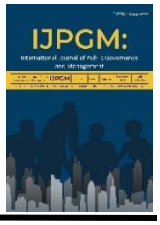
IJPGM (e-issn: 3089-7203) : Vol. 1, No. 1, 2024
DOI : https://dx.doi.org/10.31602/ijpgm.v1i1.17099

IJPGM
International Journal of Public Governance and Management



Criticism of the Indifference Circles Approach

Muhammad Uhaib As'ad[1*], Sadia Saleem[2*], Macario G Gayeta[3*], Serkan Dilek[4*]

Kalimantan İslamic University Indonesia[1*], Monach University Pakistan[2*], Philipine Christian University[3*], Kastamonu Univeristy Turkey[4*]
e-mail : muhammaduhaiba@gmail.com

Received :
12 Agutus 2024

Revised :
25 September 2024

Accepted :
03 October 2024

IJPGM :
International Journal of Public Governance and Management
Vol. 1, No. 1, 2024, 63-66

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Abstract

Due to the weaknesses of the capitalist system, academic studies on the Islamic economic system are increasing. Different researchers have proposed theoretical approaches to establishing the Islamic economy. Dilek et al. (2018) also proposed developing the consumer theory in the Islamic economic system. In this model, the authors use indifference circles with a central bliss point and claim that people try to reach this bliss point. This circle successfully explains the concept of waste, but various aspects can be criticized in terms of Islamic economics. This study aims to reveal the faulty aspects of Dilek et al. (2018) and to contribute to the attempts to establish the consumer theory within the framework of Islamic economics. At the end of my study, it was revealed that Dilek et al. (2018)'s theory has various deficiencies.

Keyword : Islamic Economics, Consumer Theory, Indifference Circles

Introduction

The dominance of capitalism is seen in the world economy. However, capitalism is criticized primarily for causing income inequality and for not being able to prevent financial crises. Capitalism has not presented a world model where people will be happier. For this reason, the dose of criticism against capitalism is increasing. An important alternative to capitalism is the Islamic economic system.

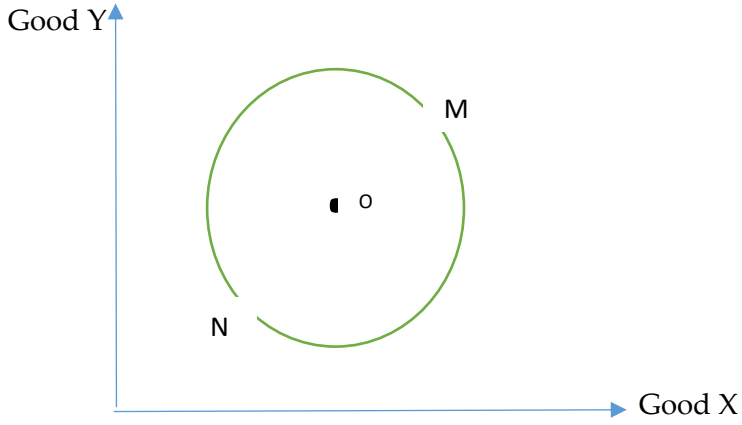
In 1976, the first “International Conference on Islamic Economics and Finance” was held in Mecca. It has been observed that economic studies on the Islamic economy have increased since this date. If an economic system is to be put forward, it is necessary to have a theoretical infrastructure. It is seen that various researchers are working to develop the Islamic economic system. The consumer theoretical model developed by Dilek et al. (2018) is one of them. In this model, there is a bliss point and the amount of consumption at which the consumer maximizes his benefit is determined by this bliss point. Whether the consumer consumes more goods or less goods than this bliss point, his benefit decreases.

My study aims to reveal the shortcomings of this model and to contribute to the creation of a more effective model in the Islamic economic system. For this purpose, the study will first discuss the Dilek et al. (2018) model and then discuss the criticisms of this model.

2. Indifference Circles Model

For the Western economic model that supports capitalism, the consumer's utility increases with the amount of goods consumed. The more goods a rational person consumes, the more utility he/she obtains. However, the claim that the consumer's utility will increase as he/she consumes more goods is debatable. The Dilek et al. (2018) model is based on this criticism. The model assumes that there is a bliss point that maximizes the consumer's utility. Figure 1 explains the model.

