CONFIDENTIAL

UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION
MARCH 2026 SEMESTER

COURSE CODE	:	EGB30603
COURSE NAME	:	ISLAMIC FINANCIAL SYSTEM
PROGRAMME NAME	:	BACHELOR OF SCIENCE (HONOURS) IN ANALYTICAL ECONOMICS
DATE	:	23 JUNE 2026 (TUESDAY)
TIME	:	9:00AM – 12:00PM
DURATION	:	3 HOURS

INSTRUCTIONS TO CANDIDATES

1. **Please CAREFULLY read the instructions given on this question paper.**
2. **This question paper has information printed on both sides of the paper.**
3. This examination comprises **TWO (2)** sections
4. You are required to answer **ALL** questions in **Section A** and choose **ONLY THREE (3)** questions in **Section B**.
5. Please write your answer in the answer booklet provided.
6. All questions must be answered in **English** (any other language is not allowed).
7. **This question paper must not be removed from the examination hall.**

THERE ARE FIFTEEN (15) PAGES OF QUESTIONS, INCLUDING THIS PAGE.

Section A (Total: 40 Marks)

INSTRUCTION: This section comprises 40 multiple choice questions and each question is worth 1 mark. You are required to answer **ALL** questions in this section in the **answer booklet** provided.

1. A company seeks financing for constructing a manufacturing plant that will be completed in stages over two years. Which Islamic contract is most suitable?
   A. Salam
   B. Istisna'
   C. Murabahah
   D. Wadiah

2. Which activity would most likely invalidate a Murabahah transaction?
   A. Deferred payment arrangement
   B. Disclosure of profit margin
   C. Selling an asset before ownership is acquired
   D. Asset-backed financing

3. A customer leases industrial equipment from an Islamic bank and gradually acquires ownership through periodic payments. Which contract is being applied?
   A. Salam
   B. Musharakah
   C. Ijarah Muntahiyah bi Tamlik
   D. Wakalah

4. Which of the following transactions contains an element of Gharar?
   A. Selling a vehicle with clearly specified delivery terms
   B. Selling shares of a company without disclosing important financial information
   C. Selling fish that have not yet been caught in the sea
   D. Leasing machinery with a fixed rental agreement

5. An Islamic investment fund rejects investment in a gambling company despite high expected returns. This decision reflects:
   - A. Profit maximisation principle
   - B. Ethical screening requirement
   - C. Market liberalisation
   - D. Interest-based investment policy

6. Which Islamic financing product is most appropriate for agricultural financing involving future delivery of crops?
   - A. Salam
   - B. Murabahah
   - C. Ijarah
   - D. Musharakah

7. A Mudarabah entrepreneur intentionally understates business profits to reduce distribution to investors. This situation represents:
   - A. Asset-backed financing
   - B. Agency problem
   - C. Equity participation
   - D. Profit equalisation

8. Which of the following mechanisms helps reduce moral hazard in a Mudarabah arrangement?
   - A. Eliminating monitoring procedures
   - B. Guaranteeing fixed returns
   - C. Transferring all risks to investors
   - D. Independent auditing and disclosure

9. Which issue is most commonly associated with hybrid contracts in Islamic finance?
   - A. Elimination of ownership transfer requirements
   - B. Restriction of deferred payment transactions
   - C. Combination of contracts that may replicate conventional interest-based financing
   - D. Prohibition of asset-backed financing structures

10. Which transaction demonstrates the principle of risk sharing in Islamic finance?
    A. Fixed deposit interest
    B. Profit-and-loss sharing investment
    C. Guaranteed capital return
    D. Conventional treasury bills

11. An Islamic bank purchases an asset requested by a customer and subsequently sells the asset to the customer at a disclosed cost plus profit margin with deferred payment terms. Which Islamic contract is most likely applied in this transaction?
    A. Murabahah
    B. Mudarabah
    C. Musharakah
    D. Wakalah

