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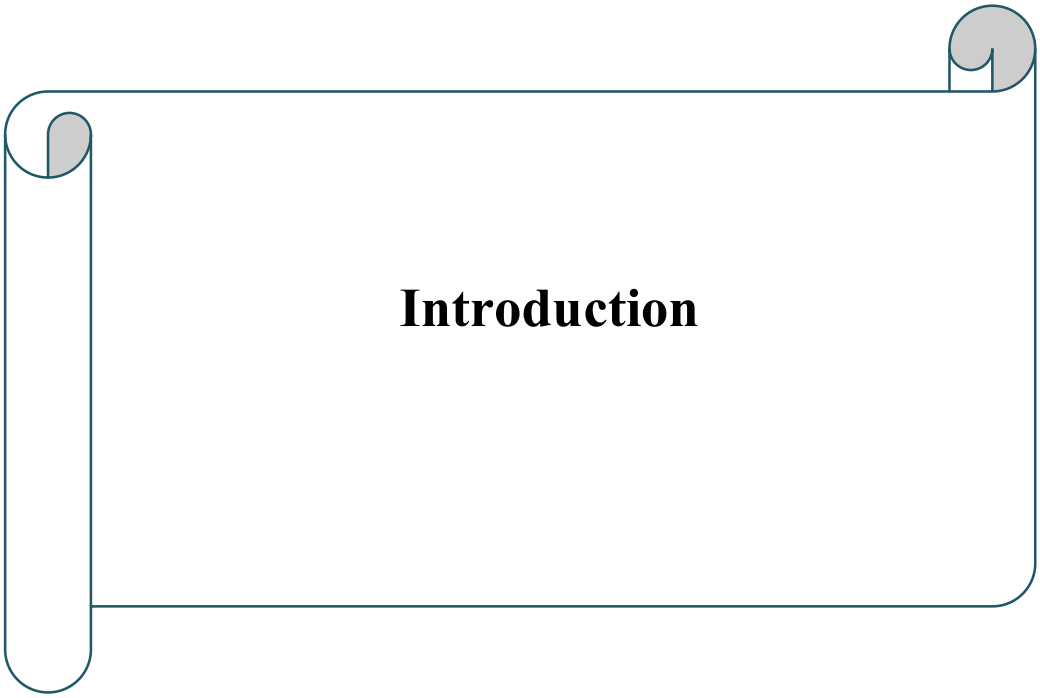
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Introduction

Introduction

The social sciences, in all their branches, are directly connected to the life of societies and to their development, whether at the level of individuals or states. Economics is one of these branches, and it is directly concerned with the economic behavior of individuals and society in relation to productive resources that are scarce and limited, on the one hand, and with the satisfaction of individual needs that are unlimited, on the other. Accordingly, economics profoundly affects and is closely intertwined with our daily lives in all their details.

The survival of individuals—whether as separate persons or as groups—depends on meeting their diverse needs. For this reason, individuals undertake a range of activities and actions aimed at adapting natural resources to their needs and desires. However, people do not find everything they require readily available in nature; they are therefore compelled to re-adapt, transform, and transfer resources in terms of form, place, or time. This process leads them to adopt particular patterns of behavior and to establish relationships with other individuals as well as with nature. Such actions and behaviors are referred to as economic activity, including production, distribution, and consumption. These activities and economic relationships have undergone changes and developments in line with the evolution of individuals' social and material life.

Over time, economics has become an indispensable analytical tool for understanding contemporary economic transformations, whether at the microeconomic level—concerned with the behavior of individuals and firms under conditions of resource scarcity and diverse needs—or at the macroeconomic level, which relates to the performance of the national economy and the formulation of general economic policies. In light of this importance, the Introduction to Economics module constitutes the first foundational knowledge base from which students begin their study of specialized economics courses.

Accordingly, we have prepared this handout, placed before you under the title "Tutorial Handout for the Introduction to Economics Module," in order to provide an integrated knowledge framework that equips students with a comprehensive scientific background on this module, presented in a clear and accessible academic style. It is intended for first-year undergraduate students in the fields of Economic Sciences, Management Sciences, and Commercial

Sciences, serving as a supportive reference for the Introduction to Economics module.

This handout aims to enable students to grasp key economic concepts, terminology, and fundamental principles by becoming familiar with the nature of economics and its various branches; distinguishing between microeconomics and macroeconomics; understanding the nature of economic problems and the approaches to addressing them; and identifying the methods of economic analysis and the major subfields of economics. It also seeks to build an initial knowledge base that allows students to understand and analyze economic phenomena in a rigorous and systematic manner, thereby strengthening their ability to connect theoretical aspects with real-world economic applications and enhancing their awareness of the importance of economics.

With the aim of providing a supportive pedagogical reference that helps our students cover the core topics of the module, we have structured this work into a set of thematic units, seeking thereby to address the various dimensions of the officially approved curriculum.

We begin with Chapter One, which offers a conceptual introduction that clarifies the nature of economics, its origins and development, its importance and branches, and its relationship to political economy and to other disciplines. We then move to Chapter Two to examine the concept of the economic problem, its components, and the notions of scarcity and choice, as well as the ways in which economic systems address it. Chapter Three is devoted to the factors of production, while Chapter Four addresses economic agents. Chapter Five discusses the principal economic activities, namely production, income, and exchange. Chapters Six and Seven examine the firm and the market. Chapter Eight addresses the economic system, economic policy, and the role of the state in directing economic activity through various policy instruments. Chapter Nine considers money, while Chapter Ten examines the problems of inflation and unemployment, culminating in Chapter Eleven, which addresses institutions.

Chapter One:
The Nature of Economics and Its Relationship to Political Economy and Other Disciplines

Chapter One: The Nature of Economics and Its Relationship to Political Economy and Other Disciplines

Economics, as an activity, has existed since human beings first appeared on Earth. It was initially practiced through primitive methods and basic techniques, and economic ideas evolved in parallel with the development of societies. However, economics as a formal science did not emerge until the eighteenth century, during which successive intellectual currents contributed to establishing its general foundations and principles. Over time, its concepts expanded, making it a discipline that is connected to a wide range of other fields of knowledge. Nevertheless, it does not attain the same degree of precision as the natural sciences, given that it investigates human economic behavior.

First: Definition of Economics

The term "economics" is originally Greek in origin and is associated with the philosopher Aristotle. It initially referred to household management or domestic administration. Etymologically, it is a compound term (oikonomos): "oikos" denotes the house/home, whereas "nomos" signifies management/organization. In this early sense, it referred to the rules and principles governing the household economy—that is, the laws and norms that regulate the economic affairs of the family.

Subsequently, the term evolved to also denote the management of the city's affairs. In contemporary usage, it commonly refers to the laws, rules, and institutional arrangements that organize and regulate the economy of the state.[1]

1. Linguistic Definition: It denotes moderation between extravagance and stinginess; that is, a position of balance between the two extremes. In other words, it refers to being prudent in one's living, such that one neither wastes nor is excessively frugal.

A Prophetic saying conveys that a person who practices moderation in spending does not fall into poverty; that is, one who neither wastes resources nor is excessively parsimonious is unlikely to become impoverished.[2]

[1] Lassak Hiziya, Lectures in Introduction to Economics, Department of Financial Sciences and Accounting, Faculty of Economic, Commercial and Management Sciences, University of Bouira, Academic Year 2017/2018, p. 2.

[2] Hassiba Hadouqa, Lectures for the "Introduction to Economics" Module, prepared for First-Year Bachelor's (Common Core) students, Faculty of Economic, Commercial and Management Sciences, Constantine 2 University, Academic Year 2022/2023, p. 5.

2. Technical (Terminological) Definition

From the perspective of the history of economic thought, definitions of economics have multiplied. There is no single, definitive definition that fully delineates its scope and encompasses all its subject matter, due to the continuous evolution and diversity of economists' intellectual approaches. Accordingly:

- **Economics as the Science of Wealth**: According to Adam Smith, in The Wealth of Nations (1776), economics is the discipline that studies how a nation can acquire wealth and the means of increasing it. In this view, Smith emphasized wealth while giving relatively limited attention to the human dimension.
- **Economics as the Science of Welfare**: According to A. C. Pigou, in The Economics of Welfare, economics is the discipline that studies economic welfare.[1]
- **Economics as the Science of Scarcity and Efficient Choice**: Proponents of this approach argue that economics studies human behavior as a relationship between ends (objectives) and scarce means. Accordingly, it focuses on organizing and allocating relatively limited resources within society in order to satisfy human needs, which are multiple and continuously growing. This perspective also emphasizes the necessity of making choices among competing ends—that is, among different needs—in order to achieve the best possible satisfaction given the available resources, which are characterized by scarcity.[2]
- **Economics as the Science of Exchange Activity**: Since individuals are only able to produce a portion of what they need, they cannot satisfy all their wants on their own. Consequently, they resort to others in order to obtain part of what is produced by someone else. In this sense, exchange constitutes the foundation of economic activity, and individuals are governed by the principle of specialization. The French economist François Perroux is often cited among the leading economists who viewed economics as a science centered on exchange.[3]

[1] Tadros Sobhi Qaridah and Mahmoud Younes, Introduction to Economics, Dar Al-Nahda, Lebanon, 1984, p. 66.

[2] Khaled Wasif Al-Wazni and Ahmad Hussein Al-Rifai, Principles of Macroeconomics: Between Theory and Practice, 1st ed., Dar Wael for Publishing and Distribution, Jordan, 2002, p. 17.

[3] Mounir Rahmani, Handout for the "Introduction to Economics" Module, prepared for First-Year Bachelor's (Common Core) students, Faculty of Economic, Commercial and Management Sciences, Setif 1 University, 2022, p. 7.

- **Economics as the Science of Methods of Production**: It examines the various ways in which goods and services are produced and distributed to meet the needs of members of society.
- **Economics as the Science of International Trade**: Commercial exchange takes place between countries that possess particular goods and services and other countries that lack them, in order to satisfy the needs of their populations. Because such exchanges occur across geographic and political boundaries and within an international institutional framework, economics helps explain the rules and principles that govern trade between countries.
- **Macroeconomic Analysis (Aggregate Variables)**: It focuses on analyzing changes that occur at the aggregate level of economic activity in order to formulate appropriate strategies for achieving economic development.
- **According to Friedman**: Economics is the discipline that examines the ways through which society can address and resolve its economic problems.
- **A Social-Science Perspective**: Economics is a branch of the social sciences that seeks to study human behavior, particularly in relation to the allocation and distribution of scarce resources among competing uses.
- **Resource Allocation and Production**: Economics is concerned with how economic resources or factors of production—labor, capital, and natural resources—are employed to produce the goods and services needed to satisfy the multiple needs of members of society.

- **According to Milton Friedman**: Economics is the discipline that examines the ways through which society can address and resolve its problems.

- **According to Raymond Barre**: Economics is the discipline that studies how scarce resources are managed within a human society.[1]

- In Socialist Thought: emphasis is placed on the social dimensions of economics, particularly those grounded in justice and in the organization of social relations that arise from the production of goods and the satisfaction of needs. According to Karl Marx, economics is the discipline concerned with studying economic activity as it unfolds through individuals' participation in social relations that connect them to the spheres of production, distribution, and

[1] Khalil Daâs, Lectures on Introduction to Economics, prepared for First-Year Bachelor's (Common Core) students, Faculty of Economic, Commercial and Management Sciences, University of Algiers 3, Academic Year 2021/2022, p. 8.

consumption. In this sense, the focus is on the relationships generated by the practice of economic activities.[1]

✓ **Accordingly, economics is concerned with the study of:**

- The economic behavior of individuals, firms, and societies.
- The problems that humans face while seeking to satisfy their multiple needs and wants in the presence of limited resources.
- Identifying the types and nature of goods and services that should be produced.
- Examining how goods and services are produced.
- Analyzing how output is distributed among individuals.
- Efficiency in the use of resources, by studying the ways through which optimal utilization of economic resources can be achieved.

Second: The Emergence and Development of Economics

Economic thought refers to the body of ideas and theories that explain economic relations, economic phenomena, and human behavior. Over time, these ideas crystallized into intellectual schools that reflect the orientations and affiliations of their leading thinkers. In this sense, economic thought can be viewed as a conceptual reconstruction of the prevailing economic reality.

Initially, economics appeared in the writings of early thinkers and philosophers as a component of philosophy, politics, and ethics. As a result, early economic writings were closely intertwined with political discourse:

- The Greek thinker Plato—who is primarily classified as a philosopher and only rarely regarded as an economist—addressed the notion of the ideal city in his well-known work The Republic. In doing so, he discussed several economic issues, including the division of society into three classes—rulers, soldiers, and producers—as well as the role of money.
- Aristotle was the first to use the term "economy." In his writings, he addressed a range of economic topics, including property ownership. He criticized views calling for the abolition of private property and the establishment of collective (communistic) ownership. He also condemned slavery and regarded it as unjust, and he discussed the origin of money and its role in economic life.

[1] Abdallah Qalash, Lectures for the "Introduction to Economics" Module, prepared for First-Year Bachelor's (Common Core) students, Faculty of Economic, Commercial and Management Sciences, University of Chlef, Academic Year 2020/2021, p. 16.

- Roman writers also engaged with economic questions. Cicero, for example, favored occupations and crafts by placing agriculture in the foremost position, while pointing out the shortcomings of industry and trade.
- During the Middle Ages, the feudal system prevailed, based on reciprocal relations between lords and peasants, alongside the Church's dominance over economic life. This period coincided in Europe with the emergence of Islam, which brought about a significant transformation in economic matters.
- Islamic Civilization: Islam encouraged work and upheld its value. It also recognized private property and laid down its foundations. Moreover, it prohibited interest on loans (usury) and forbade monopolistic practices. With regard to competition, it addressed the mechanism of supply and demand in the determination of prices.

