

**WW**FAKULTÄT FÜR  
WIRTSCHAFTSWISSENSCHAFT– INTERNATIONAL MANAGEMENT –  
**Prof. Dr. Birgitta Wolff****Lecture Islamic Business and Society (ST 2009) – Final Exam**

Examiner: Prof. Dr. K. Rebeiz

Course Nr.: 2857

In this exam, you have **2 hours** to solve the problems worth a maximum of 100 points. Please consider the following general advice:

1. Use the theoretical tools and terminology you have learned in class and from the assigned readings.
2. Make sure there is a clear structure in your argument. (Use some time to sort your ideas before you start writing the version you want to submit).
3. Use the time you have! If you are ready much earlier than we planned you should ask yourself whether you forgot something.
4. Remember: people have to be able to decipher what you write.

**Examination Questions:**

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You are welcome to use a non-programmable calculator.

**A) 28 multiple choice questions (each question is worth 2 points)**

Please circle (O) your choice(s). If you need to change your choice, please cross out (X) the wrong choice clearly.

1. Choose the one correct sentence related to becoming a Muslim from the list found below
  - a. One has just to repeat three times (in Arabic) the desire to become Moslem
  - b. One has just to recite in Arabic the Shahada (testimony of one God)
  - c. One has to go through a special ritual in the mosque that is similar, yet different, than the baptism in Christianity
  - d. All of a, b, and c answers are correct
  - e. None of the a, b, and c answers are correct
2. Choose the one correct sentence from the list found below
  - a. The prayers in Islam are always done in groups
  - b. The prayers in Islam are always done individually
  - c. The prayers in Islam are customized to one's wishes
  - d. The prayers in Islam have to use the verses of the Koran in Arabic even if one does not understand the meaning
  - e. The prayers in Islam could be performed at any time of the day as long as these are five prayers a day

3. What is the meaning of the word "Sunna" in Islam?
  - a. It only refers to the words of Mohammad
  - b. It refers to the ritual following the fasting of the month of Ramadan
  - c. The way of life that a Moslem should follow based on the teachings, the practices, the sayings and the silences of Mohammad
  - d. It refers to a particular Islamic law dealing with marriage and divorce
  - e. It refers to the opening verse in Islam
  
4. Which one is NOT a true sentence regarding the Hadith?
  - a. It is accepted by Islamic scholars that the Hadith has been manipulated over time
  - b. It is accepted by all Moslems that all accounted Hadith are true and valid
  - c. The Sunnis and Shiites Hadiths are based on different sources
  - d. The Hadith accounts are validated using a chain of transmission
  - e. The Hadith have been initially transmitted orally before being put into writing
  
5. Which one is NOT a true sentence about Islam?
  - a. Islam believes in some of the miracles narrated in the bible
  - b. Islam believes that the prophets in the Bible were Moslems in oblivion (i.e., without knowing it)
  - c. Islam believes in the crucifixion of Jesus
  - d. Islam believes in the miracle that Jesus was born from the Virgin Mary
  - e. Islam considers Christians and Jews as fellow people of a common book (or heritage)
  
6. Which one is NOT true regarding the Hajj pilgrimage
  - a. Only Moslems could go and perform the Hajj pilgrimage
  - b. The Kaaba (the cubical) has never been destroyed and rebuilt by Moslems
  - c. The Hajj pilgrimage in Mecca existed prior to the advent of Islam
  - d. Women can go alone to the Hajj pilgrimage as long as they get the consent of a male sponsor
  - e. The Hajj pilgrimage is only required should someone has the capacity to do it
  
7. According to the Koran, the witnesses of the writing of a contract should be
  - a. Preferably be two men
  - b. If one man is not available, then the man is replaced by two women
  - c. The contract should be in writing
  - d. The parties to the contract should all be Moslems to ascertain its validity
  - e. All of the above are true
  
8. Which of the following is true regarding the Koran?
  - a. The title of each chapter of the Koran is based on a catchword and not on the main theme of the chapter
  - b. The Koran can be considered as a historic book
  - c. The Koran is organized in chronological order
  - d. The Koran only regulates the interaction between the believers and God, but not the interaction among the believers, or the interaction between the believers and the non-believers
  - e. The Koran can be altered should the Islamic community decides to do so through consensus

