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An Exploratory Study of the Risks and Benefits of Speculative Business from the Perspectives of the Muslim Community

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Abstract
Speculative business has become increasingly prominent in modern economies, particularly in stock markets, derivatives, foreign exchange, and cryptocurrencies. While such activities may enhance market liquidity and price discovery, they also pose significant ethical, economic, and social risks. From an Islamic perspective, all economic activities must comply with Shari'ah principles that emphasise justice, transparency, and societal welfare. This study aims to examine the risks and benefits of speculative business within the framework of Islamic jurisprudence by analysing its compatibility with the prohibitions of ribā, gharar, and maysir, as well as the broader objectives of maqāṣid al-Sharīʿah and maṣlaḥah (public interest). The research employs a qualitative desk-review methodology, systematically analysing classical fiqh al-muʿāmalāt texts, primary Shari'ah sources, and contemporary literature on modern financial instruments. The findings indicate that although speculation can contribute to market efficiency and innovation when conducted responsibly and within ethical boundaries, it frequently leads to excessive volatility, wealth inequality, market instability, and violation of core Shari'ah principles. The study concludes by proposing viable Shari'ah-compliant alternatives—such as mushārakah, muḍārabah, and asset-backed investments—that balance risk-taking with ethical responsibility and real economic productivity.

Introduction

Islam is not just a religion; it is a comprehensive way of life that deeply values ethical business conduct. Islam outlines clear and practical guidelines for commercial dealings, known as the "Principles of Business in Islam." These principles are regarded as a timeless formula for achieving success through honesty, fairness, and social responsibility. In Islamic socioeconomic societies, the entire pillar of trade finance relies on ethical and moral principles. Islamic *Tawheed* (Islamic principle of monotheism) is the soul of all trades and transactions. Almighty Allah has undoubtedly defined in the Qur'an all the actions that should be implemented by merchants or sellers while dealing with customers or buyers.[1]

Speculative business involves engagement in markets where assets are bought and sold with the anticipation of price changes, allowing traders to capitalize

[1] Hamed Atta, "An Examination of the Effect of Islamic Ethical Screens on Financial Performance and of Conditioning Information on Performance Measures" (University of Durham, 2000).

on market fluctuations. Common examples of this include day trading in stock markets, real estate flipping, and cryptocurrency investments. While such activities can yield significant profits, they also carry inherent risks that can destabilize markets.[2] Speculation is a common feature of contemporary business and financial systems. It involves engaging in transactions with the expectation of profiting from future price movements rather than from direct participation in productive economic activity. Although speculation is often associated with innovation, liquidity, and price discovery, it can also result in excessive risk-taking, financial instability, and social inequality.[3]

Islamic economics presents a moral and legal framework that regulates business conduct to ensure fairness and societal well-being. Unlike conventional economic systems that emphasize profit maximization, Islam integrates ethical considerations into economic decision-making. This paper explores speculative business activities from an Islamic perspective, assessing their compatibility with Shari'ah principles and evaluating both their risks and benefits.[4] Speculative business, characterized by trading in assets to achieve short-term gains, plays a significant role in financial markets today. However, this practice raises important questions within Islamic finance, which emphasizes ethical considerations, risk management, and the prohibition of excessive uncertainty. This article discusses the risks and benefits of speculative business through an Islamic lens.[5]

The Islamic principles of business are straightforward, and they include sincerity with customers, rational transactions, kindness in business contracts, fair management with workers, respect, authentic and lawful business practices, etc. Muslims should obey the system and guidelines for business transactions stated by the Qur'an and Hadith that guarantee business success.

This study presents a novel contribution to the discourse on speculative business in Islamic economics in several important ways. First, unlike many existing studies that focus narrowly on the prohibition of speculation through the lenses of *riba*, *gharar*, and *maysir*, this paper adopts a balanced analytical approach by examining both the risks and conditional benefits of speculative business within Islamic ethical boundaries. This dual analysis allows for a more nuanced understanding of speculation rather than a purely prohibitive stance.

Also, the study integrates classical Islamic jurisprudential principles with contemporary financial realities, particularly modern speculative instruments such

[2] William J. Baumol, "Speculation, Profitability, and Stability," *The Review of Economics and Statistics*, 1957, 263–71.
[3] Milton Friedman, "In Defense of Destabilizing Speculation," dalam *Essays in Economics and Econometrics* (1960).
[4] Z. Ahmad, "Speculative Business Transactions and Islamic Finance: A Transaction Based to a Principle Based Approach," dalam *Handbook on Islam and Economic Life* (Edward Elgar Publishing, 2015).
[5] S. Al-Suwailem, "Speculation in Islamic Finance: Conventional Perspective and the Islamic Alternative," *Journal of Islamic Accounting and Business Research* 4, no. 4 (2018): 490–504.

as derivatives, foreign exchange trading, and cryptocurrencies. By contextualizing traditional Islamic legal concepts within modern financial markets, the paper bridges a critical gap between classical *fiqh al-muʿamalat* and contemporary economic practices.

In addition, the research emphasizes the concept of *maslahah* (public interest) as an evaluative framework for assessing speculative activities. This perspective moves beyond individual contract permissibility to examine broader socio-economic consequences, including market stability, wealth distribution, and ethical finance an aspect often underexplored in existing literature.