Among Muslim thinkers, Ibn Khaldun made a notable contribution through the presentation, discussion, and analysis of several economic issues in his work Al-Muqaddimah. He elaborated on the economic problem in a manner close to its contemporary understanding among economists. He also classified goods into necessities and luxuries, and argued that demand for such goods depends on population growth. Specifically, population increase leads to a greater division of labor, which raises production; higher production increases income, which in turn raises demand for goods. This process stimulates the emergence of new industries and generates a further rise in income.
- After the collapse of the feudal system, new economic ideas emerged, most notably those of the Mercantilist school. Mercantilists argued that the strength of the state depends on its wealth—particularly the stock of precious metals acquired through trade. In other words, they considered commercial activity to be the most important form of economic activity. These ideas prevailed roughly from 1500 to 1776.[1]
- The Physiocratic School (1756–1786): Led by François Quesnay, the Physiocrats focused on the study of human beings and their relationship with the natural world. They emphasized that agriculture is the only truly productive activity, arguing that land constitutes the fundamental source of production.[2]
- The Classical School: With the transformations that Europe experienced—particularly those accompanying the Industrial Revolution—this school emerged and provided a powerful impetus to economic thought. For a period, it was able

[1] Abd Al-Hadi Samer Ali, Principles of Macroeconomics, 1st ed., Dar Wael for Publishing and Distribution, Jordan, 2013, p. 18.
[2] Hassiba Hadouqa, previously cited reference, p. 17.

to interpret, theorize, and systematize economic life, and it succeeded in explaining many economic issues. Moreover, numerous classical theories and "laws" remain influential and constitute foundational pillars of modern economic thought.

- The Neoclassical School: By the end of the nineteenth century, the neoclassical school emerged, with Alfred Marshall among its leading figures. One of its most significant contributions was the development of marginal concepts (marginal analysis) and their use in explaining theories of consumer behavior and production.
- The Marxist School: This school was founded by Karl Marx (from 1843 onward). It called for the elimination of manifestations of private ownership through a working-class revolution and the dispossession of the capitalist class of private property.[1]
- The Keynesian School: Emerging in the aftermath of the 1929 crisis, this school shifted much of economic inquiry from microeconomics to macroeconomics. It emphasized the role of both the public sector and the private sector in the economy.

Third: The Objectives and Importance of Economics

1. Objectives of Economics

- To understand, interpret, and analyze economic phenomena and issues in accordance with a sound and rigorous scientific methodology.
- To predict the future behavior of economic phenomena and variables at both the macroeconomic and microeconomic levels.
- To identify the nature of the economic problem and to rationalize economic decision-making.[2]
- Regulation and control of various economic phenomena: that is, modifying the rate and direction of their growth, eliminating them, or preventing their emergence when they are negative (such as economic crises); and, conversely, encouraging and fostering them when they are positive phenomena (such as economic growth). Such regulation and control are achieved by influencing the determinants that shape a given phenomenon. For example, to reduce the inflation rate, policymakers may act on one of its driving factors, such as wages.

[1] Hamdi Ahmad Al-Anani, Fundamentals of Economics, Al-Dar Al-Masriyya Al-Lubnaniyya, Egypt, n.d. (no publication year), p. 10.
[2] El-Hadj Jelloul yassine, Handout for the "Introduction to Economics" Module, prepared for First-Year Bachelor's (Common Core) students, Faculty of Economic, Commercial and Management Sciences, University of Tiaret, Academic Year 2022/2023, p. 11.

2. Importance of Economics

Economics is closely connected to human beings and society, as it seeks to identify the laws and principles that govern individuals' relationships with one another and their relationship with nature.

Fourth: The Relationship Between Economics and Other Disciplines

There is a close connection and reciprocal interaction between economics and other disciplines. Each of the social and applied sciences leaves a clear imprint on economics—both theoretically and practically—and the reverse is also true.

1. The Relationship Between Economics and Sociology

Economics is considered a branch of the social sciences because it studies human economic behavior in the process of satisfying needs and wants under conditions of limited economic resources. It focuses on economic aspects, and therefore overlaps with sociology, which examines social phenomena in their overall dynamics. Accordingly, the relationship between the two may be described as one of the whole and the part: economics studies economic phenomena, whereas sociology studies social phenomena more broadly.

2. The Relationship Between Economics and Law

Law regulates human activities, behaviors, and relationships in general—whether social or economic. Accordingly, an individual's economic relationships and activities, whether undertaken as a person, a group, a firm, or a society, are defined and governed within a legal framework. Moreover, before enacting legislation, the lawmaker typically takes into account the economic dimensions and the potential consequences that may result from the application of a given legal rule. This interdependence is evident, for example, in commercial law and in public procurement law.[1]

3. The Relationship Between Economics and Political Science

Among the disciplines most closely related to economics is political science. This close association is evidenced by the fact that economics was originally referred to as political economy, and for a long time it was studied under that designation. Both fields examine aspects of human behavior, and there is substantial overlap between their phenomena and instruments. In many instances, economic tools are employed to achieve political objectives, just as political tools are used to achieve economic objectives.[2]

[1] Mounir Rahmani, previously cited reference, p. 17.
[2] Mohammad Al-Wadi et al., Fundamentals of Economics, Al-Yazouri Scientific Publishing and Distribution, Jordan, 2007, p. 29.

4. The Relationship Between Economics and Psychology

Psychology studies individuals' personal behavior and psychological characteristics, on the grounds that human behavior arises from internal motives and psychological drives. Economics, in turn, is concerned with analyzing individual behavior and motivations in any economic decision or action. Thus, with respect to motives, inner drives, and internal psychological factors, economics intersects with psychology, since individuals' behavior—including economic behavior—results from a combination of psychological, social, economic, and cultural determinants.[1]

5. The Relationship Between Economics and History

Economics relies heavily, in its studies and analyses of economic reality, on historical research that traces the evolution of economic phenomena over time. Likewise, history draws on economics to achieve a more comprehensive understanding of the economic character of nations and societies within a given historical period. This interdependence has given rise to the field known as economic history.

6. The Relationship Between Economics and Logic

Economics relies on logic, which provides it with research methods, modes of reasoning, and sound approaches to the study of phenomena that lead to objective and logically consistent judgments. Logic also offers criteria for assessing the validity and plausibility of the results reached during analysis.

7. The Relationship Between Economics and Demography

Economics addresses issues related to human beings from an economic perspective; therefore, it requires population data and demographic information in order to study and analyze such phenomena and to determine their growth rates and future trajectories, such as economic growth and unemployment.

8. The Relationship Between Economics and Geography

Geography is concerned with studying the world and its spatial distribution across the Earth's surface, including its landforms, forests, and bodies of water, as well as the distribution and spread of economic resources. This helps economics to understand the impact of these factors on economic activity. Owing to this overlap, a field known as economic geography has emerged.

[1] Slimane Dahou, Lectures for the "Introduction to Economics" Module, prepared for First-Year Bachelor's (Common Core) students, Faculty of Economic, Commercial and Management Sciences, University of Ghardaia, Academic Year 2020/2021, p. 8.

9. The Relationship Between Economics and Mathematics

Economics makes use of mathematical methods for proof and analysis in order to reach precise results. The degree of progress and development of any discipline is often assessed by the extent to which it employs mathematics. As a consequence of the interaction between these two fields, a branch known as applied economics or econometrics has emerged.

10. The Relationship Between Economics and Statistics

Statistics provides the economic researcher with reliable information that enables the accurate, objective, and evidence-based examination of economic phenomena and problems. This is because statistics is concerned with the methods of data collection, processing, and transformation into precise and usable information. Through this process, economic phenomena are converted into quantitative values that can be handled through measurement, analysis, and classification, thereby facilitating the attainment of the most accurate possible results.[1]

Fifth: Branches and Methodological Approaches of Economics

1. Branches of Economics

Economic studies are generally divided into two main branches that complement one another:

1.1. Microeconomic Theory:

This branch focuses on analyzing the economic behavior of individual economic units, such as the behavior of consumers.

1.2. Macroeconomic Theory:

This branch is concerned with the study of aggregate (macroeconomic) phenomena at the national level, such as investment, saving, development and economic growth, inflation, as well as money markets, labor markets, and financial (securities) markets.[2]

2. Methodological Approaches in Economics

Scientific research methodologies make it possible to study and explain different phenomena and issues in a rigorous and precise manner. In analyzing and examining economic issues and phenomena, economics mainly relies on two approaches:

2.1. The Deductive Method:

[1] Mohammad Taqa et al., Fundamentals of Microeconomics and Macroeconomics, Ithraa for Publishing and Distribution, Jordan, 2008, p. 31.

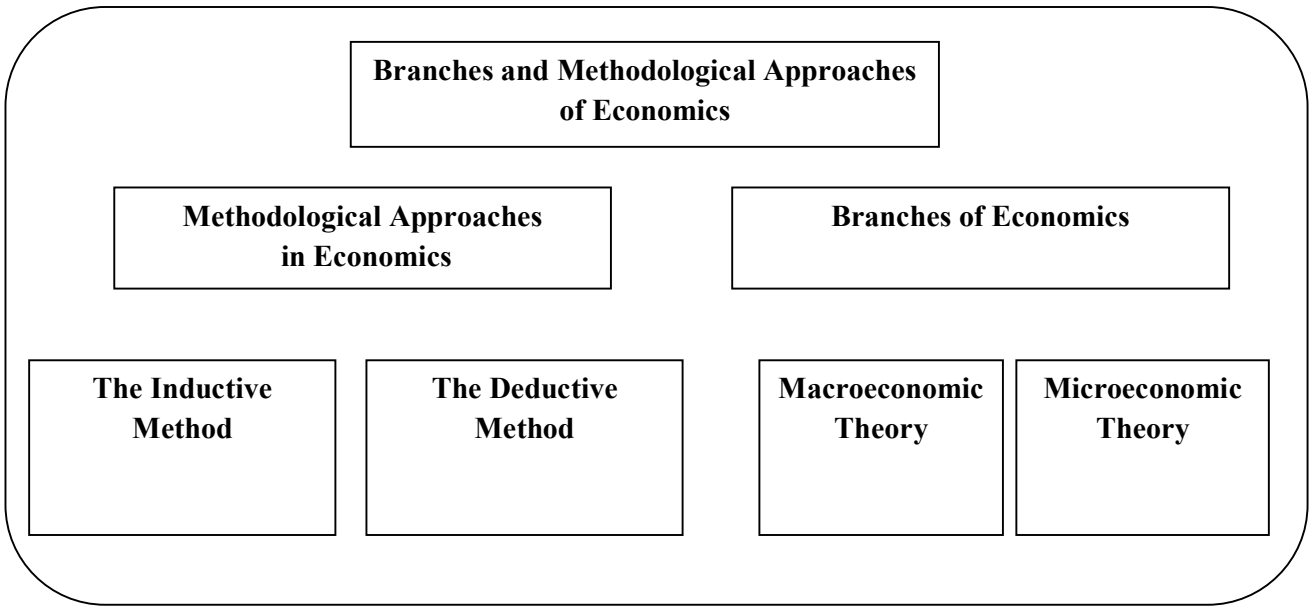
[2] Mohamed El-Sariti and Ali Abdel-Wahab Naga, Macroeconomic Theory, Al-Dar Al-Jami'iyya, Egypt, 2008, p. 11.

This method enables the interpretation of a given reality by starting from general ideas and overarching principles—that is, it proceeds from the general to the particular. It relies on assumptions and premises taken as valid, from which it derives laws and judgments applicable to a specific case.

2.2. The Inductive Method:

This method proceeds from particular observations to broader generalizations. For example, it may examine the behavior of a number of individuals within a given economic society and then generalize the findings into a broader conclusion.[1]

Figure (01): Branches and Methodological Approaches of Economics



Source: Prepared by the author based on Khalil Daâs, previously cited reference, p. 8.

[1] Khalil Daâs, previously cited reference, p. 16.

Chapter Two:
The Economic Problem and Its Treatment in Economic Systems

Chapter Two: The Economic Problem and Its Treatment in Economic Systems

The economic problem—often described as the problem of scarcity—constitutes the core subject matter of economics. It has confronted human beings and societies since ancient times and continues to do so to the present day. All economic systems have faced this problem and continue to face it, and each system has sought to respond to it in accordance with its own philosophy and principles.

First: The Economic Problem

Regardless of the differences among definitions of economics, they converge around a central point that lies at the heart of the discipline: the economic problem. Researchers have therefore attempted to provide a clear definition of this problem.

1. Content and Nature of the Economic Problem

Definition of the economic problem: It is the inability of society to satisfy all human needs for goods and services under conditions of scarce resources and limited means of production.[1]

It is the problem that economics examines in terms of the reasons for its existence and the ways in which it can be addressed. This problem arises from the multiplicity of human needs and the fact that their relative importance varies across individuals, as well as from the scarcity of the means of production and their suitability for alternative uses.[2]

The economic problem lies in the relative scarcity of available economic resources—despite their different types and quantities—and their limited capacity to satisfy human needs, which are multiple and continuously expanding. This constitutes the essence of the economic problem that economics seeks to address.