9. Which of the following about Islam is NOT true?
- Paintings are not allowed in Islamic mosques
  - Sculptures are not allowed in Islamic mosques
  - Islam considers Christianity as an imperfect religions
  - Of all the biblical prophet, the only one that is not recognized by Islam is David
  - Islam considers Judaism as an imperfect religions
10. Which of the following is true in Islam
- Islam considers that Mohammad is a divine person with extraordinary abilities and who can perform many miracles like Jesus Christ
  - Islam considers that all assets on earth belong to Allah
  - The Koran alone is sufficient to formulate the Islamic law (the Sharia)
  - The Zakat is not obligatory in Islam
  - Suicide is not a forbidden act in Islam
11. The fleeing (escape) of Mohammad from Mecca to Medine is referred to as:
- Hijra
  - Hajj
  - Ramadan
  - Sura
  - Sunna
12. Which of the following is true regarding the Ummayyad caliphate?
- The Ummayyad caliphate was very religious (they rigorously followed all the Islamic teachings)
  - The Ummayyad caliphate was not very religious (they did not rigorously follow all the Islamic teachings)
  - The Ummayyad caliphate formed an alliance with the partisans of Ali
  - The Ummayyad caliphate capital was Mecca
  - The Ummayyad caliphate capital was Medina
13. Which of the following is NOT true regarding the Abbasid dynasty?
- The Abassid dynasty came to power in part thanks to the partisan of Ali
  - The Abassid dynasty fought the partisan of Ali after gaining power
  - The Abassid dynasty was known as the golden age of Islam
  - The Abassid dynasty capital was Baghdad
  - The transition from the Ummayyad to the Abassid dynasty was done peacefully
14. Which one is NOT true regarding the Ashoura holiday for the Islamic Shiite community
- It commemorates the massacre of Hussein, the son of Ali
  - The commemoration involves dancing till ecstasy so that the Islamic believer feels closer to God
  - The commemoration involves some self-inflicting pain and lamentation
  - The commemoration is not an occasion to be joyful and happy
  - The Ashoura is only celebrated by the Shiites and not the Sunnis

15. What is NOT true regarding the Koran?
- The Koran was initially transmitted orally
  - The Koran verses are the true words of God according to Islam
  - The Koran can never be altered regardless of what takes place in the world (such as modernity, new discovery etc.)
  - From the time it was compiled, the Koran was always written down in perfect Arabic with the proper vowels and signs
  - The Koran was written down after the death of Mohammad
16. What is the common link between all Arabs?
- The cultural background
  - The religion
  - The language
  - The customs
  - All of the above
17. According to the Harvard Business School article "Introduction to Islamic Finance", what is the mode of financing that is most used by Islamic banks?
- Musharaka (or mosharaka)
  - Mudaraba (or modaraba)
  - Murabaha (or morabaha)
  - Ijara
  - Others
18. Which one is NOT true regarding the comparison of Islamic banks versus conventional banks?
- Conventional banks are riskier than Islamic banks
  - Islamic banks are riskier than conventional banks
  - Islamic banks have the ability to reduce the capital value of investment deposits in case of loss
  - Conventional banks do not have the ability to reduce the capital value of investment deposits
  - Islamic banks face more restrictions on investing their deposits than conventional banks
19. What is the role of the Sharia Supervisory Board?
- Give their approval to the financial transactions prior to their occurrences
  - Issue a fatwa to ascertain whether a certain financial transaction is acceptable
  - Oversee the bank operations (after investment decisions are made) to make sure that they conform to the sharia
  - Only answers a and b are correct
  - Answers a, b and c are correct
20. Which countries have attempted to transform their entire social and economic system in accordance with the Sharia
- Saudi Arabia, Iran and Indonesia
  - Saudi Arabia, Pakistan and Afghanistan
  - Iran, Pakistan and Sudan
  - Saudi Arabia, Kuwait and Iraq
  - Iran, Indonesia and Malaysia