Not only that, the paper proposes practical Shari'ah-compliant alternatives to speculative business, not merely as theoretical constructs but as viable mechanisms for risk management and wealth creation in modern economies. By highlighting instruments such as *musharakah, mudarabah*, and asset-backed investment models, the study contributes to applied Islamic finance discourse. Finally, the study offers relevance to emerging and developing economies, where speculative activities are rapidly expanding without adequate ethical regulations. This contextual focus adds originality by addressing how Islamic principles can guide financial practices in such environments, thereby contributing to sustainable and socially responsible economic development.

Literature Review

Based on the research of Amir Kia, he found evidence of high speculation in the capital market in Canada, as indicated by bubble prices. This causes stock prices to no longer reflect fundamental information of company anymore.[6] Amir Kia also explained that speculation in Islamic perspective is related to unstable of the price and inefficient market. It can be examined empirically from the existence of bubble prices relative to dividend observations.[7] The speculation practice in secondary market was done by speculator and it causes fluctuating prices then harms the common people, because of their hope to get the profit. Speculation practice is forbidden in Islamic financial practice because it contains elements of deceit.[8] This thing explains that speculation is a forbidden practice because it is still included in *ġarar* and *maysir*.

Iqbal explained that "when ġarar happened in one contract, so maysir usually will be the part of those practice". The principle of transaction in Islam is fairness, but *ġarar* and maysir practices cause injustice and unfairness. Ethical investment considered as an important thing is able to decrease speculation, because ethical investment is long-term oriented.[9] It means that when the inventor commits to invest, buying and selling stocks on the secondary market in a short time. The investor will not react much when there is any information in the market, because the orientation of ethical investment is investment commitment, not only

[6] K. Amir, "Speculative Activities, Efficiency and Normative Stock Exchange," *J.KAU: Islamic Economic* 13 (2001): 31–50.
[7] K. Amir, *Islam and the Stock Market: Evidence from the United States*, no. Work paper (Woodbury School of Business, 2012), 1–37.
[8] I. Muhammad, *Dasar-dasar Keuangan Islam* (Ekonisia, 2004).
[9] M. Iqbal, *Asurasi Umum Shariah dalam Praktik, Upaya Menghilangkan Ġarar, Maysir dan Riba* (Gema Insani, 2006).

the profit. Velden and Buul explained that ethical investment can increase the investment commitment in long period on certain portfolio.[10] Through the investment in long period orientation, it can decrease the price volatility, because the investors are not interested to do stock trading in a short time.

Ahmad, citing Forbes, describes speculative business as a high-risk strategy where individuals or organizations allocate capital to financial instruments, real estate, or other assets with the expectation of significant returns, often in a short period.[11] This type of investment involves a level of risk that exceeds what is typically seen in more conservative investment strategies. Speculative investments are not for the faint-hearted and require a high tolerance for risk and volatility.

One of the key characteristics of speculative investment is the element of uncertainty. Unlike traditional investments where historical data and performance metrics can guide decision-making, speculative investments are driven by speculation and market sentiment. Investors often rely on market trends, rumors, and personal intuition rather than concrete financial analysis when making decisions. In Islamic finance, speculative business is considered a controversial topic as it goes against the principles of Shariah law which prohibits gambling, uncertainty, and excessive risk-taking. This paper aims to explore the risks and benefits of speculative business from an Islamic perspective.

Jaradat also proved that there were positive bubbles in the Jordan stock market.[12] This is similar to Mokhtar's findings in the Malaysian stock market. All of those researchers proved that there is a big effect of bubble price in market.[13] Previous research still showed inconsistencies among researchers. Although the previous researches used similar measurement and approach, such as bubble measurement on hazard model in the research of Kamari, Farhad and Mohammad research compared with Jaradad's research and Mokhtar, they are in different side.[14] It is same with using the price-to-dividend ratio approach with cointegration analysis has done by Engsted and Nielsen when compared with Kia's research, the results showed significant differences.[15]

Research Methodology

This study employs a qualitative desk review methodology, prioritizing a systematic analysis of academic literature and primary Shari'ah sources to explore the intersections of speculative business and Islamic jurisprudence. Unlike traditional survey-based research that relies on interviews or questionnaires, this

[10] A. V. Velden dan O. V. Buul, "Really Investing for the Long-Term: A Case Study," *Rotman International Journal of Pension Management* 5, no. 1 (2012): 50–57.
[11] Forbes, *The Risks and Rewards of Speculative Investing*, 2021, https://www.forbes.com/speculative-investing-risk-reward.
[12] M. A. Jaradat, "An Empirical Investigation of Rational Speculative Bubbles in the Jordanian Stock Market: A Nonparametric Approach," *International Management Review* 5 (2009): 92–98.
[13] S. H. Mokhtar, "Detecting Rational Spekulative Buble in the Malaysian Stock Market," *Journal of Financial and Economic*, no. 6 (2006): 102–15.
[14] F. Kamari dkk., "Studying the Relation of Indices and Duration Dependence Test in Tehran Stock Exchange," *International Research Journal of Applied and Basic Sciences* 4 (2013): 2494–500.
[15] T. Engsted dan B. Nielsen, "Testing for Rational Bubbles in a Co-Explosive Vector Autoregression," *The Econometrics Journal*, 2012, 154–62.

