic publications that discuss Islamic economic thought, market mechanisms, and modern pricing systems. This study was conducted through library-based research using institutional libraries and online academic databases such as Google Scholar, JSTOR, and ProQuest. The research was completed within a six-month period (Hakim, 2012).

Data were collected through literature review and documentation, involving systematic identification, classification, and recording of relevant texts related to Abu Yusuf's economic thought and modern market pricing. Data credibility was ensured through prolonged engagement with sources, peer debriefing, and triangulation of references, applying credibility, transferability, dependability, and confirmability criteria. This study applies content analysis to interpret classical texts and modern literature. The analytical stages include problem formulation, conceptual mapping, methodological structuring, data analysis, and interpretation to draw valid and replicable conclusions (Leavy, 2014).

D. RESULTS AND DISCUSSION

RESULTS

Abu Yusuf (Ya'qub ibn Ibrahim, 113–182 H / 731–798 M) was a prominent Hanafi scholar born in Kufah and later active in Baghdad. He was a leading student of Abu Hanifah and later became the first *Qadhi al-Qudhat* (Chief Justice) of the Abbasid Caliphate under Harun al-Rashid. His scholarly authority and judicial leadership

positioned him as a central figure in the development of Islamic legal and economic thought. Abu Yusuf studied under major scholars in Kufah and Madinah, notably Abu Hanifah and Malik ibn Anas. His academic formation combined the rational (*ra'y*) and hadith traditions, shaping his independent and critical approach to legal and economic reasoning. His principal works include *Kitab al-Kharaj*, *Al-Athar*, *Al-Masa'il*, and *Al-Fiqh al-Akbar*. Among these, *Kitab al-Kharaj* is the most influential, providing foundational insights into public finance, taxation, and market governance in Islam. Abu Yusuf emphasized public finance, just taxation, state responsibility for welfare, and ethical governance. He advocated infrastructure-oriented fiscal policy, opposed exploitative practices, and stressed accountability of rulers in managing public resources.

DISCUSSION

Abu Yusuf rejected direct government price fixing, arguing that prices are shaped by complex market dynamics under divine order. He challenged simplistic supply–demand assumptions, emphasizing that abundance does not always lower prices nor scarcity necessarily raise them. He highlighted multiple variables influencing prices, including purchasing power, money circulation, and hoarding practices, underscoring the multifactorial nature of market behavior.

Abu Yusuf's theory remains highly relevant in modern markets in several dimensions:

a. Market Autonomy: Supports non-excessive state intervention and price formation through market mechanisms.
b. Price Complexity: Anticipates modern views on inflation, monetary factors, and consumer behavior.
c. Public Welfare: Aligns with contemporary concerns for social protection and consumer rights.
d. Ethical Pricing: Reinforces transparency, fairness, and anti-exploitation norms in modern business.
e. Adaptive Markets: Encourages flexibility and responsiveness to market fluctuations.

Overall, Abu Yusuf's thought provides a robust ethical–economic framework for developing fair, efficient, and socially responsible pricing policies in contemporary market systems.

E. CONCLUSION

Abu Yusuf's theory of price formation demonstrates that market prices are shaped not solely by the interaction of supply and demand, but also by broader social,

monetary, and behavioral factors. Through *Kitab al-Kharaj*, he articulated a nuanced understanding of market dynamics, emphasizing that price movements cannot be reduced to simple quantitative relationships. He advocated market autonomy as a natural mechanism for achieving equilibrium, while simultaneously stressing the importance of ethical governance to prevent injustice, manipulation, and exploitation. In this framework, minimal state intervention is justified not as a withdrawal of responsibility, but as a means of preserving the integrity of natural market processes.

More importantly, Abu Yusuf integrated economic efficiency with moral responsibility, asserting that economic policy must balance market freedom with justice and public interest. His thought positions ethics as an inseparable component of economic governance, ensuring that efficiency does not undermine social welfare. These principles remain highly relevant in modern market mechanisms, particularly in the context of globalized and digital economies that face challenges related to inequality, consumer protection, and sustainability. As such, Abu Yusuf's ideas offer a normative–ethical foundation for developing pricing policies that are not only efficient, but also socially just and sustainable

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