Accordingly, the economic problem is fundamentally a problem of resource scarcity, insofar as resources are used—directly or indirectly—to satisfy human needs. It is also a problem of choice among these multiple needs, based on determining which needs should be satisfied first and to what extent. This may require sacrificing certain needs, given that available resources are

[1] Adel Al-Mahdi and Lamia Al-Maghribi, Principles of Economics, Al-Ashry Press, Egypt, n.d. (no publication year), p. 34.
[2] Nawaf Al-Roumi, Principles of Microeconomics, University Publishing Center, Tunisia, 2003, p. 14.

unable to satisfy all needs simultaneously. Therefore, the economic problem rests on two interdependent pillars: scarcity and choice.[1]

Its pillars and components do not vary from one economic system to another; rather, differences arise in the philosophical foundations and the methods adopted to address (i.e., solve) it.

Since the limited availability and relative scarcity of economic resources do not allow for the fulfillment of all needs, individuals must prioritize among their needs and forgo some of them.

2. Characteristics of the Economic Problem

- **Universality**: The economic problem is universal across both time and space; it has existed since ancient times and extends to all societies and places.
- **Permanence**: It is enduring and persistent, applying to all eras and historical periods.
- **Relative Scarcity**: Resources are available only in limited and relative quantities, while their potential uses are multiple and continuously expanding.
- **A Problem of Choice and Allocation**: Because needs are increasing and resources are limited, choice and allocation become unavoidable.
- **Sacrifice (Trade-off):** Given rising needs and limited resources, some needs must necessarily be sacrificed in order to satisfy others, through comparison, prioritization, and the ranking of needs.[2]

3. Components of the Economic Problem

Three main questions confront any economic system. They constitute the core pillars of the economic problem, and the economic efficiency of systems is often assessed according to how they answer these questions:

3.1. What to produce?

This involves identifying the goods and services that members of society wish to have produced, specifying them qualitatively and quantitatively—that is, determining the types of goods (e.g., clothing or food products) and the quantities to be produced. Since it is impossible to satisfy all wants, society must select among alternatives, compare them, and produce within the limits of available capabilities.

[1] Ali Khalfi, Introduction to Economics: Concepts – Terminology – Questions, Algeria, Dar Osama for Printing, Publishing and Distribution, 2009, p. 18.
[2] Yassin El-Hadj Jelloul, previously cited reference, pp. 18–19.

3.2. How to produce?

This refers to the manner in which goods and services are produced, including determining the most appropriate technical and technological methods for producing the required outputs.

3.3. For whom to produce?

This concerns the way in which output is distributed among members of society—identifying who benefits from it and addressing issues of distributive justice. It implies that each individual's share of goods and services should correspond to the extent of their contribution to the production process, rather than necessarily being equal for all.[1]

Table (01): Characteristics of the Economic Problem

Characteristics of the Economic Problem	
What to produce?	Identifying the goods and services that members of society wish to have produced, and specifying them qualitatively and quantitatively—that is, determining the types of goods (e.g., clothing or food products) and the quantities required. Since it is not possible to satisfy all wants, the best alternatives must be selected and compared, and production must take place within the limits of available resources and capabilities.
How to produce?	It refers to the manner in which goods and services are produced, whereby the most appropriate technical and technological method is determined for producing the required goods and services.
For whom to produce?	It concerns the way in which output is distributed among members of society and the identification of its beneficiaries. Distributive justice implies that each individual's share of goods and services should be proportional to the extent of their contribution to the production process, rather than being equal for all.

Source: Prepared by the author, based on Ahmed Fawzi Melokhiya, previously cited reference, p. 10.

[1] Ahmed Fawzi Melokhiya, Microeconomics, Bustan Al-Ma'rifa Library, Egypt, 2005, p. 10..

4. Causes of the Economic Problem

Based on the various definitions and conceptualizations of the economic problem, a number of causes and determinants have been identified as leading to its emergence. Terminology differs across authors—some refer to them as causes, others as pillars or factors. In any case, addressing the economic problem requires identifying these underlying causes in order to understand its nature. The principal causes can be summarized as follows:

4.1. Relative Scarcity of Resources

The means available to human beings for satisfying their needs are limited under conditions of relative scarcity; therefore, it is impossible to achieve all objectives simultaneously. Individuals must make choices, and every choice necessarily entails a sacrifice (trade-off).

4.2. Human Needs

Needs represent a psychological state reflecting a desire to satisfy a material or immaterial deficiency. Human beings seek to obtain the necessary means to meet these needs.

4.2.1. Characteristics of Human Needs

Human needs are characterized by several key features:

- **Satisfiability**: Every need is, in principle, capable of being satisfied; this is the general rule.
- **Divisibility**: Human needs are divisible; as a need receives a certain degree of satisfaction, the intensity of its urgency declines.
- **Measurability (Ranking)**: Individuals are able to rank needs according to their relative importance in descending order based on urgency; however, the criterion for such measurement is subjective.
- **Substitutability**: One need may be substituted for, or replaced by, another.
- **Multiplicity and continuous growth**: Human needs are numerous, diverse, and tend to expand over time.[1]

4.2.2. Types of Human Needs

Human needs may be classified into several categories:

- **Material needs and immaterial (non-material) needs**: Food and housing are material needs, and their satisfaction requires material resources. By contrast, education, health, and friendship are immaterial needs and are satisfied through non-material resources.

[1] Abdallah Qalash, previously cited reference, p. 72.

- Necessities and luxuries: Needs differ in importance from one person to another, from one place to another, and from one time period to another. Necessities are those on which human life depends, whereas luxuries can be dispensed with without directly endangering life.

- **Individual needs and collective needs**: Individual needs are met by the individual, whereas collective needs are typically provided by the state.

4.3. Choice and Sacrifice (Trade-off)

Choice is a process of weighing the benefits (utility) of available alternatives in order to select the best possible option. Inevitably, making a choice entails sacrifice (a trade-off).

Second: Addressing the Economic Problem in Economic Systems

1. Confronting the Economic Problem in the Capitalist System:

The price mechanism is responsible for organizing economic activity, as it is viewed as an effective instrument for establishing equilibrium between production and consumption. It reflects the spontaneous and "natural" movements of prices resulting from the interaction of supply and demand forces in the market. Accordingly, it is considered capable of addressing the economic problem and guiding economic activity.

2. Confronting the Economic Problem in the Socialist System:

Central planning organizes economic life according to a general plan set by the central authority. This authority is supported by a number of administrative bodies, each specialized in examining a specific problem and proposing the decisions it deems appropriate.

3. Confronting the Economic Problem under the Islamic System:

Since Islamic economics is regarded as an integral part of Islam, it does not approach the economic problem in the same way as other economic systems. In this view, the economic problem in an Islamic framework arises not from the scarcity of resources, but from the misdistribution of resources, given the belief that God created the Earth in a way that is sufficient for all who live upon it throughout their lives.

4. Confronting the Economic Problem in the Mixed System:

As a system combining elements of capitalism and socialism, the mixed system addresses the economic problem by relying on both central planning and the price mechanism.

Chapter Three:
Factors of Production (Inputs of Production)

Chapter Three: Factors of Production (Inputs of Production)

Factors of production constitute the fundamental components that must be available for the production process to take place. In this sense, they include everything that contributes to production. The concept of factors of production has evolved alongside the historical development of economic systems and economic thought. Classical economists identified three primary factors—labor, land, and capital—reflecting the predominance of small, individually owned enterprises at the time. With the expansion of large industrial and commercial projects, a fourth factor, namely organization/entrepreneurship (management), was added due to its coordinating and organizing role in the production process.

More broadly, factors of production encompass all inputs required within the production process and are essential for obtaining final outputs. They are thus regarded as inputs to the production system. They have also been defined as the totality of the material and human elements of production that interact within a dynamic, reciprocal, and directed activity aimed at adapting natural resources and utilizing available endowments in accordance with human requirements.[1]

First: Land as a Factor of Production

1. Concept of Land

In economics, land refers to all natural resources that are not created by human intervention. It is not limited to the surface of the earth; rather, it also includes what lies beneath it—such as minerals—and what exists on it, including forests, water resources, and other natural endowments.

Although land is a relatively permanent and fixed factor that is not subject to reproduction in the same way as other inputs, human beings—through scientific and technological progress—have increasingly been able to influence natural resources effectively. This is evident in activities such as land reclamation, river diversion, canal excavation, space exploration, deep-sea exploitation, the discovery of new minerals, and the construction of roads, among others. Through such activities, humanity has been able to harness nature in the service of meeting and satisfying human needs.[2]

[1] Abdallah Qalash, previously cited reference, p. 82.
[2] Slimane Dahou, previously cited reference, p. 41.

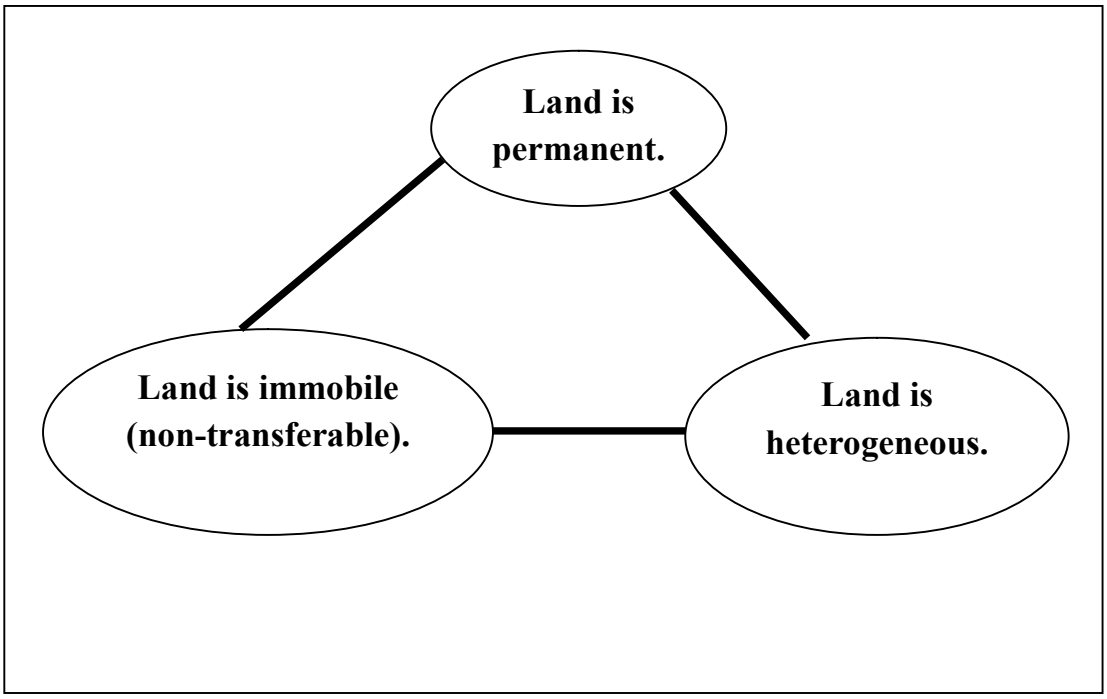
2. Characteristics of Land

This resource is characterized by the following features:

Land is a gift from God.

- **Land is permanent**: The productive capacity of land is renewable, and it can be utilized repeatedly through the treatments and practices adopted by individuals to extract what the land contains.
- **Land is heterogeneous**: It is difficult to find uniformity across different plots of land; each parcel has specific characteristics, whether in terms of fertility or in terms of containing different quantities of minerals.
- **Land is immobile**: It is impossible to move a piece of land from one location to another. This gives rise to differences in the return to this factor—namely rent—from one plot to another, due to variations in land attributes.[1]

Figure (02): Characteristics of Land as a Factor of Production



Source: Prepared by the author, based on Mahmoud Al-Wadi et al., previously cited reference, pp. 39–40.

[1] Mahmoud Al-Wadi et al., Fundamentals of Economics, 1st ed., Al-Yazouri Scientific Publishing and Distribution, Jordan, 2007, pp. 39–40.

Second: Labor as a Factor of Production

1. Concept of Labor

Labor represents a common denominator among all human beings. It may be viewed as a dynamic process carried out between human beings and nature, realized through the use of technology. In this sense, labor comprises a set of goal-oriented activities through which individuals act upon material objects using their minds and hands, and through the use of tools and machinery. In turn, these performed activities contribute to improving and developing human conditions.[1]

Labor refers to human work that embodies muscular (physical) or mental effort directed toward the production of goods and services. The contribution of labor to production depends on the size of the labor force and on the efficiency/productivity of labor in the production process.

Labor may also be defined as a physical and intellectual activity exerted consciously and purposefully by human beings to achieve objectives—whether immediate or long-term—that may be individual or social in nature.[2]

Labor is the conscious, deliberate effort through which individuals aim to produce goods and services in order to satisfy their needs. However, labor is shaped by surrounding factors and conditions, which leads researchers to study and analyze work in order to achieve organizational objectives while simultaneously meeting the needs of the individual.[3]

2. Division of Labor

Numerous factors influence the division of labor and the determination of its forms, particularly those related to the worker (such as educational qualifications, talents, physical strength, and technical competence), as well as the social environment in which the worker lives and the conditions under which work is performed:

- **Manual (physical) work and intellectual work**: The former requires muscular effort, relying on hands and the use of tools and machinery; the latter primarily requires mental effort and a high level of education and knowledge.

[1] Latifa Klakhi, Lectures for the "Introduction to Economics" Module, prepared for First-Year (Common Core) students, Department of Economic Sciences, University of Tiaret, Academic Year 2020/2021, p. 36.
[2] Nasser Qasimi, Glossary of Terms in the Sociology of Organization and Work, National Office of University Publications (OPU), Algeria, 2011, p. 95.
[3] Sultan Al-Mishaan Owaid, Industrial Psychology, Al-Falah Library for Publishing and Distribution, Lebanon, 1994, p. 43.