approach focuses on the rigorous selection of scholarly materials based on their relevance to Maqasid al-Shari'ah and modern financial instruments. By establishing specific criteria for source inclusion, the researchers ensure a credible and high-quality foundation for evaluating the ethical implications of speculative activities. The analytical process involves a deep thematic evaluation to bridge the gap between classical fiqh al-muʿamalat and the realities of contemporary financial markets. Through critical synthesis, the researchers analyze and elaborate on the gathered data to identify how traditional legal concepts apply to modern economic shifts. This systematic investigation culminates in the formulation of Shari'ah-compliant alternatives and a comprehensive summary of research outcomes, providing a structured framework for future inquiry into the sustainability of Islamic economics.

Results and Discussion

Understanding Islamic Finance

Islamic banking is governed by Islamic law known as Shari'ah, which was established approximately 1,400 years ago. It aims to provide banking services while staying within the Sharia boundaries. The law has been specifically formulated to eliminate malpractice and exploitation while encouraging healthy trade and commerce. While Sharia is a complete set of laws that are to be followed by every Muslim, only a restricted portion pertaining to banking transactions applies to Islamic finance.

The Islamic Financial System

Financial services that meet the requirements of the Shari'ah, or Islamic law are called Islamic finance. While designed to meet the specific religious requirements of Muslim customers, Islamic banking is not restricted to Muslims: both the financial services provider and the customer can be non-Muslim, as well as Muslim. Shari'ah-compliant financing (SCF) constitutes financial practices that conform to Islamic law. Major principles of shari'ah law that are applicable to finance and that differ from conventional finance are: In conventional forms of finance, a distinction is made between acceptable interest and usurious interest (i.e., excessive rates of interest).[16] In contrast, under Islamic law, any level of interest is considered to be usurious and is prohibited. Some question how lenders can profit from financial transactions under Islamic law. Take for instance, in a real estate setting; SCF takes the form of leasing, as opposed to loans. Instead of borrowing money, the bank obtains the property and leases it to the shari'ah-compliant investor, who pays rent instead of interest.[17] Ban on Uncertainty: Uncertainty in contractual terms and conditions is not allowed, unless all of the terms and conditions of the risks are

[16] V. Sunderarajan, "Risk Characteristics of Islamic Products Implications for Risk Measurement and Supervision," dalam *Islamic Finance: The Regulatory Challenge*, ed. oleh A. Simon dan R. A. Abdel Karim (Wiley, 2007).
[17] M. U. Draz dkk., *The Prevailing Skepticism about Islamic Banking and the Re-assessment of Interest-Free Financial Products: An Explanatory Study* (Kuala Lumpur/Lanzhou/Lahore, 2011).

clearly understood by all parties of a financial transaction. This condition may help eliminate most of the speculative transactions which involve *gharar* (excessive uncertainty). Parties involved in a financial transaction must share both the associated risks and profits. Earnings from profits or returns from assets are permitted, so long as the business risks are shared by the lender and the borrower. This will help ensure that the seller (or lessor) also shares a part of the risks in order to be able to get a share of the returns. Once the seller (financier) acquires ownership and possession of the goods for sale or lease, they bears the risks. Investment in industries that are prohibited by Allah as stated in the Qur'an, such as alcohol, pornography, gambling, and pork based products, are discouraged. Each financial transaction must be tied to a "tangible, identifiable underlying asset.[18] The debt cannot be sold, and thus the risk associated with it cannot be transferred to someone else; it must be borne by the creditor himself. According to this condition a transaction must be a genuine trade transaction, and the fact that the creditor cannot transfer the risk to someone else by selling off the debt, will also help eliminate speculative and derivative transactions, as well as prevent the debt from rising far above the size of the real economy.[19]

Speculative Business

Speculative business is a term used to describe a type of entrepreneurial venture that involves a higher level of risk than typical business ventures.[20] Speculative businesses often involve investment in new, untested, or experimental products, services, or technologies with the potential to deliver significant returns but also the risk of significant losses.[21] Of course, speculative business ventures also come with significant challenges. One of the biggest challenges is the uncertainty associated with these ventures. Because the products or services being developed are untested, it can be difficult to predict market demand or potential returns. This uncertainty can make it difficult to secure financing or to convince investors to take a chance on the venture.[22]

Principles of Business in the Qur'an and Hadith

Allah has stated the lawfulness of the business in the Quran. The Islamic principles of business in the Qur'an and Hadith emphasize honesty, fairness, and integrity in all transactions. The Qur'an encourages trade and economic activity but stresses the importance of avoiding deceit, fraud, and exploitation. Fair dealing,