21. Choose the correct answer regarding the mudaraba (limited partnership) and the musharaka (joint venture)
- In a mudaraba, the Islamic bank is a passive partner
  - In a mudaraba, the active partner (the one who does the work) does not suffer financial loss in case the project fails
  - In a musharaka, the bank does not suffer financial loss
  - Answers a and b are correct
  - All answers are correct
22. Which one is NOT true regarding the Murabaha (cost plus) in Islamic banks
- The asset is first bought by the Islamic bank and then passed on to the entrepreneur
  - It is the most acceptable form of Islamic financing from the Sharia standpoint
  - The cost plus fee charged by the bank is often based on the prevailing interest rates in the market such as LIBOR and T-Bills
  - The bank could suffer a financial loss in case the entrepreneur decides to no longer buy the asset
  - It is the financing instrument mostly used by Islamic banks today
23. What is the main problem in Ijara (lease) in the context of using it in a system that only uses the Sharia?
- Deciding on who should undertake the maintenance of the asset
  - Deciding on who is the party who should pay for defective materials
  - Deciding on who is the party who is legally responsible (liable) in case of people injuries or deaths resulting from the use of the asset
  - Obtaining insurance on the asset
  - All of the above
24. Which one is the most populated Moslem country?
- Indonesia
  - Saudi Arabia
  - Iran
  - Pakistan
  - Malaysia
25. Valuation is defined as the present value of the future cash flow generated by an asset. If one uses Islamic financing (meaning no interest rates), then what would be a correct statement?
- Valuation using Islamic principles results in an under-pricing of the asset
  - Valuation using Islamic principles results in an over-pricing of the asset
  - Valuation using Islamic principles would yield the same results as valuation using conventional principles
  - Valuation using Islamic principles could either yield to under-pricing or over pricing of the asset – It depends on the accounting standards being used
  - Valuation using Islamic principles could either yield to under-pricing or over pricing of the asset – It depends on the useful life of the asset

26. Which of the following statements is true?

- a. Islamic banks are characterized by their transparencies in the way they disclose their financial information
- b. The Sharia Supervisory Board is considered to be an entirely independent entity
- c. Day-trading (the buying and selling of stocks using a short-term horizon) is not acceptable in Islam
- d. Arbitrage schemes are forbidden in Islam
- e. Short selling are not acceptable in Islam

27. Suppose you want to undertake a \$20 Million project. You could either go with 100% Islamic equity financing with 10 partners that invest equally in the project, or use 50% debt financing with a 10% interest rate and the remaining 50% is your own equity. Suppose the project generate a \$2 Million EBIT. What would be a correct statement regarding the return on equity (ROE)? Assume the tax bracket is 0%.

- a. ROE for Islamic financing is 10% and ROE for conventional debt financing is 10%
- b. ROE for Islamic financing is 10% and ROE for conventional debt financing is 15%
- c. ROE for Islamic financing is 5% and ROE for conventional debt financing is 5%
- d. ROE for Islamic financing is 5% and ROE for conventional debt financing is 15%
- e. None of the answers are correct

28. Suppose you want to undertake a \$20 Million project. You could either go with 100% Islamic equity financing with 10 partners that invest equally in the project, or use 50% debt financing with a 10% interest rate and the remaining 50% is your own equity. Suppose the project generate a \$2 Million EBIT. What would be a correct statement regarding the return on equity (ROE)? Assume the tax bracket is 30%.

- a. ROE for Islamic financing is 7% and ROE for conventional debt financing is 7%
- b. ROE for Islamic financing is 7% and ROE for conventional debt financing is 12%
- c. ROE for Islamic financing is 2% and ROE for conventional debt financing is 2%
- d. ROE for Islamic financing is 3% and ROE for conventional debt financing is 12%
- e. None of the answers are correct

## **B) Two essay-type questions (each question is worth 22 points)**

Essay question 1: Explain why Islam is not a homogeneous religion across the world in terms of sects and schools of thoughts.

Essay question 2: It is often said that Islamic banks do not really follow the spirit of the Sharia. Do you agree or disagree? Please explain.