- **Unskilled (simple) work and skilled/technical work**: Unskilled work does not require complex levels of mastery or skill, whereas skilled/technical work depends on experience, skill, and competence.
- **Occupational division of labor (specialization):** Each individual specializes in a specific job, leading society to be divided into farmers, industrial workers, traders, artisans, and so forth.
- **Division of labor among firms**: For a factory to produce a given good, it does not necessarily have to manufacture all the required inputs (machines, services, components, etc.). Instead, it benefits from the advantages of large-scale production provided by other industries. For example, it may obtain glass from a company specialized in glass manufacturing, and tires, batteries, and other inputs from other firms.
- **Technical division of labor**: This refers to breaking down the production process of a single good into multiple stages, such that one individual or a group of individuals carries out a single stage or part of it. This concept reflects specialization within the same firm.
- **International division of labor**: This refers to the specialization of a country in producing one or more goods due to the availability of production factors within it and their scarcity in other countries.[1]

Third: Capital as a Factor of Production

1. Definition of Capital

In economic terms, capital refers to a stock of material assets used in production in order to raise the productivity of human labor, or more broadly, to wealth employed in producing goods and services. Capital is commonly classified into:

Fixed capital (productive assets): assets that can be used in production more than once without being physically exhausted, such as machinery and equipment.

Circulating/working capital: inputs that cannot be used more than once in production, such as raw materials and intermediate goods.

2. Types of Capital

Capital may be classified as follows:

❖ **Fixed capital and circulating (working) capital:**

Fixed capital includes items that are not used up, or do not undergo substantial change, when used in production more than once, such as machinery,

[1] Slimane Dahou, previously cited reference, pp. 42–43.

equipment, and buildings. Circulating capital includes inputs that enter directly into the production of a good and are used up in a single production cycle, such as raw materials, fuel, and semi-finished (intermediate) goods.

❖ **Real (physical) capital and monetary (financial/value) capital:**

Real capital consists of machinery, equipment, buildings, raw materials, and similar items—namely, inputs that contribute directly to the production process. Monetary (or value) capital, by contrast, refers to legal purchasing power that enables its holder to buy goods; it may also be understood as representing ownership claims over these machines and buildings.

❖ **Social capital and private capital:**

Social capital typically refers to capital managed by the state and not primarily aimed at profit; rather, it comprises projects intended to serve citizens and the national economy—such as roads, bridges, and power-generation stations. Private capital includes assets owned by individuals, such as machinery and buildings, and is primarily oriented toward profit-making.

❖ **National capital and foreign capital:**

National capital includes assets owned by citizens of the state, whether they reside within the country or abroad. Foreign capital refers to assets owned by foreign individuals or foreign firms operating within the national economy; these funds remain the property of foreign owners and are made available to the host country, with the capital owner typically receiving a return (e.g., interest).[1]

Fourth: Organization/Entrepreneurship as a Factor of Production (Entrepreneur / Organizer)

1. Definition of Organization/Entrepreneurship

It is the process of combining and coordinating the factors of production in order to carry out the production process, while bearing production risks arising from uncertainty regarding the return on production.

Organization (entrepreneurship/management) is regarded as a fundamental factor of production alongside land, labor, and capital. It refers to the individual who undertakes the task of assembling and coordinating the various factors of production with the aim of producing goods and services and generating profit.

2. Functions of the Entrepreneur/Organizer

- Making decisions related to production, pricing, and investment.
- Organizing and coordinating the factors of production (labor, land, and capital).

[1] Slimane Dahou, previously cited reference, p. 45.

- Bearing risks associated with uncertainty and market fluctuations.
- Innovating and renewing by introducing new methods or new products.
- Planning and control to ensure the efficient and orderly functioning of the production process.

Fifth: Returns to the Factors of Production

The factors of production receive compensation in return for their participation and contribution to the production process. This compensation is referred to as the returns to the factors of production, and it is essential for motivating these factors to participate in production. It represents the material earnings obtained by the owners of the factors of production in exchange for their involvement in the production process.

1. Return to Land: The return to land is rent. According to David Ricardo, rent is the return derived from the use of natural powers that are not subject to depreciation. The value of rent is the compensation received by the owners of natural resources, and it is determined by the level of demand for them: when demand is high, rent increases; conversely, when demand declines, rent decreases.[1]

2. Return to Capital: The return to capital is interest—that is, the income received by the owner of capital as a result of participating in the production process and foregoing its present use (i.e., sacrificing current consumption/benefit). From a production perspective, it represents the cost incurred by the firm to obtain the capital required to carry out the production process.

3. Return to Labor: The return to labor is the wage. A wage is the compensation received by the worker in return for participating in the production process. From the standpoint of production, it is viewed as the cost of labor, calculated per unit of time worked or per unit of output.[2]

4. Return to Organization/Entrepreneurship: The return to organization is profit. Profit refers to the income earned by the entrepreneur/organizer as a result of participating in production and assuming responsibility for organizing, directing, and coordinating the factors of production. It is defined as the difference between revenues and costs.

[1] Mohamed Medhat Mostafa, Economics of Agricultural Land: Foundations, Theories, and Applications, Al-Ishaa' Technical Library for Printing, Publishing and Distribution, 1998, pp. 137–139.
[2] Diaa Majid Al-Mousawi, Economic Theory: Microeconomic Analysis, National Office of University Publications (OPU), Algeria, 1990, p. 331.

Chapter Four:

Economic Agents (Economic Units)

Chapter Four: Economic Agents (Economic Units)

Economic agents constitute fundamental components of any economic system. Their functions are diverse and extend across economic activity, notably production, distribution, consumption, investment, and saving. They are also key drivers of growth and development and play an important role in achieving economic stability and sustainable development.

The term "economic agents" encompasses a wide range of actors, including firms, individuals (households), and government entities, all of whom contribute to the creation of value and to its distribution within society.

First: Definition of Economic Agents

An economic agent is any natural person or legal entity that carries out an economic activity.[1]

An economic operator is any natural person or legal entity that performs economic functions generating economic flows.[2]

Second: Classification of Economic Agents

Economic agents (economic operators) may be classified into the following sectors:[3]

1. The Household Sector

This sector consists of all individuals and families in society who share similar economic behavior. It is considered the most important sector because it includes all members of society. Household activities include:

-Allocating part of their income to consumption expenditure (goods and services).

- Saving the remaining portion of their income.
- Investing their savings.
- Paying taxes and fees to the state.

Households are regarded as the sole owners of the factors of production, as they include workers, capital owners, entrepreneurs/organizers, and landowners—in other words, they are members of society regardless of what they own.

They supply the production sector with factor services—labor, land, capital, and organization—and receive in return the returns to the factors of production, namely wages, rent, interest, and profits.

[1] Mounir Rahmani, previously cited reference, p. 45.
[2] Ali Lahoual, Lecture Series for the "Introduction to Economics" Module, Department of Economic Sciences, University of Sidi Bel Abbès, Academic Year 2016/2017, p. 55.
[3] Mounir Rahmani, previously cited reference, p. 45.

Their primary activity is consumption, particularly of final goods and services; hence, households are often referred to as the consumption

2. The Business Sector (Production Sector / Firms)

This sector consists of economic enterprises (firms) that carry out the production of goods and services. Its main activities include:[1]

- Producing goods and services by transforming inputs (material and human resources) into outputs and selling them in the market.
- Undertaking investment to expand its activity or to renew and modernize its means of production.
- Paying taxes and fees to the state.

This sector does not own the factors of production; rather, it obtains them from the household sector and pays the corresponding factor returns as follows:

Wages → Labor

Interest → Capital

Rent → Land (and, in some contexts, access to natural resources/raw materials)

Profit → Organization/Entrepreneurship

- The business sector organizes the production process by combining the factors of production to generate goods and services, thereby supplying households with final goods and supplying firms with intermediate goods.
- Its expenditure is referred to as investment expenditure.

Financial institutions are entities that collect the savings of economic agents and provide them in the form of loans in return for interest, thereby generating profits. In doing so, they mobilize savings, extend credit, pay taxes and fees, and consume goods and services.

3. The Government Sector (Public Administration / The State)

This sector includes all state institutions and structures that provide public services—often free of charge—by supplying essential projects and facilities that the business sector does not typically provide. It undertakes the following:

- Purchasing goods and services from the business sector.
- Conducting expenditure that includes government spending, consumption spending, and investment spending.

- Obtaining the financial resources needed to fund its expenditure primarily through taxation; when tax revenues are insufficient, it resorts to public borrowing.

[1] Yassin Jelloul, previously cited reference, p. 48.

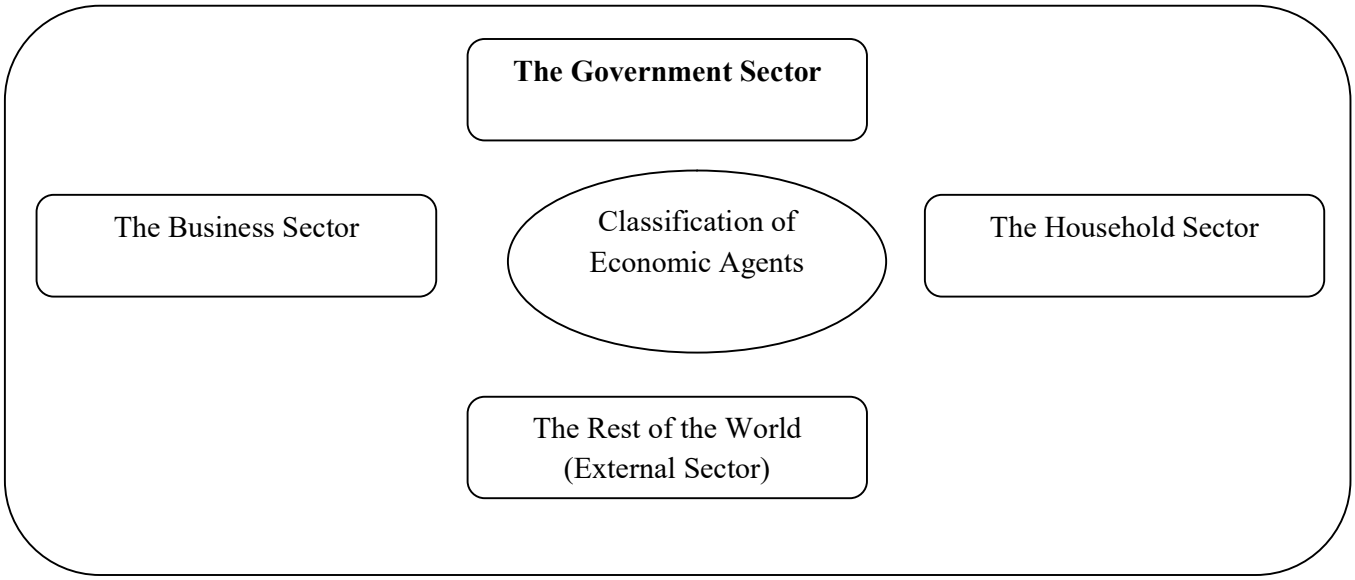
- Providing subsidies to the production sector in order to influence the supply side.
- Providing support/subsidies to households to encourage consumption expenditure (i.e., the demand side).

4. The Rest of the World (External Sector) (Academic Translation)

No country can completely close its borders and rely solely on its own production. The rest of the world refers to foreign economic units—households, firms, and governments—that maintain economic relationships with resident (domestic) economic agents. These relationships primarily take place through:

- Exports and imports of goods and services.
- International capital flows (the movement of capital).[1]

Figure (03): Classification of Economic Agents



Source: Prepared by the author.

[1] Yassin Jelloul, previously cited reference, p. 49.

Chapter Five:

Economic Activities

Chapter Five: Economic Activities

Economic activity refers to the efforts exerted by individuals to satisfy their needs or to obtain income, goods, and services. It also denotes the actions and exchanges undertaken by individuals within the economic sphere, namely production, consumption, exchange, and distribution.[1]

It may also be defined as society's undertaking to use its available resources to produce goods and services that satisfy the greatest possible share of individuals' needs within a given period of time.[2]

First: Production Activity

Production is a means upon which human beings have relied since ancient times up to the present day. Throughout the historical course of human existence, it has enabled people to survive and adapt to successive changes and developments. Early humans depended primarily on agriculture and hunting as the main sources of production to satisfy their needs. As humanity progressed, the tools and methods of production also evolved. Consequently, the concept of production itself developed and was defined in various ways across different schools of economic thought. The Physiocratic school emphasized the role of nature; the classical school regarded labor as the central element in the production process; in neoclassical (marginalist) thought, the analysis expanded further; and in modern economic thought, the four factors of production were incorporated in shaping the concept of production.

The production process expresses the ongoing interaction—often described as a "struggle"—between human beings and nature. Since individuals do not live in isolation but rather within communities, production is also a social process grounded in relationships among members of society, particularly through cooperation and the division of labor. This division occurs both within the production unit and among different production units.

Given its importance for both individuals and groups, people—individually and collectively—have been concerned with organizing and managing their limited resources within production units to obtain the output required to satisfy their growing needs. As social and economic relations have become more complex and interdependent, the need has increased for greater efforts to organize and manage resources so as to achieve production with a high degree of economic efficiency.

[1] Fathallah La'lou, Political Economy, Dar Al-Hadatha for Printing and Publishing, Lebanon, 1981, p. 454.
[2] Ismail Ahmed Al-Shenawy and Mohamed Fawzi Abu Al-Su'ud, Microeconomic and Macroeconomic Theory, Al-Dar Al-Jami'iyya, Egypt, 1995, p. 14.