12. Which activity contains elements of Maysir?
    A. Currency exchange with immediate possession
    B. Speculating on game outcomes for monetary gain
    C. Leasing property with fixed contractual terms
    D. Equity financing based on profit-sharing agreement

13. Why must currency exchange transactions in Islamic finance generally be conducted on a spot basis?
    A. To maximise speculative trading opportunities
    B. To guarantee fixed exchange rate returns
    C. To eliminate foreign exchange market competition
    D. To avoid elements of Riba and excessive uncertainty

14. Which Islamic contract involves joint capital contribution by all partners, with profits distributed according to mutual agreement and losses shared based on capital contribution?
    A. Mudarabah
    B. Musharakah
    C. Murabahah
    D. Ijarah

15. Why does ownership transfer important in Islamic sale-based financing?
    A. To maximise financing costs
    B. To ensure validity of trade and risk assumption
    C. To eliminate all operational risk
    D. To increase debt obligations

16. The Shariah issue of Bai' Dayn in Sukuk trading primarily relates to:
    A. the prohibition of partnership-based financing contracts
    B. the transfer of ownership in leased assets
    C. the trading of debt instruments at discount or premium prices
    D. the obligation to pay zakat on investment income

17. Which company is likely to be classified as Shariah non-compliant based on qualitative stock screening?
    A. A manufacturing company with low interest-based debt
    B. A healthcare company involved in gambling-related investments
    C. A halal food producer with Shariah-compliant financing
    D. A logistics company providing transportation services

18. Which factor is most important in strengthening the credibility of a Shariah Supervisory Board?
    A. Maximisation of institutional profitability
    B. Independence and competency of Shariah board members
    C. Expansion of speculative investment activities
    D. Reduction of Shariah audit procedures

19. The function of a central bank as lender of last resort is primarily associated with:
    A. providing short-term liquidity assistance to financial institutions facing temporary financial distress
    B. guaranteeing stable returns for depositors in Islamic banks
    C. financing speculative investment activities during market instability
    D. eliminating credit and operational risks within the banking system

20. Why do some Shariah scholars raise concerns regarding conventional derivative instruments?
    A. They are commonly linked to asset ownership and productive economic activities
    B. They often involve excessive uncertainty and speculative trading practices
    C. They require profit-and-loss sharing arrangements between contracting parties
    D. They are primarily used for long-term partnership financing

21. A takaful participant contributes funds into a common pool intended to assist members facing financial loss. Which principle best explains this arrangement?
    A. Mutual risk sharing and tabarru'
    B. Guaranteed investment return
    C. Interest-based compensation
    D. Speculative wealth accumulation

22. Which activity best reflects the primary function of the Islamic capital market?
    A. Facilitating speculative currency trading
    B. Mobilising funds for Shariah-compliant long-term investments
    C. Promoting guaranteed interest-bearing securities
    D. Eliminating all forms of investment risk

23. An investor purchases Sukuk certificates issued to finance construction of transportation infrastructure. Which characteristic most distinguishes the investment from conventional bonds?
    A. Guaranteed interest income regardless of project performance
    B. Elimination of all market-related risks
    C. Ownership interest in underlying assets or ventures
    D. Pure debt obligation without asset involvement

24. Which financial indicator is most relevant in quantitative Shariah stock screening?
    A. Employee performance appraisal
    B. Corporate branding strategy
    C. Number of shareholders in the company
    D. Debt and non-permissible income ratios

25. Which situation most likely contributes to divergence between Islamic finance theory and current industry practice?
    A. Strong implementation of equity-based financing
    B. Replication of conventional financing structures
    C. Strict compliance with Maqasid al-Shariah
    D. Expansion of profit-and-loss sharing mechanisms

26. Which statement best reflects the Islamic approach toward risk management?
    A. Risk should be managed responsibly alongside Tawakkul
    B. All forms of financial risk must be completely avoided
    C. Financial uncertainty is encouraged to maximise profit
    D. Investment risk should be transferred entirely to customers