[18] M. U. Draz dkk., *The Prevailing Skepticism about Islamic Banking and the Re-assessment of Interest-Free Financial Products: An Explanatory Study* (Kuala Lumpur/Lanzhou/Lahore, 2011).
[19] A. Ernst, *Promoting Islamic Finance and Islamic Banking – A legal analysis of the potential for Islamic Banking products in Germany* (Institut für Rechtspolitik an der Universität Trier, 2011).
[20] M. Saeed dkk., "International Marketing Ethics from an Islamic Perspective: A Value-Maximization Approach," *Journal of Business Ethics* 32, no. 2 (2001): 127–42.
[21] N. Kamel, "Intrinsic Bubbles in the American Stock Exchange: The Case of S&P 500 Index," *International Journal of Economics and Finance* 3, no. 1 (2011): 124–32.
[22] T. Engsted dan C. Tanggaard, *Speculative Bubbles in Stock Prices. Test Based on the Price-Dividend Ratio* (Arhus School of Business, Lund University, 2004).

mutual consent, and transparency are core principles of business in Islam, as highlighted in the following verses of the Quran and Hadith:

> But Allah has permitted trading and forbidden interest.[23]
>
> Do not mix truth with falsehood or hide the truth knowingly.[24]
>
> Woe to the defrauders! Those who take full measure when they buy from people, but give less when they measure or weigh for buyers.[25]
>
> Give in full when you measure, and weigh with an even balance. That is fairest and best in the end.[26]
>
> Allah has made interest fruitless and charity fruitful.[27]
>
> O believers! Do not devour one another's wealth illegally, but rather trade by mutual consent.[28]

In Hadith, the Prophet (May peace and blessings of Allah be upon him) is reported to have said:

> The trustworthy, honest Muslim merchant will be with the martyrs on the Day of Resurrection.[29]
>
> He thrust his hand in that (heap) and his fingers were moistened. He said to the owner of that heap: "What is this?" He replied: Messenger of Allah (ﷺ), these have been drenched by rainfall. He (the Holy Prophet (ﷺ)) remarked: "Why did you not place this (the drenched part of the heap) over other eatables so that the people could see it? He who deceives is not of me (is not my follower).[30]

[23] M. T. Al-Hilali dan M. M. Khan, *Translation of the Meanings of the Noble Qur'an in the English Language* (King Fard Complex for the Printing of the Holy Qur'an, 2002).
[24] M. T. Al-Hilali dan M. M. Khan, *Translation of the Meanings of the Noble Qur'an in the English Language* (King Fard Complex for the Printing of the Holy Qur'an, 2002).
[25] M. T. Al-Hilali dan M. M. Khan, *Translation of the Meanings of the Noble Qur'an in the English Language* (King Fard Complex for the Printing of the Holy Qur'an, 2002).
[26] M. T. Al-Hilali dan M. M. Khan, *Translation of the Meanings of the Noble Qur'an in the English Language* (King Fard Complex for the Printing of the Holy Qur'an, 2002).
[27] Ibid.
[28] M. T. Al-Hilali dan M. M. Khan, *Translation of the Meanings of the Noble Qur'an in the English Language* (King Fard Complex for the Printing of the Holy Qur'an, 2002).
[29] M. T. Al-Hilali dan M. M. Khan, *Translation of the Meanings of the Noble Qur'an in the English Language* (King Fard Complex for the Printing of the Holy Qur'an, 2002).
[30] M. T. Al-Hilali dan M. M. Khan, *Translation of the Meanings of the Noble Qur'an in the English Language* (King Fard Complex for the Printing of the Holy Qur'an, 2002).

> When you buy (or sell) something, say: There should be no intention of cheating.[31]
>
> The trustworthy, honest Muslim merchant will be with the martyrs on the Day of Resurrection.[32]

The Origin of Risks in Islamic Finance

The origin of risks has been discussed in western academic works such as those of Thompson,[33] and Althaus.[34] In historical literature, despite being described as a phenomenon in its own way, risk is also used as a framework where events and issues can be analyzed. Not only that the notions of risk have been applied practically without having a specific terminology to describe their action. The concept is found to be practiced since the days of the earliest civilizations (BC) until the existence of a specific terminology to define that concept. Thus, it is also widely used in Islamic financial system today. Trimpop revealed that the concept of risk has been a concern for humanity from the earliest days of recorded history. It most likely took place even before that.[35] Among early recordings, Asipu (the scholars and practitioners of diagnosis and treatment in Tigris-Euphrates valley) in Mesopotamia has dealt with risk prediction and management as early as 3,200 BC. They employed approaches which included identifying the importance of a problem, designing alternative actions and collecting data on likely outcomes. For example, these included profit or loss and success or failure. As such, the early recording of risk concepts has also been practiced in law such as in the Code of Hammurabi and in protection plans from natural disasters as a kind of insurance practices in 5th century (BC) in Chinese, Greek, early Roman, and other ancient civilizations. Apart from several doctrines on laws and informal regulations for human interactions, the code also formulated contract of an arrangement when the owner of a ship borrows money and uses the ship itself as collateral for vehicles and cargo besides an interest rate and risk premium for the chance of loss. Until that period in time, the concept of risk was yet to be defined until a specific terminology related to risk appeared in the period of 15th to 19th centuries.[36]

In Islamic finance, many studies such as the ones conducted by Khan and Ahmed,[37] Sundararajan and Errico,[38] have focused on risks that are particularly