Production—whether of material goods or services—constitutes the foundation of individual and collective human activity. It is the basis upon which economic and social development is built, and it is a key indicator used to measure a society's progress and advancement.

1. Concept of Production

In economic usage, production refers to any activity that creates utility or increases it in the form of goods or services. Thus, transforming raw materials into goods is a productive activity; transporting goods is also productive; storage is productive; and intermediation between sellers and buyers is productive. The first activity generates form utility, the second generates place utility, the third generates time utility, and the fourth generates ownership (possession) utility.

Production may also be defined as the total quantity of goods and services obtained through the combined contribution of the various factors of production at a specific place and time.[1]

Production has also been defined as the conscious and purposeful human effort exerted to make resources suitable for satisfying human needs, either by creating the utility through which those needs are met or by enhancing that utility so that the good becomes more capable of satisfying needs.[2]

Production may be understood as the process of transforming inputs (inputs) into outputs (outputs); that is, converting the factors of production purchased by the firm into products that the firm subsequently sells. [3]

From the standpoint of modern economic thought, production does not mean creating matter—since creation is an act that belongs exclusively to God Almighty—rather, it consists in creating utility or adding new utility; that is, discovering new uses that were previously unknown and transforming the form of matter so as to satisfy human needs.

2. Factors of Production (Academic Translation)

Factors of production include everything that contributes to the production process. Initially, they were identified as three—labor, land, and capital—reflecting the predominance of individually owned enterprises. With the expansion of large industrial and commercial projects, a fourth factor—

[1] Abdallah Khebbaba, Lecture Handout in General Economics, Faculty of Economic, Commercial and Management Sciences, University of M'sila, Academic Year 2018/2019, p. 48.
[2] Zeinab Hussein Awadallah, Magdy Mahmoud Shehab, and Osama Mohamed Al-Fouli, Principles of Political Economy, New University House for Publishing, Egypt, 2000, p. 49.
[3] Diaa Majid Al-Mousawi, Foundations of Economics, Part One, 2nd ed., National Office of University Publications (OPU), Algeria, 2013, p. 193.

organization/entrepreneurship—was added due to its coordinating role in the production process.

2.1. Land: In economics, land refers to all natural resources that are not created by human intervention. It is not limited to the earth's surface; it also includes what lies beneath it (minerals) and what exists on it, such as forests, water resources, and other natural endowments.

2.2. Labor: Labor is human work that embodies physical (muscular) or mental effort directed toward producing goods and services. The contribution of labor to production depends on the size of the labor force and on labor efficiency/productivity in production.

2.3. Capital: Economically, capital is a stock of material assets used in production to raise the productivity of human labor, or wealth employed to produce goods and services. Capital includes fixed capital (productive assets) that can be used more than once without being exhausted, such as machinery, and circulating/working capital, which is used up in a single production cycle, such as raw materials and intermediate goods.

2.4. Organization/Entrepreneurship: This is the process of combining and coordinating the factors of production to carry out production, while bearing production risks arising from uncertainty regarding the return on the production process.

Table (02): Factors of Production

Factors of Production	Definition
Land	In economics, it refers to all natural resources that are not created through human intervention.
Labor	It refers to human work that embodies physical (muscular) or mental effort directed toward producing goods and services.
Capital	In economic terms, it refers to a stock of material assets used in production to increase the productivity of human labor, or more broadly, to wealth employed in producing goods and services.
Organization / Entrepreneurship (Management)	It is the process of combining and coordinating the factors of production to carry out the production process, while bearing the risks associated with production.

Source: Prepared by the author.

3. Importance of Production

Production is important because it creates and generates economic utility for society, and it is regarded as a key driver and engine of the economic cycle:

- It is a means of satisfying human needs.
- It constitutes a fundamental source of income for individuals through their roles and jobs in society. The factors of production earn returns from the production process according to their respective contributions: natural resources generate rent, labor earns wages, and the owner of capital earns profit.
- It contributes to societal growth and development by ensuring a continuous and sustained supply of goods and services, and by generating profits for individuals and firms.

Production also contributes to generating the following forms of utility:[1]

- **Form utility**: by changing the nature or form of a material and transforming it into a good or service (e.g., converting wood into furniture).
- **Place utility**: by transporting goods and services to locations where they are needed (e.g., moving agricultural products from rural areas to cities).
- **Time utility**: through storage, whereby products are held until the time they are needed.
- **Ownership (possession) utility**: through the transfer of ownership of goods and services from one person to another.

4. Types of Production

Production includes both of the following:

4.1. Material (Commodity) Production: This is production that involves transforming materials and reshaping them, such as the manufacture of clothing.

4.2. Non-material (Service) Production: This refers to intangible, non-commodity forms of output (services), such as education and telecommunications.

[1] Mahmoud Al-Wadi et al., Fundamentals of Economics, 1st ed., Al-Yazouri Scientific Publishing and Distribution, Jordan, 2007, pp. 37–38.

5. Production System

A production system refers to the method and manner in which the factors and elements of production are combined in order to obtain a particular good or service. It typically takes the form of inputs, processes, and outputs. Production systems may be classified as follows:[1]

5.1. The Industrial Production System: A system that encompasses production processes aimed at obtaining tangible material goods. It represents the organizational framework for production management.

5.2. The Service Production System: A system that encompasses production processes aimed at producing services, representing the organizational framework for operations management.

6. Production and Operations Management

Whereas "production" was once understood primarily as transformation processes that convert raw materials into goods and services, its scope has expanded to include all processes carried out by various organizations—commercial, agricultural, financial, and service-oriented—in delivering goods and services. Accordingly, several definitions of production and operations management have emerged, reflecting different perspectives and historical developments:

- **Operations management (decision-making perspective):** Operations management focuses on making decisions related to production processes so as to produce goods in accordance with specified standards, in the required quantities and time schedules, and at the lowest possible cost.
- **Operations management (transformation-systems perspective):** Operations management is the management of transformation systems that convert inputs—i.e., factors of production—into outputs (goods and services).
- **Operations management (materials/resources perspective):** Operations management is the management of all human and material resources required to deliver goods and services.
- **Operations management (production-systems perspective):** Operations management refers to the responsibility of organizers/managers for managing production systems that produce goods and services.

[1] Nasser Al-Mansour Kasser, Production and Operations Management, Dar Hamed for Publishing and Distribution, Jordan, 2000, p. 26.

7. Production and Productivity

Productivity measures the efficiency with which resources are combined and utilized within organizations to achieve desired outcomes. It aims to attain the highest level of performance with the least possible expenditure of resources. Production, by contrast, refers to the creation of utility in the form of goods and services, through using factors of production as inputs and transforming them into outputs. Productivity expresses the relationship between the inputs and outputs of the production process and thus serves as an indicator of the effectiveness and efficiency of production.

Second: Distribution Activity

After production takes place, the returns to the factors of production are distributed among those who contributed to production. This gives rise to a set of factor returns, including profits, interest, wages, and rent.

1. Definition of Distribution

Distribution refers to the allocation of the total value of goods and services produced within society over a given period among those who participated in the production process; that is, it concerns how national income is distributed among the factors of production.[1]

It also denotes the distribution of national income and wealth among the productive forces in society, as well as the division of total output among individuals, sectors, and groups. Accordingly, distribution is the mechanism through which national income and wealth are allocated among members of society, its social categories, and its sectors, in accordance with the prevailing economic system and within the framework of societal values and traditions.

Distribution may be defined, more generally, as the division of total output among individuals and sectors in society.[2]

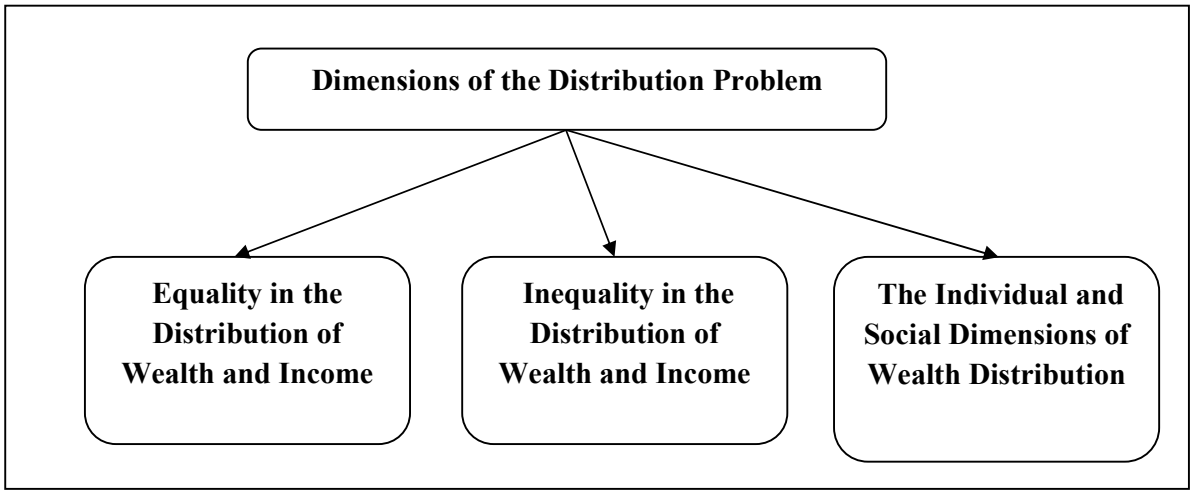
2. Dimensions of the Distribution Problem

The distribution problem lies in the difficulty of determining the optimal method for allocating wealth and national income among individuals, society, and its sectors, due to the interrelated economic, political, social, and religious dimensions involved. Several approaches to distributing wealth and income may be distinguished:[3]

[1] Abdallah Qalash, previously cited reference, p. 110.
[2] Mostafa Roshdy Shiha, Economics through Microeconomic Analysis, New University House, Egypt, 1999, p. 613.
[3] Yassin Jelloul, previously cited reference, p. 84.

- **Equality in the distribution of wealth and income**: This approach seeks to establish equality and eliminate most forms of disparity in the distribution of wealth and income among members of society, based on a social perspective.
- **Inequality in the distribution of wealth and income**: This approach is grounded in the individual dimension of distribution, recognizing differences in the allocation of wealth and income among individuals on the premise that individuals differ in talents and in the wealth they have accumulated through their own efforts or inherited from their parents.
- **The combined individual and social dimension in wealth distribution**: Adopting a purely social dimension in distributing wealth and income may hinder production and work due to the absence of incentives, thereby negatively affecting societal development. Conversely, a purely individual dimension may undermine social justice and lead to class-based inequality. Hence, reconciling the two dimensions and creating a balance between production efficiency and social justice yields this dual approach.

Figure (04): Dimensions of the Distribution Problem



Source: Prepared by the author.

3. Types of Distribution

Economic thought has evolved in addressing the distribution problem by emphasizing two principal dimensions: a collective dimension aimed at achieving social justice, and an individual dimension aimed at achieving productive efficiency. Accordingly, the method of income distribution among individuals is shaped by the prevailing pattern of ownership of the means of production within society. In the first instance, distribution tends to favor those who participated in the production process—namely, the owners of the factors of production—through the determination of factor returns. However, the initial (primary) distribution of income may be regarded as unfair from society's perspective, which may necessitate redistribution. Therefore, two main types of distribution can be distinguished:[1]

3.1. Functional Distribution:

This refers to the distribution of returns to the factors of production. Income is allocated among the four factors of production according to each factor's contribution to the production process. Hence, individuals' shares in national income differ based on their respective contributions to production.

3.2. Personal Distribution (Redistribution):

Personal distribution—also referred to as income redistribution—allocates income among members of society regardless of each individual's direct contribution to the production process. It is thus collective and social in nature.

4. Distribution in Economic Systems

Economic systems differ in how they determine the methods of distributing wealth and income, reflecting differences in their underlying ideologies:

4.1. Distribution in the Capitalist System:

Since capitalism is based on private ownership, inequality in income distribution is often considered a natural outcome. Classical, neoclassical, and Keynesian approaches have argued that distributional inequality is a necessary condition for societal development. Accordingly, their analyses focused on the laws governing the distribution of output through factor returns, thereby adopting a functional distribution perspective.

4.2. Distribution in the Socialist System:

[1] Cherif Bouqosba and Tarek Gaddouri, Introduction to Economics, Dar Al-Houda for Printing, Publishing and Distribution, Algeria, 2021, p. 49.

Socialism is grounded in collective ownership of the means of production. Consequently, wealth and income are distributed in favor of society as a whole, according to the quantity and quality of labor exerted in the production process—reflecting the collective dimension of distribution.

5. Distribution of Returns to the Factors of Production

Economists have identified four main types of returns corresponding to the four factors of production:

5.1. Rent: According to Ricardo, rent is the payment made to the owner of agricultural land in exchange for the right to exploit it. More generally, it refers to monetary payments received by landowners for the use of land services in the production process.[1]

5.2. Wages: The meaning and nature of wages differ between capitalist and socialist systems. Wages have been defined as the price of labor, or the amount of money paid by the employer to the worker in return for services rendered. For the worker, wages represent the income earned in exchange for the effort exerted over a given period on behalf of the employer. Wages may be paid in monetary form and may correspond to either mental or physical effort.[2]

5.3. Interest

Although definitions of interest vary, they share a common substance: interest is the price paid for the use of capital, arising from a genuine saving (i.e., a real sacrifice of current use). According to Adam Smith and David Ricardo, interest is the compensation paid by the borrower for the profit that could have been earned had the lender invested their funds.[3]

For Keynes, interest is the price of giving up liquidity (or the opposite of hoarding). It is the price that must be paid to money holders to induce them to relinquish liquid assets in the form of cash, or to shift into other assets that carry greater risk.