27. Which institution is classified as a non-banking financial institution within the Islamic financial system?
    A. Central bank
    B. Commercial bank
    C. Islamic interbank market
    D. Takaful operator

28. Which characteristic differentiates an Exchange Traded Fund (ETF) from a traditional unit trust fund?
    A. ETFs are traded continuously on stock exchanges during market hours
    B. ETFs guarantee fixed annual returns to investors
    C. ETFs cannot be structured to comply with Shariah principles
    D. ETFs are limited to debt-based investment instruments only

29. Which issue is commonly associated with the fiat money system from the Islamic economic perspective?
    A. Stability through intrinsic commodity value
    B. Excessive money creation leading to inflationary pressure
    C. Elimination of speculative currency trading
    D. Full backing by gold and silver reserves

30. Which institution is mainly responsible for issuing Shariah, accounting, and governance standards for Islamic financial institutions?
    A. Islamic Financial Services Board (IFSB)
    B. Bank for International Settlements (BIS)
    C. Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)
    D. International Monetary Fund (IMF)

31. Which of the following practices support the role of Islamic banks as social welfare institutions?
    I. Providing Qard Hasan financing
    II. Promoting financial inclusion
    III. Encouraging speculative investments
    IV. Supporting socio-economic justice

    A. I and II only
    B. I, II and III only
    C. I, II and IV only
    D. I, II, III and IV

32. Which of the following factors may undermine public confidence in Islamic financial institutions?
    I. Frequent Shariah non-compliance issues
    II. Lack of transparency in financial products
    III. Strong Shariah governance framework
    IV. Replication of conventional banking structures

    A. I and II only
    B. I, II and III only
    C. I, II and IV only
    D. I, II, III and IV

33. Which of the following statements regarding Musharakah are correct?

I. All partners contribute capital
II. Profit sharing may follow agreed ratios
III. Losses are borne according to capital contribution
IV. Guaranteed profit is permissible

A. I and II only
B. I, II and III only
C. I, II and IV only
D. I, II, III and IV

34. Which of the following characteristics are associated with Murabahah financing?

I. Seller assumes ownership before sale
II. Cost and profit margin are disclosed
III. Financing is based on interest compounding
IV. Payment may be made on deferred terms

A. I and II only
B. I, II and III only
C. I, II and IV only
D. I, II, III and IV

35. Which of the following situations involve elements prohibited in Islamic finance?

I. Gambling activities
II. Interest-based lending
III. Clear ownership transfer in sale contracts
IV. Excessive contractual uncertainty

A. I and II only
B. I, II and III only
C. I, II and IV only
D. I, II, III and IV

36. Which of the following statements regarding Islamic derivatives are correct?

    I. They may be developed for hedging purposes
    II. They must avoid excessive Gharar
    III. They are identical to conventional derivatives
    IV. Shariah compliance remains a key requirement

    A. I and II only
    B. I, II and III only
    C. I, II and IV only
    D. I, II, III and IV

37. Which of the following are characteristics of Takaful operations?

    I. Mutual guarantee among participants
    II. Risk sharing arrangement
    III. Tabarru' contribution mechanism
    IV. Guaranteed fixed return for all participants

    A. I and II only
    B. I, II and III only
    C. I, II and IV only
    D. I, II, III and IV

38. Which of the following are advantages of Sukuk in Islamic capital market?

    I. Asset-backed financing structure
    II. Investment diversification opportunities
    III. Compliance with Shariah principles
    IV. Guaranteed interest income

    A. I and II only
    B. I, II and III only
    C. I, II and IV only
    D. I, II, III and IV

39. Which of the following factors are considered in qualitative stock screening?

    I. Nature of core business activities
    II. Involvement in prohibited industries
    III. Debt ratio percentage
    IV. Compliance with Shariah principles

    A. I and II only
    B. I, II and III only
    C. I, II and IV only
    D. I, II, III and IV

40. Which of the following situations reflect ethical principles in Islamic finance?

    I. Transparent disclosure in transactions
    II. Fair treatment of contracting parties
    III. Investment in gambling businesses
    IV. Avoidance of exploitation and injustice

    A. I and II only
    B. I, II and III only
    C. I, II and IV only
    D. I, II, III and IV

Section B (Total: 60 Marks)

INSTRUCTION: This section comprises **FOUR (4)** questions, you are required to answer **ONLY THREE (3)** questions in the answer booklet provided. Each question is worth **20 marks** in total.