[31] M. T. Al-Hilali dan M. M. Khan, *Translation of the Meanings of the Noble Qur'an in the English Language* (King Fard Complex for the Printing of the Holy Qur'an, 2002).
[32] Ibid.
[33] P. B. Thompson, "The Philosophical Foundations of Risk," *Southern Journal of Philosophy* 24 (1986): 273–86, https://doi.org/10.1111/j.2041-6962.1986.tb01566.x.
[34] C. E. Althaus, "A Disciplinary Perspective on the Epistemo Logical Status of Risk," *Risk Analysis* 25 (2005): 567–88, https://doi.org/10.1111/j.1539-6924.2005.00625.x.
[35] R. M. Trimpop, *The Psychology of Risk Taking Behaviour* (North-Holland, 1994).
[36] R. M. Trimpop, *The Psychology of Risk Taking Behaviour* (North-Holland, 1994).
[37] R. M. Trimpop, *The Psychology of Risk Taking Behaviour* (North-Holland, 1994).
[38] A. A. Tariq, "Managing Financial Risks of Sukuk Structures" (Loughborough University, UK, 2004), http://kantakji.com/media/7829/f216.pdf.

aimed at being controlled risks and how to manage them in a way of that reduces "bad effect" in decision making. Due to that, the issue of how the risk originally exists and why it is perceived as a bad effect instead of a good one should first be answered. Although the concept of risk from western studies originally derived from the fate or will given by Allah, it was found that they have limited sound evidence to categorize the Allah's will (risk) as an unfavorable result.[39] Therefore, there is a need to discuss on what the meaning of Allah's will is from an Islamic perspective in the context of risk to identify the basic concept of a risky situation, whether it really produces a good or bad outcome. In Islam, a set of evidence related to the origin of risk can be identified from the command of Allah in a Qur'anic verse:

> And spend in the cause of Allah (i.e. *Jihad* of All kinds, etc.) and do not throw yourselves into destruction (by not spending your wealth in the Cause of Allah), and do good. Truly, Allah loves *Al-Muhsinun* (the good-doers). [40]

From this verse, Allah explained that He does not allow us to throw ourselves into destruction. The meaning of destruction here is very close to an earlier description of *khatr*, which is an exposure to damage. Noting that, the concept of risk itself has already been recorded in the Qur'an through Allah's command which means a bad outcome. It is proven to answer the issue of whether a risk brings about a good or bad outcome. In a specific context of risk, if a product or service was exposed to damage and not being managed properly, it will face destruction. This discussion shows that the verse of Al-Baqarah (2:195) is proven to describe risk as unfavorable outcome. Therefore, risk in conventional practice slightly differs from Islamic practice in terms of this evidence.[41]

There is a Hadith supporting the verse Al-Baqarah (2:195) where it describes the practice of risk management. An example of the concept of risk management in Islam can be explained through the famous command from Prophet (May peace and blessings of Allah be upon him) to a Bedouin. The Prophet (May peace and blessings of Allah be upon him) asked the Bedouin why he left the camel untied. The Bedouin answered, "I trust in Allah." Hence, the Prophet (May peace and blessings of Allah be upon him) said, "Tie your camel, then trust in Allah." From the Hadith, it explained that Prophet (May peace and blessings of Allah be upon him) commanded the Bedouin not to leave his camel untied then trust in Allah. Instead, the Bedouin was commanded to tie his camel then put his trust in Allah. It clearly shows that even though everyone should rely on Allah's will, people should always think clearly and wisely to make the best decision for their actions in certain circumstances as long as it does not violate the Shari'ah rules. The Hadith is significant in declaring the

[39] S. Al-Suwailem, "Risk in a Turbulent World: Insights from Islamic Finance," dalam *Islamic Finance: The New Regulatory Challenge*, ed. oleh S. Archer dan R. A. A. Karim (John Wiley, 2013).
[40] M. T. Al-Hilali dan M. M. Khan, *Translation of the Meanings of the Noble Qur'an in the English Language* (King Fard Complex for the Printing of the Holy Qur'an, 2002).
[41] M. Y. Hidrus dan A. Abd Rahman, "Pengamalan Pengurusan Risiko Kredit Serta Hubungan Terhadap Kesan Kecekapan di Insti Tusi Perbankan dan Dewangan Malaysia," 3 (2013): 1375–400.

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Prophet's order to his people to practice the rules with diligence to reduce unpleasant future outcomes.[42]

According to the above Qur'anic verse and Hadith, in both cases, Allah's will can be roughly classified as an unpleasant outcome to humans due to their actions where they are not alert to the probability of an unfavorable outcome to occur. It should be managed in the best way to reduce terrible damages. In another Qur'anic verse, Allah also gave a guide on how to manage risks in general. Furthermore, Allah stated in the Qur'an in relation Prophet Ya'kub and He said:

> O my sons! do not enter by one gate, but enter by different gates, and I cannot avail You against Allah at all. Verily! the decision rests only with Allah. In him, I put my trust and let all those that trust, put their trust in Him.[43]

This verse explained Prophet Ya'kub's advice to his sons to make the best plan and seek various alternatives so that they will not fall into danger. It depicts a variety of approaches to manage and reduce risks. Since the sets of evidence of risk management have been presented, risk is believed to exist earlier than that. It took place earlier but was unofficially known as "risk." In Islam, risk management is essential in financial transactions. It falls within the ambit of one of the highest objectives of *Maqasid Al-Shari'ah*, which is the protection of wealth (*hifz al-mal*). The objectives can be achieved by the practices of Islamic financial system with Shari'ah principles and law.[44]