Interest may also be defined as the income of capital, or as the price that must be paid for the services of capital within the production process.

5.4. Profit:

Profit is the return earned by the entrepreneur/organizer from the project. It is not fixed, as it varies according to production conditions, costs, and market conditions of supply and demand.

[1] Goumeziane Smail, Le pouvoir des rentiers, Éditions EDY 2000, Algiers, Algeria, 2003, p. 37.
[2] Salah El-Din Abdel-Baqi, Modern Trends in Human Resource Management, New University House for Publishing, Egypt, 2002, p. 286.
[3] Hazem Al-Bilawi, History of Economic Thought, Egyptian General Book Authority, Egypt, 1997, p. 145.

Profit: It is the net return (or the entrepreneur's income) obtained when the organizer succeeds in making total costs lower than total revenue. Some economists have regarded profit as a reward for the risks surrounding invested capital; in this sense, it may be treated as a type of cost that is often estimated in advance.[1]

Third: Consumption Activity

Consumption constitutes a crucial link in the chain of economic activity; it is both the objective and a key driving force of economic activity.

1. Definition of Consumption

Providing a precise theoretical definition of consumption is difficult due to the multiplicity of economic, social, psychological, and cultural factors involved in shaping it. Consumption has been defined in several ways, including:

- According to S. L. Slavin, consumption is the aggregate demand for all consumer goods and services.[2]
- The use of goods and services for the purpose of satisfying individuals' needs; that is, the final use of goods and services.
- The portion of national income allocated to purchasing consumer goods and services that satisfy needs and generate utility.
- The spending of consumers' incomes in order to obtain the satisfaction derived from using the goods and services they purchase in goods and services markets.[3]
- Bradley also defined consumption as consumers' spending on final goods and services.[4]
- Consumption may also be defined as the portion of national income allocated to spending on consumer goods and services in order to satisfy human needs.[5]

2. Determinants of Consumption According to Keynes

According to Keynes, there are principal factors that may lead individuals to refrain from spending part of their income. These factors can be grouped into:

2.1. Subjective Factors:

These reflect a personal attitude toward consumption that inclines individuals toward lower levels of spending. Key examples include:

[1] Slimane Dahou, previously cited reference, p. 60.
[2] S. L. Slavin, Macroeconomics, McGraw-Hill/Irwin, 8th ed., 2008, p. 494.
[3] Ali Khalfi, Introduction to Economics, Dar Osama, Algeria, 2009, p. 122.
[4] Bradley R. Schiller, Essentials of Economics, 8th ed., New York, 2001, p. 252.
[5] Abu Al-Qasim Omar Al-Tabouli, Principles of Analytical Macroeconomics, Open University Publications, Tripoli, 1991, p. 37.

- Building a contingency reserve for emergencies and unforeseen events.
- Seeking better future conditions, such as financing children's education.
- Aspiring to a higher standard of living.
- Saving for speculative activities and trading.
- Miserliness, or a sense that any spending is unwarranted or unjustified.

2.2. Objective Factors:

These refer to objective conditions within the society in which the individual lives that may shift the consumption function. They may increase consumption or reduce it, and include:

- **Wealth**: the total value of individuals' assets, including financial and real estate holdings. An increase in wealth tends to raise consumption, whereas a decrease in wealth tends to reduce it.
- **Income**: income plays a major role in determining consumption, since higher income generally leads to higher consumption.
- **Price level**: Consumption levels are influenced by the general price level. A decline in the overall price level increases the real value of liquid assets—that is, the purchasing power of wealth (the purchasing power of money rises)—which tends to increase the share of income allocated to consumption. Conversely, when prices rise, the purchasing power of wealth declines, consumption levels fall, and this is reflected in purchasing smaller quantities of goods and services.[1]
- **Interest rate**: Interest rates are considered returns and incentives for saving. An increase in interest rates tends to raise saving and reduce consumption (a downward shift of the consumption function). When interest rates decrease, consumption tends to increase (an upward shift of the consumption function).
- **Expectations**: Expectations and forecasts regarding prices and wealth affect consumption. If an individual expects an increase in future income, they may purchase larger quantities of goods and services even if current income has not yet changed. The more optimistic expectations are about income and wealth, the higher consumption tends to be, and vice versa.
- **Demographic effects and social factors**: Population growth increases the propensity to consume. Demographic influences extend beyond population growth to include the age structure of the population. Moreover, higher educational attainment is associated with higher consumption in consumption patterns linked to development and modernization.[2]

[1] Khaled Wasif Al-Wazni and Ahmad Hussein Al-Rifai, Principles of Macroeconomics: Between Theory and Practice, 10th ed., Dar Wael for Publishing, Jordan, 2009, p. 166.
[2] Samer Abd Al-Hadi, Principles of Macroeconomics, 1st ed., Dar Wael for Publishing and Distribution, Jordan, 2013, pp. 124–126.

- **Taxes**: An increase in taxes reduces the portion of income available for consumption, and vice versa.
- **Fiscal policy**: This refers to the measures adopted by the state to influence economic activity. According to Keynes, fiscal policy affects consumption through its impact on income distribution. In particular, public debt policy may positively affect consumption by influencing liquidity and real income.
- **Customs and traditions**: Consumption patterns are influenced by the characteristics of each society, including customs, traditions, and religious and national rituals. For example, some societies consume more meat and fish, others consume more plant-based products, and others spend more on home heating due to colder climates.

3. Consumption Theories

There are several theories that examine the relationship between consumption and saving in order to understand the link between income and consumption:

3.1. Absolute Income Hypothesis: This theory holds that consumption is determined by the absolute level of income. The fundamental relationship between consumption and income is represented by the short-run consumption function, which shifts upward over time, giving rise to a long-run consumption function.

3.2. Relative Income Hypothesis: This theory argues that the basic relationship between income and consumption is proportional. If income rises while its distribution remains unchanged, consumption will increase as a proportion of income. An individual's consumption behavior is influenced by the consumption behavior of others; thus, when absolute income increases by the same proportion, individuals' relative positions in the income distribution remain unchanged, and their relative income remains constant despite the increase in absolute income.

3.3. Permanent Income Hypothesis: This theory posits that a household's consumption in a given year depends on its permanent income, i.e., the income it expects to be sustained over time.

3.4. Life-Cycle Hypothesis: This theory suggests that individuals' consumption is primarily determined by long-term factors, notably the income they expect to earn over their lifetime. Individuals attempt to smooth and stabilize their consumption expenditure by comparing it against the normal pattern of income over their lives.

Fourth: Income Activity

Income constitutes a fundamental issue in the economic life of individuals and societies, since it enables the individual or the community to secure present and future needs and requirements. It also represents a source of the various values and benefits obtained by individuals over a given period of time.

1. Definition of National Income

Before defining income, it is useful to distinguish it from wealth:[1]

- Wealth is a stock (cumulative) concept, referring to everything an individual owns in terms of money and tangible assets.
- Income is a flow concept, referring to the earnings that an individual receives over a specific period of time.

Income can be defined from several perspectives:

- **From the production perspective**: it refers to the total output of goods and services produced by society within a given period, represented by the stock/volume of goods and services from which individuals benefit (i.e., the aggregate value of goods and services produced).
- **From the distribution perspective (distributed income):** it refers to the monetary flow received by owners of the factors of production over a given period in return for their participation in production; that is, the return earned by each factor owner for contributing to the production process (factor incomes). Accordingly, national income is the sum of incomes distributed to contributors to production over the year, including wages to workers, interest on capital, rents on land and real estate, and profits earned by entrepreneurs/organizers.
- **From the expenditure perspective**: it is the sum of spending, since the incomes earned by participants in production are spent on consumption, while the remainder is saved.

Income may also be defined as the total returns received by citizens who own factors of production in exchange for the use of those factors in producing goods and services, whether production occurs domestically or abroad, over a given period—typically one year.

National income is the income earned by the national economy as a whole, i.e., by residents. A resident is a citizen who lives in the country on a continuous basis and whose business activity is based there. Residents also include members of the country's diplomatic corps, students studying abroad, and travelers such as tourists and those traveling for medical treatment.[2]

[1] Abdallah Qalash, previously cited reference, p. 108.
[2] Raslan Safi, National Output and National Income, Dar Al-'Amma for Distribution, Syria, 2019, p. 85.

National income differs from individuals' income. While the aggregate of national income corresponds to the aggregate of individual incomes, some items are not considered individual incomes but are included in national income (such as pension contributions and undistributed corporate profits). Conversely, some items may be considered individual incomes but are not included in national income, such as social security transfers and pension benefits.[1]

National income equals the total value of output.[2]

National income should arise from economic services provided by economic agents (productive individuals, firms, institutions, and government bodies).

Inheritance is merely a transfer of ownership from the deceased to the heir; it is not the result of an economic service performed by the heir.

Accordingly, national income reflects the level of citizens' economic activity and differs from the concept of national wealth.[3]

2. Importance of National Income

National income occupies a significant place in contemporary economic studies for several reasons, including:

It is one of the key economic indicators used to track changes in a country's productive activity and the evolution of national income over a given period, thereby reflecting whether the national economy is experiencing growth or stagnation/recession.

In the modern era—often described as the era of economic planning—national income constitutes the starting point for the planning process. Estimates of national income in previous years are used to design and implement the economic plan, and identifying the components of income is essential for guiding policymakers and planners.

The level of real national income and the manner in which it is distributed among citizens are among the major determinants of individuals' living standards (economic welfare).

If real national income increases at a rate higher than population growth over a given period, average per capita income rises and economic welfare improves. Conversely, if real national income declines, or rises at a rate lower than population growth, the opposite occurs and living standards decrease.

[1] Hassiba Hadouqa, previously cited reference, p. 41.
[2] Ali Lahoual, previously cited reference, p. 60.
[3] Hassan Khalaf Fleih, National Income Accounts, Dar Al-Thaqafa for Publishing and Distribution, Jordan, 2000, p. 62.

3. Types of Income (Academic Translation)

Several types of income can be distinguished as follows:[1]

3.1. Monetary Income vs. Real Income

- Monetary income: the monetary flow received by individuals over a given period, expressed as the amount of money earned by factor owners in a given society.

- Real income: the purchasing power of monetary income, i.e., the quantity of goods and services that can be obtained with monetary income. Real income is inversely related to the general price level and directly related to monetary income. Real income increases when the rate of increase in monetary income exceeds the rate of increase in the general price level; the opposite occurs when monetary income rises more slowly than the general price level.

3.2. Types of Income by Source

- **Income from labor**: the result of the effort exerted by an individual in the production process, represented by wages.

- Income from natural resources: the income received from using natural factors in production, represented by rent.

- **Income from capital employment**: the return received by capital owners for investing their funds in investment operations, represented by interest.

- **Income from organization/entrepreneurship**: this corresponds to the value added generated by the entrepreneur/manager through directing and coordinating the factors of production, yielding a value greater than the resources employed; its return is profit.

3.3. Individual Income vs. National (Aggregate) Income

Individual income: the income of a single person as a result of their participation in production, whether as wages, rent, profit, or interest.

National income: refers to total national output and the aggregate incomes received by the factors of production, including wages, rents, interest, and profits.

Fifth: Saving Activity (Academic Translation)

Saving is a fundamental economic phenomenon in the lives of individuals and societies. It finances investment projects that generate benefits for the majority of society and helps ensure the continuity of the economic cycle. Saving is closely linked to income and consumption, since it represents

[1] Saleh Salhi, "Wealth and Income Distribution in the Islamic Economy," Journal of Economic Sciences and Management Sciences, University of Sétif, Vol. 9, No. 9, 2009, p. 2.

the surplus of income over consumption—that is, the difference between income and what is spent on consumer goods and services; hence, it is often referred to as a surplus.

1. Definition of Saving

As an economic, social, psychological, and cultural phenomenon, saving has attracted significant attention among economists and sociologists due to its contribution to achieving higher levels of welfare and stability for individuals and the state as a whole. It is therefore among the economic phenomena over which thinkers have differed, given its multiple dimensions and relationships. For instance:

The concept of saving differs quantitatively from hoarding. In economic terms, saving refers to postponing part of consumption to the future through the banking system and legally recognized saving instruments. By contrast, hoarding refers to setting aside part of income and withdrawing it from the financial sector and the economic circulation.[1]

Saving is the setting aside of a portion of income to be directed toward future benefits rather than being used for current enjoyment.

It has also been defined as withholding part of current income and not spending it at present in order to use it in the future—either for investment purposes or to meet specific contingencies/emergencies. In this sense, saving involves postponing the use of funds, without necessarily implying any increase or decrease in the magnitude of the benefits forgone in the present.

Saving may further be defined as deferred consumption, whereby an individual or a group relinquishes the satisfaction of a current desire in order to secure the funds needed to satisfy a potential future desire, without being willing to assume even a minimal degree of risk.[2]

Saving is refraining from current consumption and postponing the enjoyment/use of funds in the present to a future time.[3]

It is the retention of a portion of what an individual possesses as a reserve for future circumstances, thereby providing a degree of stability and security for today and tomorrow.

It may also be defined as the difference between current disposable income and the portion allocated to consumer goods.[1]

[1] Hamza Mahmoud Al-Zubaidi, Bank Credit Management and Credit Analysis, 1st ed., Dar Al-Warraq for Publishing and Distribution, 2002, p. 14.
[2] Nouri Mousa Shaqiri and Tahir Saleh Al-Zarqan, Investment Management, 1st ed., Dar Al-Seerah for Publishing, Distribution and Printing, Jordan, 2012, p. 19.
[3] Abdallah Qalash, previously cited reference, p. 115.