Figure 1. Dilek et.al. (2018) Model Indifference circles and Bliss Point



The amount of good X is on the horizontal axis and the amount of good Y is on the vertical axis. Point O seen in the graph is the bliss point and shows the combination of goods that maximizes the utility of the rational individual. The consumer's utility decreases as we move away from the bliss point. The circle with O as its center is the indifference circle. Every point on the indifference circle is equally distant from the bliss point and represents the same level of utility for the consumer. Points M and N are on the indifference circle. Therefore, they show the same level of utility for the consumer. However, since they are not bliss points, their utility is not maximized. Point M is on the upper right of the bliss point.

Therefore, it gives more combinations of goods X and Y than the bliss point. Despite having more combinations of goods, the consumer's utility level is lower than the bliss point. According to the model, the difference in the combinations of goods X and Y between the bliss point and point M is waste. Because the consumer's utility decreases even though he consumes more X and Y. Point N is on the left below the bliss point, that is, it shows less combinations of goods X and Y. Points M and N are on the same indifference circle, that is, they are equally distant from the bliss point. This distance is equal to the radius of the circle of indifference.

As the indifference circles approach the bliss point, the person's utility level increases. In classical Western economics, there are two utility approaches: cardinal and ordinal. It can be said that the ordinal utility approach has gained greater acceptance over time. In the ordinal utility approach, there are indifference curves and these curves determine a higher utility level as they move away from the origin. The biggest deficiency of the ordinal utility theory is its inadequacy in explaining waste. The Dilek et al. (2018) approach is more successful in explaining waste. Moreover, the ordinal utility approach cannot explain how a consumer who consumes more reaches a higher utility level. The indifference circles approach can explain that the consumer can be worse off when he consumes more than necessary.

Criticisms of the Indifference Circles Approach

Criticism 1: Dilek et al. (2018) explain that in the indifference circles approach, people are assumed to be Homoislamicus, not Homoeconomicus. Homoislamic individuals, unlike Homoeconomicus, is more altruistic. In the assumptions, it is stated that the consumer is more altruistic. However, the person is still an individual trying to reach the point of satisfaction. The point of satisfaction gives the combinations of goods that will maximize the person's benefit. Two problems arise at this point. First; it is not clear what kind of altruistic behavior the person trying to reach the point of satisfaction exhibits. While it is stated in the assumptions that the person is altruistic, during the theoretical explanation, the person tries to reach the point of satisfaction and only maximizes his benefit. Second; a Muslim individual acts by considering not only the worldly life but also the afterlife. A Muslim individual tries to maximize his benefit by considering both of his lives together. However, in the indifference circles approach, the individual considered tries to reach the bliss point and only maximizes his benefit in the world. Man's behavior aimed at maximizing the afterlife is not addressed.

Criticism 2: There are two types of goods in the Islamic economy: haram and halal. In the study of Dilek et al. (2018), there is no distinction between haram and halal goods. In the Islamic economy, even one of the haram goods is a waste. For example; even a glass of alcohol or a plate of pork is a waste. In the study of Dilek et al. (2018), no explanation is given for haram goods.

Criticism 3: The tools used in the study of Dilek et al. (2018) are very similar to the tools used in Western economics. Indifference circles were used instead of indifference curves used in Western economics. There are significant similarities between the two approaches in terms of mathematics. A Muslim should be different from other religions. Is it right to establish the Islamic economic model with the mathematical tools used in Western economics? This is a problem that needs to be discussed.

Criticism 4: In various places in the Quran (for example; verse 67 of the Furqan Surah), people are advised to take a middle path. A person should neither waste nor consume less than necessary. In the approach of Dilek et al. (2018), waste is clearly explained and the deficiency of the Western-based ordinal utility theory is eliminated. However, what will happen if less than necessary is consumed? This issue has not been addressed. The religion of Islam also prohibits stinginess.

Conclusion and Discussion

Articles written about Islamic economics are increasing. Alternatives to Western-based economic theories are also being developed by various Muslim scientists. In this respect, the indifference circles approach developed by Dilek et al. (2018) is also a remarkable attempt. However, it has some deficiencies both in terms of fiqh and theory. The uncertainty about the Homo Islamic individual used in the assumptions, the lack of distinction between halal and haram goods, the use of mathematical tools used in Western economics, and the lack of theoretical explanations of people's stinginess are seen as important problems. However, it is seen that the indifference circles approach can be an alternative to the Western-based ordinal utility theory if it is developed. Therefore, it is thought that new researchers can work to eliminate the deficiencies in the study of Dilek et al. (2018) and thus encourage the emergence of alternatives to Western-based economic theories.

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