Prohibitions of Riba, Gharar, Maysir

Islamic finance is governed by prohibitions against riba, gharar, and maysir. Gharar, defined as excessive uncertainty or sale of what one does not possess, prohibits speculative contracts like futures or short-selling. *Maysir* gambling is avoided due to risk of oppression and societal harm.[45]

Differentiating Speculation from Trade

Some scholars differentiate between speculation and productive trade. For instance, Kamali notes that rational risk-taking based on knowledge is distinct from gambling, and not inherently prohibited. *Bay' Salam* contracts in classical jurisprudence are cited as Proto-futures, permitted due to asset-based structure.

Bay' Salam is an upfront payment by the purchaser for Shari'ah compliant assets that the seller undertakes to supply to the purchaser at a date in the future.

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[42] M. A. Laldin, "Shari'ah Non-Compliance Risk," dalam *Islamic finance: The new regulatory challenge*, 2nd ed., ed. oleh S. Archer dan R. A. A. Karim (John Wiley, 2013).
[43] Al-Hilali dan Khan, *Translation of the Meanings of the Noble Qur'an in the English Language* (King Fard Complex for the Printing of the Holy Qur'an, 2002).
[44] Sunderarajan, "Risk Characteristics of Islamic Products Implications for Risk Measurement and Supervision."
[45] F. Khan, "Islamic Perspectives on Speculative Business Practices and Their Alternatives," *Journal of Islamic Economics and Finance* 1, no. 1 (2014): 25–39.

Although *Istisna* and *Bay' Salam* appear similar, a key feature of *Bay' Salam* is that the purchase price must be paid in full at the outset and the date for delivery must also be fixed. These are not requirements under an *Istisna*.[46] This is with its origin dating to the days of Prophet Muhammad (S.A.W). This type of Islamic finance method is among the oldest form of modern day contract.

HEDGING is a method to safeguard or minimize loss from risk that constantly exists in the financial market. Islamic hedging to reduce risk must be related to real economic activities.

Community Welfare & Market Stability

Speculators play roles in market liquidity and price discovery. Researchers note that speculative activity can reduce food price volatility and support production (benefiting food security) while potentially undermining producers. Moreover, Sharia-guided finance by avoiding speculative excess demonstrated resilience during the 2008 crisis.[47]

Maqasid al-Shariah Framework

In applying the objectives of Shari'ah (Maqasid) in the preservation of wealth, intellect, life, lineage, and faith, it demands limiting of speculation. Rafikov & Saiti maintain that forex speculation undermines individual and state wealth, and must be constrained.[48]

Lawful and Prohibited Business in Islam

In Islam, there are clear guidelines and principles that dictate what types of businesses are considered lawful and permissible, and which ones are deemed prohibited and unlawful. These guidelines are derived from the teachings of the Qur'an and the Hadith, which are the sayings and actions of the Prophet Muhammad. It is imperative for Muslims to adhere to these guidelines in order to conduct their business affairs in a manner that is in accordance with their faith.[49]

One of the fundamental principles in Islam is that all business transactions should be conducted with honesty, integrity, and fairness. This means that engaging in deceitful practices, fraud, or any form of dishonesty is strictly prohibited. Muslims are required to be truthful in their dealings with others and to fulfill their promises and obligations. This includes being transparent about the products or services being offered, as well as the terms and conditions of the sale.

[46] A. Chargi, "Origin and Development of Commercial and Islamic Banking Operations," *Islamic Economics* 18, no. 2 (2005).
[47] Ibid.
[48] A. Laajimi dan S. N. Tair, "Speculative Transactions and Islamic Finance: A Critical Analysis," *Journal of Islamic Law Studies* 23, no. 1 (2017): 89–105.
[49] S. Mahdavi, "Islamic Perspectives on Futures Trading and Speculation," *Journal of Financial Regulation and Compliance* 20, no. 3 (2012): 276–91.

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In addition, Islam prohibits businesses that involve the exploitation or harm of others. This includes dealing in goods or services that are harmful or detrimental to society, such as drugs, alcohol, or gambling. It also extends to businesses that involve fraud, usury (interest-based lending), or any form of exploitation of the less fortunate. Muslims are encouraged to engage in businesses that benefit society and promote the well-being of others, rather than those that cause harm or suffering. Furthermore, Islam prohibits businesses that involve unethical or immoral practices. This includes engaging in activities that are considered sinful, such as stealing, bribery, or corruption. Muslims are expected to conduct their business affairs in a manner that is consistent with Islamic ethics and morals, and to avoid engaging in any form of unethical behaviour.[50]

On the other hand, there are certain types of businesses that are considered lawful and permissible in Islam. These include those that are beneficial to society and promote the well-being of others, such as agriculture, manufacturing, trade, and services. Islam encourages entrepreneurship and innovation, as long as they are conducted in a manner that is consistent with Islamic principles and values. Muslims are required to adhere to the guidelines and principles set forth in the Quran and the Hadith, and to conduct their business affairs with honesty, integrity, and fairness. Prohibited businesses include those that involve deceit, exploitation, harm, or unethical practices, while lawful businesses include those that benefit society and promote the well-being of others. By following these guidelines, Muslims can ensure that their business endeavors are in accordance with their faith and contribute to the betterment of society.[51]

Exploring the risks and benefits of speculative businesses from an Islamic perspective offers a unique insight into the ethical considerations surrounding financial activities in the Muslim world. In Islamic finance, the concept of risk and benefit is deeply intertwined with the principles of Sharia law, which prohibits activities deemed unethical or exploitative. Speculative businesses, characterized by uncertainty and potential for high returns, raise important questions regarding their compatibility with Islamic teachings.