Saving in Economic Thought

- In classical economics: Saving is viewed as a portion deducted from current consumption for the sake of future consumption. Classical economists therefore take into account assets and the total stock of monetary, financial, and real wealth in the formation of saving. They also argue that every saving becomes investment; hence, saving does not reduce aggregate demand, because saving is transformed into investment through the interest rate. In this framework, investment represents the demand for financial resources, saving represents the supply of these resources, and the interest rate is the price that equilibrates them. Accordingly, investment demand is a decreasing function of the interest rate, whereas the saving function is an increasing function of it.
- In neoclassical economics: Hoarding is understood as consumers refraining from purchasing available output, thereby increasing their capacity to save. The interest rate is the variable that equilibrates total saving and total investment. According to Marshall, two key determinants affect reserves: the level of income and wealth. The interest rate is the return for the use of capital in the market and the price at which aggregate supply of capital equals aggregate demand—i.e., the market equilibrium price.
- In Keynesian economics: Saving represents the portion of income not devoted to consumption; it is the residual (the remainder of income after consumption), and it is influenced by several factors, including social customs and habits.[2]

2. Types of Saving

2.1. Voluntary Saving and Compulsory Saving:

This classification is based on the manner in which saving is formed. Voluntary saving is an individual form of saving that depends on the person's freedom, awareness, capacity, and willingness to save, without any external force compelling it. Compulsory saving, by contrast, is imposed by the state—both in its own interest and in the interest of individuals—through the mandatory deduction of a portion of income. This type is considered an important source for financing public investment projects.

2.2. Domestic Saving and National Saving:

This classification is based on geographical boundaries. Domestic saving refers to the total savings generated within a country's borders, comprising the

[1] James D. Gwartney and Richard L. Stroup, Macroeconomics, trans. Abdel Fattah Abdel Rahman, Dar Al-Merikh, Saudi Arabia, 1988, p. 237.
[2] Hanan Shtaybi, Lectures for the "Introduction to Economics" Module, Department of Management Sciences, Faculty of Economic Sciences, Commercial Sciences and Management Sciences, University of Algiers 3, Academic Year 2017/2018, p. 76.

savings of the household sector, the business sector, the state, and state-affiliated institutions and enterprises. National saving equals domestic saving plus a component generated abroad, represented by the net balance of external transactions.

2.3. Household Saving, Corporate Saving, and Government Saving:

This classification is based on the saving unit. Household saving includes individuals' savings, such as savings deposited in savings funds, insurance policies, time deposits, or the purchase of securities. Corporate saving refers to the saving of the business sector—public and private, whether productive, commercial, or service-oriented—through allocating part of profits to expand investment. Government saving is the surplus resulting from the difference between current government revenues and public expenditures; it is directed either toward investment or held as reserves to address potential budget deficits.[1]

3. Determinants of Saving

Saving is linked to two fundamental variables: income and consumption. Its relationship with income is organic, since saving consists of setting aside a portion of income for future use. By contrast, its relationship with consumption is competitive, because any increase in one tends to occur at the expense of the other, given that both represent components of income.

Since income is divided into two parts—one allocated to current consumption and the other allocated to saving—the determinants of saving are those factors that shape the relationship between income and saving, and between saving and consumption. Accordingly, saving behavior is influenced by a set of factors that may increase or decrease it depending on the nature of each factor. Hence, the determinants that affect consumption are generally the same determinants that affect saving, because any factor that increases consumption tends to reduce saving.

Sixth: Investment Activity (Academic Translation)

Investment is an important economic activity in creating and expanding a country's productive capacity and its ability to produce the means required to satisfy various needs and wants. It is the activity through which surplus funds and savings are employed in value-creating uses.

1. Definition of Investment

The concept of investment carries multiple meanings due to the diversity of its dimensions and determinants. For this reason, numerous definitions have been proposed, including:

[1] Yassin Ben El-Hadj Jelloul, previously cited reference, p. 79.

Investment may be viewed as a sequence of expenditures followed by a sequence of revenues over successive periods of time. This investment may be tangible (e.g., buildings, equipment, machinery) or intangible/financial, such as funds placed in liquid instruments or financial assets (e.g., shares and bonds).[1]

Investment refers to funds paid by an individual in the present in exchange for obtaining future profits.[2]

It is the sacrifice of a current benefit—achievable through present consumption—in order to obtain a greater future benefit.[3]

It is any immediate sacrifice of funds in the hope of receiving future revenues or cash flows over a specified period, such that total returns exceed the initial expenditures.

- **Economic concept**: Investment means deploying funds and savings with the aim of generating future returns and profits, thereby increasing wealth, meeting societal needs, and ensuring the continuity of the production cycle.

Investment in Economic Thought

Classical economic thought addressed the concept of investment primarily by clarifying the relationship between saving and investment. For classical economists, no strict distinction is made between saving and investment; they consider saving to be equivalent to investment within the framework of the full-employment principle of resources, whereby saving is assumed to be naturally transformed into investment. Saving is viewed as a decision to refrain from consuming a portion of income and to allocate it to investment. Accumulated or saved capital (capital accumulation) is thus conceived as investment. Accordingly, an increase in accumulation—on which higher investment depends—enables the expansion of production, and this process is linked to the level of profit: as profits rise, capitalists' savings increase, which are subsequently invested.

In contrast, Keynes grounds investment in the behavior of investors, i.e., those who make investment decisions. Analytically, these decisions depend on the expected return from the investment. Since such returns are realized only after some time, the investment decision depends on investors' assessments and perceptions of future conditions. Although several objective factors influence investment decisions—such as the interest rate and income level, among

[1] Abdelaziz Kadri, International Investments, Dar Al-Nashr wa Al-Tawzi', Algeria, 2004, p. 11.
[2] Mohamed Saleh Al-Hennawy and Tarek Mostafa Al-Shehawi, Principles and Fundamentals of Investment, Dar Al-Ta'lim Al-Jami'i for Printing, Publishing and Distribution, Egypt, 2013, p. 17.
[3] Nouri Mousa Shaqiri, Tahir Saleh Al-Zarqan, et al., Investment Management, 1st ed., Dar Al-Maseera for Publishing, Distribution and Printing, Jordan, 2012, p. 18.

others—Keynes emphasizes subjective factors, notably optimism or pessimism in the expectations of decision-makers. This makes expenditure on investment goods volatile and difficult to link to objective variables, at least in the short run.[1]

2. Determinants of Investment

Economists have differed regarding the nature of investment determinants; however, it is clear that the profit motive exerts a major influence—positively or negatively—on investment decisions. The principal determinants of investment commonly identified in the literature can be summarized as follows:[2]

2.1. Direct Factors

These are directly linked to the effectiveness of investment, particularly through its immediate impact on the economy's productive capacity:

- Interest rate: A higher interest rate reduces investment opportunities; therefore, the interest rate is a fundamental determinant of investment decisions. Keynes argued that the level of aggregate investment is determined by changes in the interest rate: as the interest rate rises, aggregate investment declines, and vice versa.
- Profits: Profits are among the most important determinants of investment, as they increase a firm's capacity to invest by providing internal funds for financing investment. At the macro level, analyses of the income–investment relationship have taken several forms: some argue that investment is positively related to profit, which is itself a component of national income—so that an increase in national income raises profits, revealing a direct link between investment and national income. Others argue that changes in profits at the aggregate level are more important, implying a functional relationship between investment and profits: investment responds to the level of profits, while investment also contributes to raising income, which in turn raises profits.
- Rate of change in profits (or income): Investment is influenced not only by the level of income but also by its rate of change. When GDP indicates rapid growth, the economy is expanding, creating increasing investment opportunities. Expansion raises sales prospects and thus increases demand for consumer goods and services; to meet this higher demand, production must rise, and higher

[1] Hanan Shtaybi, previously cited reference, p. 79.
[2] Nabila Arqoub, An Attempt to Estimate the Investment Equation in the Algerian Economy at the Macroeconomic Level: A Theoretical and Econometric Study for the Period 1970–2008, PhD Dissertation in Econometrics, University of Algiers 3, Academic Year 2011/2012, pp. 12–16.

production requires additional investment. Accordingly, an increase in national income tends to be associated with a rise in investment.

- Capital formation: Some economists maintain that investment exists only insofar as physical capital is created or accumulated, which can be achieved through saving or through borrowing.
- Technology and population growth: Technological knowledge reduces the costs of investment; therefore, a higher technological level tends to increase investment, which in turn depends on aggregate demand. Moreover, population growth and the discovery of new areas can give rise to autonomous investment.
- Incentives: These include facilities provided by states to investors, such as lowering interest rates and offering long-term maturities, which can stimulate investment and shift the investment function upward.
- Aggregate demand: An increase in aggregate demand for goods and services tends to raise the level of investment. Aggregate demand depends on factors such as the price of the good, the degree to which the good matches consumers' preferences, and other determinants.
- General price trend: Rising prices can negatively affect real income by reducing the purchasing power of money and lowering living standards. This may reduce saving and, consequently, investment.

2.2. Indirect Factors

- **Expectations**: Widespread optimism about a society's economic future can stimulate work and investment, leading to higher demand for goods and services and, ultimately, economic growth. Pervasive pessimism yields the opposite effect.
- **Taxes**: Tax treatment may encourage investment (through tax reductions or exemptions) or discourage it (through higher taxes).
- **Credit (loans):** Borrowing to finance investment entails paying regular interest in addition to repaying principal, which may reduce expected profits and thus depress investment.
- **Macroeconomic policy**: Investment is among the least stable economic variables; therefore, it requires monitoring and support through indirect economic policies such as monetary and fiscal policies, or through direct investment policy instruments.

3. Objectives of Investment

The objectives of investment vary according to its type, the entities undertaking it, and the prevailing conditions. These objectives include:[1]

- **Earning a return or profit**: This is the primary objective of most investment operations carried out by the private sector and the main driver and incentive for investment. It is reflected in the increase in an individual's funds or wealth as a result of deploying them in investment activities.
- **Meeting societal needs**: This is achieved by channeling funds into the production of goods and services or into establishing projects that generate public or private benefit, such as building roads and bridges and constructing schools and hospitals.
- **Preserving and growing capital**: Investment aims to safeguard funds and increase them by targeting returns from investment operations and contributing to the growth of individuals' and society's wealth.
- **Creating employment opportunities**: Investment helps mobilize and utilize public and private savings to establish investment projects that require labor, thereby contributing to employment.
- **Generating foreign currency**: Investment activity contributes to earning foreign currency by expanding and enhancing the country's productive capacity, which increases export potential and thus foreign-exchange earnings. In addition, investments undertaken by citizens abroad can also contribute to foreign-currency inflows.
- **Economic and social development**: through increasing production and improving service provision across various sectors, such as universities, schools, and transport infrastructure (roads).

Raising output, supplying goods and services, increasing national income, and improving living standards.

Seventh: Exchange Activity

1. The Evolution of Exchange

Exchange is one of the most important economic activities, emerging alongside the development of production, economic systems, and human societies. In early stages, human economic activity took the form of searching for food, clothing, and shelter. Production was oriented toward meeting basic needs in a primitive form within a non-exchange (subsistence) economy—a pattern that represents the earliest stage known to humanity. In such a context,

[1] Abdallah Qalash, previously cited reference, p. 125.

exchange had little or no role, since production was directed toward satisfying the needs of the individual and the community to which they belonged; in other words, it was production for self-consumption.

As social life evolved and individuals became integrated into communities, and as differences in individuals' capabilities emerged within the same group, there was a growing tendency toward producing certain goods rather than others. Individuals began to exchange their surplus with the surpluses of others. This created a need for exchange as a consequence of the division of labor and the move toward specialization.

Exchange initially took a simple form through barter, based on exchanging one good for another. As human needs expanded and economic relationships became more complex, exchange developed into a system of buying and selling through reliance on a medium of exchange accepted by all parties. This medium itself underwent transformations: exchange moved from a commodity-based system (using a valuable commodity as a medium of exchange) to the use of precious metals, given their widespread acceptance, then to metallic coinage, followed by credit money, and ultimately electronic payment instruments.

Exchange thus became the mechanism through which goods and services move among individuals to satisfy diverse needs. It contributes to achieving complementarity between producers and consumers, stimulates market activity, and facilitates a more efficient allocation of resources.[1]

2. Definition of Exchange Activity

- **Exchange (barter/transaction):** It is the process of obtaining certain items in return for other items—whether goods and services exchanged for other goods and services, or exchanged for money.[2]
- Exchange refers to the legal/administrative transfer of ownership of goods and services obtained through economic activity.
- Exchange also encompasses the commercial activities involved in the flow of goods and services from their places of production until they reach the final consumer.

[1] See:
- Yassin Ben El-Hadj Jelloul, previously cited reference, p. 68.
- Abdallah Qalash, previously cited reference, p. 91.

[2] Nassib Rajem, Distribution Systems Management: Applications and a Case Study, Dar Al-'Ulum for Publishing and Distribution, Algeria, 2006, p. 10.

- Exchange is an intermediary process between distribution and consumption. It enables economic agents to exchange benefits and generate incomes: it allows producers to sell goods and services in order to obtain various revenues to cover production costs, and it enables consumers to pay substantial amounts to satisfy their diverse wants by acquiring the goods they wish to obtain.

3. Importance of Exchange

- Enabling producers to sell their goods and services.
- Enabling consumers to obtain and use the goods they wish to acquire.
- Ensuring the functioning and continuity of the economic cycle.
- Identifying and understanding different distribution channels.