Question 1

(a) Mudarabah Muqayyadah is frequently used by Islamic financial institutions for investment activities with specific restrictions imposed by capital providers.

i. Define Mudarabah Muqayyadah.

(3 marks)

ii. Differentiate between Mudarabah Muqayyadah and unrestricted Mudarabah in terms of investment flexibility and risk exposure.

(6 marks)

(b) Dahlia applies for automobile financing from an Islamic Financial Institution (IFI). The details are as follows:

- Cost of vehicle: RM100,000
- Financing tenure: 9 years
- Profit rate: 5% flat rate
- Monthly lease payment
- The IFI purchases the vehicle and leases it to Sarah
- Ownership will be transferred to Sarah at the end of the lease period without additional payment

i. Identify the Islamic financing contract used in the transaction and justify your answer.

(3 marks)

ii. Calculate the total profit charged by the Islamic Financial Institution (IFI) and the monthly lease payment payable by Sarah. Show all workings clearly.

(4 marks)

iii. Evaluate how the financing structure complies with Shariah principles in avoiding Riba and ensuring legitimacy of the transaction. Provide **TWO (2)** justifications.

(4 marks)

Question 2

a) Ahmad wishes to purchase a house worth RM500,000 but does not have sufficient funds. He approaches an Islamic bank for financing. The bank agrees to enter into a Musyarakah Mutanaqisah (diminishing partnership) arrangement with Ahmad.

Under the agreement: • The bank initially owns 80% of the house, while Ahmad owns 20%. • Ahmad agrees to gradually buy the bank's share over 20 years. • Ahmad also pays monthly rental for the portion owned by the bank.

Based on the information provided above, explain the operational mechanism of Musharakah Mutanaqisah home financing.

(6 marks)

b) Analyse the roles of Musharakah, Ijarah, and gradual ownership transfer within the Musharakah Mutanaqisah structure.

(6 marks)

c) Evaluate the extent to which Musharakah Mutanaqisah differs from conventional home financing in terms of risk sharing, ownership, Shariah compliance, and avoidance of Riba. Provide relevant justifications in your answer.

(8 marks)

Question 3

a) Takaful operators play a significant role in providing Shariah-compliant risk protection. Describe **TWO (2)** characteristics of a takaful operator that differentiate it from conventional insurance providers.

(4 marks)

b) Under certain circumstances, takaful operators may engage with conventional reinsurers. Explain **THREE (3)** conditions under which a takaful operator is permitted to obtain reinsurance services from conventional insurers.

(6 marks)

c) Central banks play an important role in maintaining financial stability and regulating Islamic financial institutions.

i. Explain **TWO (2)** functions of the Central Bank in regulating Islamic financial institutions.

(4 marks)

ii. Evaluate the importance of central bank supervision in ensuring Shariah compliance and financial stability within the Islamic financial system.

(6 marks)

Question 4

An Islamic bank introduces a new investment product claiming to be Shariah-compliant. The product promises:

- stable monthly returns,
- minimal investment risk,
- tradability in secondary markets,
- and guaranteed capital repayment.

However, the Shariah Committee later identifies that:

- most returns are benchmarked against conventional interest rates,
- the underlying assets are primarily debt-based,
- investors have limited ownership rights over the assets.

a) Explain the concept and characteristics of Sukuk in Islamic capital market.

(6 marks)

b) Analyse THREE Shariah issues arising from the product structure above.

(8 marks)

c) Evaluate whether the product fulfils the objectives of Islamic finance and genuine risk-sharing principles.

(6 marks)

END OF EXAMINATION PAPER