Islamic scholars emphasize the importance of balancing risk and benefit in financial transactions. While business activities are encouraged in Islam as a means of generating wealth and benefiting society, excessive risk-taking is cautioned against. The Qur'an warns against engaging in transactions that involve uncertainty (*gharar*) and speculation (*maisir*), as they can lead to exploitation and injustice. This raises concerns about the ethical implications of speculative businesses that prioritize short-term gains over long-term sustainability.[52]

[50] S. Azimi, "Traditional and Contemporary Views on Speculation in Islamic Finance," *Middle East Journal of Business* 11, no. 2 (2016): 42–60.
[51] M. N. Siddiqi, "Speculation in financial markets: An Islamic view," *ISRA International Journal of Islamic Finance* 1, no. 1 (2009): 73–84.
[52] Al-Suwailem, "Speculation in Islamic Finance: Conventional Perspective and the Islamic Alternative."

One of the key principles in Islamic finance is the concept of profit and loss sharing (*Mudarabah*), which promotes a fair distribution of risks and returns between parties involved in a business venture. This principle encourages transparency and accountability in financial dealings, fostering trust and cooperation among stakeholders. In contrast, speculative businesses often rely on leveraging debt and engaging in high-risk investments without ensuring equitable distribution of profits and losses.[53]

Moreover, Islamic finance promotes the idea of ethical investing (SRI) that aligns with Sharia principles, such as avoiding investments in industries deemed harmful or unethical, such as gambling, alcohol, and tobacco. Speculative businesses, on the other hand, may overlook these ethical considerations in pursuit of maximizing profits, leading to potential conflicts with Islamic values.

Islamic Perspectives on Speculation

In Islamic finance, the perspective on speculative business and its associated risks and benefits is shaped by several key principles which are derived from Islamic teachings as contained in the Qur'an and *Ahadith* of the Prophet Muhammad (may peace and blessings of Allah be upon him).[54] Here are some insights:

In Islamic finance, the principles of *Gharar* and *Maysir* prohibit excessive uncertainty and gambling-like behavior, respectively. The Qur'an emphasizes fairness, transparency, and the welfare of society in financial dealings, thereby maintaining that speculation must not lead to exploitation or harm. Islamic scholars often debate the boundaries of acceptable risk versus speculative practices, stressing that financial activities should contribute positively to society.[55]

1. Prohibition of *Gharar* (Uncertainty): Islamic finance prohibits transactions characterized by excessive uncertainty or ambiguity. Speculative businesses often involve high levels of risk and uncertainty, which can lead to *gharar*.
2. Risk Sharing: Islamic finance encourages risk-sharing rather than risk transfer. Investments should be based on shared risks and profits, promoting fairness and ethical responsibility.
3. Investment in Real Assets: Investments should be made in tangible assets or productive activities that have intrinsic value. Speculative financial transactions that involve only monetary assets or derivatives may not be favored in Islamic finance.
4. Profit and Loss Sharing: Islamic finance emphasizes profit-and-loss sharing arrangements, such as *Mudarabah* (profit-sharing) and *Musharakah* (joint

[53] A. Rahnema, "Speculative Business Practices and the Need for Ethical Reform in Islamic Finance," *Journal of Business Ethics* 104, no. 2 (2011): 287–98.
[54] M. Matwally, "The Prohibition of Speculative Business Transactions in Islamic Finance," *Journal of Islamic Economics, Banking, and Finance* 9, no. 2 (2013): 23–38.
[55] M. A. El-Gamal, *Islamic Finance: Law, Economics, and Practice* (Cambridge University Press, 2006).

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venture). These models align the interests of all parties and distribute risk more equitably.[56]

Risks of Speculative Business in Islam

In Islamic finance, speculative business is discouraged as it involves uncertainty, gambling, and excessive risk-taking. According to Shariah law, Muslims are forbidden from engaging in activities that involve uncertainty (*gharar*) and gambling (*maysir*). Speculative business often involves taking high risks in the hope of earning large profits, which goes against the principles of Islamic finance that emphasize moderation and risk-sharing. Allah says in the Glorious Qur'an 5:90 Intoxicants, gambling, idolatry and divination of arrow are definitely from the work of Shaitan. This verse urges believers to avoid these acts to achieve success.[57] Furthermore, the Qur'an highlights that gambling can lead to enmity and hatred between people and hinders remembrance of Allah.

One of the key risks of speculative business from an Islamic perspective is the potential for financial loss. Speculative business involves making decisions based on uncertain outcomes, which can lead to significant financial losses if the market goes against the investor. This can result in financial distress and hardship for the individual or business involved.[58]

Another risk of speculative business is the potential for unethical behavior. In the pursuit of large profits, individuals may engage in unethical practices such as insider trading, market manipulation, and fraud. These practices are not only prohibited in Islam but also have negative consequences for society as a whole.[59]

i. Volatility and Instability: Speculative trading can lead to extreme market volatility, contributing to economic instability. Sudden price shifts can impact not only traders but also consumers and businesses, resulting in broader economic consequences. Also speculative activities can lead to market volatility and financial crises, which can adversely affect the economy and people's livelihoods.
ii. Ethical Concerns: The nature of speculation raises ethical issues, particularly regarding market manipulation and unfair trading practices. These practices can undermine trust in financial systems and lead to societal harm. In addition, engaging in high-risk speculative activities can conflict with Islamic ethical principles, potentially leading to unjust gains or exploitation.

[56] I. Akkizidis dan S. K. Khandelwal, *Financial Risk Management for Islamic Banking and Finance* (Palgrave Macmillan, 2008).
[57] I. Akkizidis dan S. K. Khandelwal, *Financial Risk Management for Islamic Banking and Finance* (Palgrave Macmillan, 2008).
[58] Lehkonen, "Bubbles in China," *International Review of Financial Analysis* 19 (2010): 113–17.
[59] Akkizidis dan Khandelwal, *Financial Risk Management for Islamic Banking and Finance* (Palgrave Macmillan, 2008).

iii. Conflict with Islamic Principles: Speculative activities that resemble gambling can conflict with Islamic finance tenets. Engaging in speculation without adequate risk management and ethical considerations may be seen as contradicting the core values of Islamic business practices.
iv. Lack of Transparency: Many speculative ventures operate in opaque environments, which can lead to dishonest practices, further violating Islamic principles of honesty and integrity.
v. Market Instability: Excess speculation contributes to asset bubbles, volatility, and decoupling from real economy.
vi. Social Harm: Gambling-like behavior erodes fairness and can lead to oppression, and misaligns capital from productive uses.[60]

Benefits of Speculative Business in Islam

Despite the risks associated with speculative business, there are some potential benefits from an Islamic perspective. Speculative business can provide opportunities for growth and innovation in the economy. By taking risks and investing in new ventures, individuals and businesses can create value, generate wealth, and contribute to economic development.[61] Speculative business can also be a means of diversifying investments and managing risk. While excessive risk-taking is discouraged in Islam, moderate levels of risk can be acceptable if it is done ethically and responsibly. By diversifying their investments, individuals can reduce their exposure to any single asset or market and protect themselves against unforeseen events.

i. Market Liquidity: Speculative activities provide liquidity to the markets, improving the ability of investors to execute transactions swiftly. This liquidity is essential for the smooth functioning of financial markets, enabling investors to enter and exit positions efficiently.
ii. Price Discovery: Speculators contribute to the price discovery process, helping to establish the fair market value of assets. Their activities reflect changing perceptions of risk and value, thus aiding in resource allocation in the economy.
iii. Economic Growth: By fostering innovation and entrepreneurship, speculative business can stimulate economic growth. Investment in new ventures often relies on speculative capital, which can lead to job creation and technological advances. Speculative businesses can lead to innovation and economic growth if conducted ethically and responsibly, contributing to the overall economic wellbeing.
iv. Resource Allocation: Engaging in certain speculative ventures can improve resource allocation by identifying profitable opportunities that can be beneficial for society. Not only that, speculative ventures, when

[60] T. Khan dan H. Ahmed, *Risk Management: An Analysis of Issues in Islamic Financial Industry (Occasional Paper No. 5)* (Islamic Research and Training Institute, 2001).
[61] M. A. El-Gamal, *Islamic Finance: Law, Economics, and Practice* (Cambridge University Press, 2006).

structured appropriately, can open avenues for investment and financial inclusion for various segments of society.[62]

Conclusion

In conclusion, exploring the risks and benefits of speculative businesses from an Islamic perspective highlights the importance of ethical considerations in financial decision-making. By adhering to Sharia principles that emphasize fairness, transparency, and ethical conduct, businesses can navigate the complexities of risk and benefit while upholding Islamic values. As Islamic finance continues to evolve, it is essential for practitioners and scholars to engage in meaningful discussions on how to strike a balance between financial innovation and ethical responsibility within the framework of Islamic teachings. While speculative business embodies both risks and benefits, it is crucial to navigate these complexities through an Islamic lens. The principles of fairness, risk management, and ethical considerations must guide speculative practices to align with Islamic values. Future discussions and research should focus on developing frameworks that integrate ethical speculation with Islamic finance, promoting both economic vitality and societal welfare.

Overall, the research highlights the complex nature of speculative business from an Islamic perspective, emphasizing the need for ethical considerations, adherence to Islamic principles, and a balanced approach to risk-taking. By understanding the risks and benefits of speculative business within the framework of Islamic finance, individuals and businesses can make informed decisions that are aligned with their values and principles.

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[62] F. Khan dan A. Mirakhor, "The Global Financial Crisis: Is There a Role for Islamic Finance?," *The Journal of Risk Finance* 11, no. 4 (2010): 383–98.

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