4. Instruments of Exchange

Several instruments have been used in exchange among individuals, including:

4.1. Barter

Barter is the earliest instrument used in exchange. It refers to the process by which goods and services are exchanged directly for one another without using money as a medium of exchange or a measure of value. Barter was useful in simple societies where the number and variety of goods were limited; however, as goods became more diverse, barter was unable to keep pace with development and gave rise to a number of difficulties.

Difficulties of barter:

- **The double coincidence of wants**: A person may have a surplus of a particular good and wish to exchange it to obtain another good. They may find the desired good with a seller, but that seller may not wish to acquire the surplus good offered in exchange.
- **Indivisibility of certain goods**: When a good cannot be divided into smaller units, exchange becomes problematic. For example, if someone wishes to exchange a camel for a quantity of wheat and eggs, they may find it difficult to locate a person who possesses both items. Moreover, a camel cannot be divided, and it is also difficult to determine its value relative to each of the other goods.
- **Difficulty in valuing goods for exchange**: This stems from the absence of a common unit of account or a standard measure of value for the goods being exchanged, making it necessary to value each good in the market by comparing it with other goods.
- **Difficulty of storing wealth or maintaining purchasing power**: If an individual wished to retain part of their commercial output, they would have to keep it as commodity inventories. Such goods may deteriorate if they are

perishable, leading to a decline in their value. In addition, storage entails additional costs, which often encourages individuals to dispose of the goods.

4.2. Money as an Instrument of Exchange:

After experiencing the limitations of barter, humans began to search for a suitable medium through which goods and services could be exchanged, values could be measured, and transactions could be facilitated. The use of money made exchange easier by replacing direct exchange with indirect exchange, thereby substituting for barter.[1]

[1] Mohamed Ibrahim Abdel Rahim, Economics of Money and Banks, Dar Al-Ta'lim Al-Jami'i, Egypt, 2015, p. 9.

Chapter Six:

Economic Enterprises (Firms)

Chapter Six: Economic Enterprises (Firms)

The enterprise constitutes a central pillar around which any economy revolves, playing an important role in achieving economic growth and development. Through its various functions, the enterprise seeks to attain both its economic and social objectives. It also serves as an operational vehicle through which different programs, measures, and public policies can be implemented.

Over time, the enterprise has been defined in multiple ways, reflecting different periods as well as diverse theoretical orientations and analytical approaches. For this reason, it is very difficult to encompass all types of enterprises—despite their varied forms and objectives—within a single, comprehensive definition. This difficulty stems from several factors, including:

- The substantial and continuous evolution affecting enterprises' administrative and productive aspects, as well as their size and types.
- The broadening and diversification of enterprise activities, ranging from agriculture to information and communication technologies.
- The diversity of researchers' and thinkers' orientations and ideologies.[1]

First: Definition of the Enterprise

The definition of the enterprise has undergone substantial development due to continuous changes in its forms, size, organizational structures, and the expansion of its activities. Accordingly, the enterprise has been defined as follows:

1. Linguistic definition: In its linguistic sense, it refers to the direct initiative to conceive and implement a project—whatever its nature—while assuming the associated risks.

2. Traditional definition: The enterprise is defined as an economic and legal unit that produces goods and services for sale in the market with the aim of generating profit.

By "economic unit," one means a production unit, insofar as the enterprise's core function is the production of goods and services through combining the factors of production (labor, raw materials, machinery, funds, information, etc.).[2]

[1] Hussein Ibrahim Blout, Principles and Modern Trends in Business Administration, Dar Al-Nahda Al-'Arabiyya for Publishing, 1st ed., Lebanon, 2005, p. 56.
[2] Sami Hebashi, Lectures in Business Economics, prepared for second-year students (Department of Management Sciences), Faculty of Economic, Commercial and Management Sciences, Setif 1 University, Academic Year 2017/2018, p. 7.

3. The Modern Definition of the Enterprise (The Enterprise as a System)

According to this definition, the enterprise is composed of a set of subsystems that interact with one another to achieve a specific objective. These subsystems include tangible elements such as management, employees, and the enterprise's various functions, as well as intangible elements such as social relationships, patents, and other non-material components.

Second: Objectives of the Economic Enterprise (Academic Translation)

Enterprises pursue multiple objectives depending on the nature and field of their activities. These objectives may be classified into economic, social, cultural, and even technological objectives.

1. Economic Objectives

Economic objectives may be grouped as follows:[1]

- Profit maximization (earning profit): This is the principal objective, since higher profits create new opportunities for growth and increase the firm's ability to attract shareholders to participate in its capital. Profit is among the key indicators of a firm's economic soundness and is often regarded as the fundamental justification for its existence.

- Output maximization: This involves organizing and combining available resources and transforming them into outputs suitable for consumption, in line with production and storage capacities, while using the factors of production rationally, minimizing costs as much as possible, and applying modern management practices (i.e., rationalizing production).

- Cost reduction: The firm seeks to achieve optimal utilization of its various resources in order to reduce the costs of its activities to the lowest possible level, since profits are directly influenced by costs.

- Meeting societal requirements: The firm is expected to satisfy society's needs for goods and services in a timely manner and with adequate flexibility.

2. Social Objectives (Academic Translation)

These include:

- Ensuring an acceptable wage level: Workers receive wages in return for their mental or physical effort. Such wages are a protected right guaranteed by the state, enabling workers to meet their needs and maintain their livelihood.

- Improving workers' living standards: Providing material and financial means that allow workers to meet evolving needs, which change continuously

[1] Saleh Safi Khalis, Management Control of an Enterprise under a Market Economy, National Office of University Publications (OPU), Algeria, 2008, p. 45.

due to rapid developments in the surrounding environment—whether technological or civilizational.

- Providing insurance and facilities for workers: such as health insurance, insurance against workplace accidents, retirement schemes, worker housing, and canteens.

- Shaping consumption patterns: Firms introduce new products through investment and advertising to influence consumers' preferences, thereby fostering consumption habits that benefit the firm. In this way, firms affect consumer tastes through advertising and promotion.

- Upgrading workers' skills: through training and capacity-building to enhance employees' professional competencies.

3. Cultural and Sports Objectives (Academic Translation)

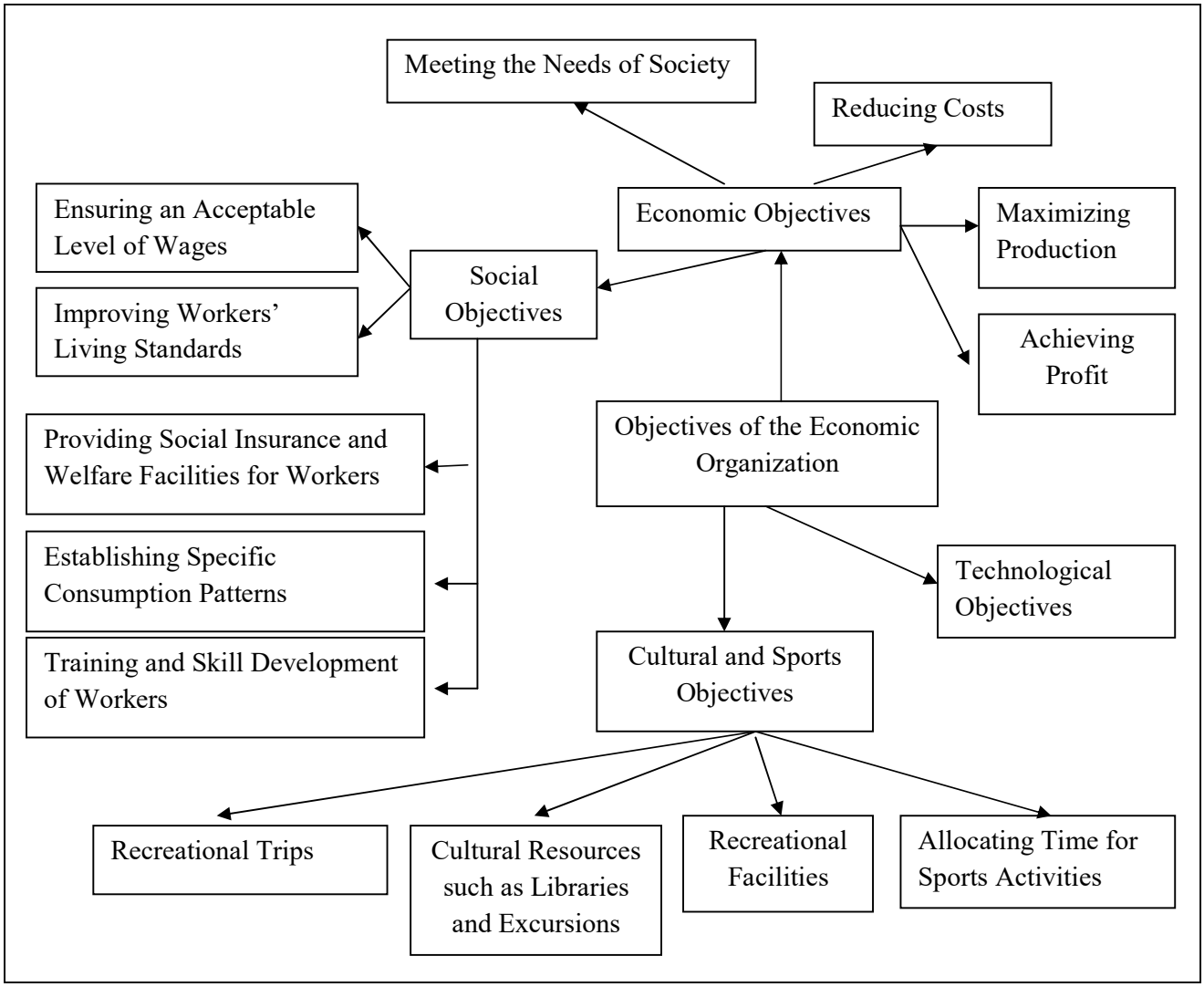
These include allocating time for sports and providing recreational facilities, as well as cultural initiatives such as providing libraries and organizing cultural and leisure trips. Such activities can positively affect workers' intellectual and psychological well-being, which in turn improves performance within the enterprise.

4. Technological Objectives (Academic Translation)

Given intense competition among firms to offer better products and higher productivity, enterprises have sought to establish dedicated units or departments for the scientific development of production methods and tools. The enterprise also plays a supportive role in the country's public policy agenda in the area of technological research and development.[1]

[1] Nasser Dadi Adoun, Business Economics, Dar Al-Mohammedia Al-'Amma, 2nd ed., Algeria, p. 11.

Figure (05): Objectives of the Economic Enterprise



Source: Rassaa Hayat, Course Material on Business Economics, Major in Commercial Sciences and Management Sciences, Second-Year Bachelor's Level, Faculty of Economic, Commercial, and Management Sciences, University of Tissemsilt, 2022/2023, p.13.

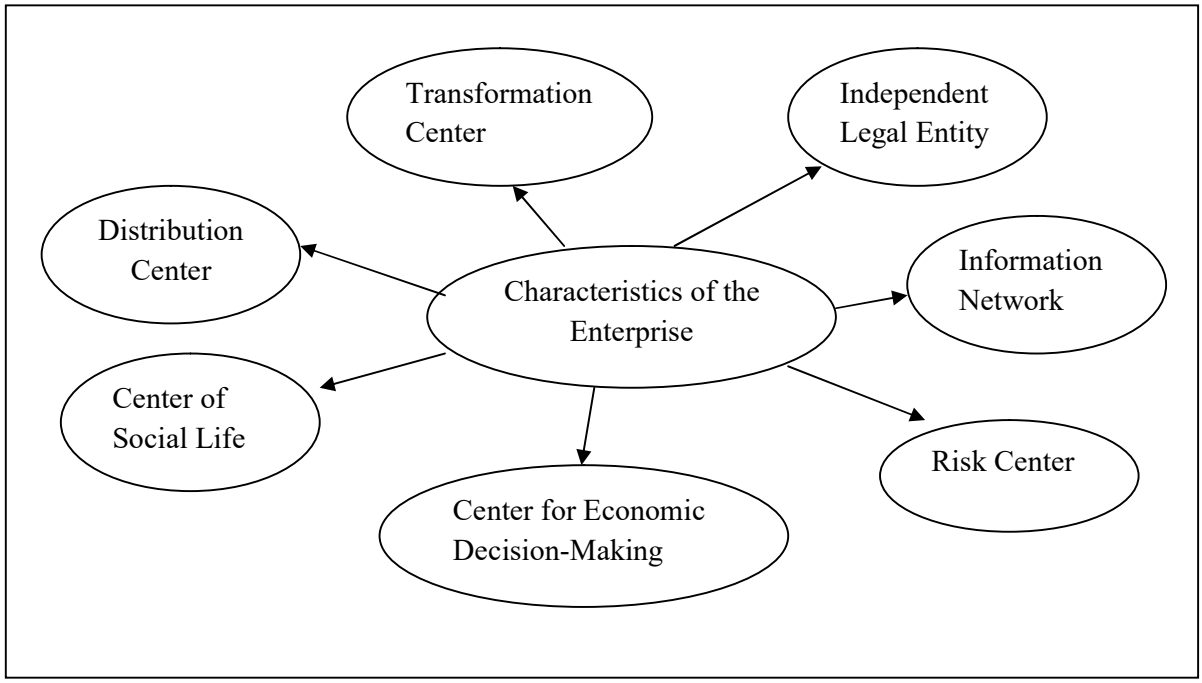
3. Characteristics of the Economic Enterprise

The economic enterprise possesses a set of distinct characteristics, including:[1]

- **The enterprise as an independent legal entity**: The enterprise has rights, obligations, duties, and responsibilities.
- **The enterprise as a transformation center**: It is the place where inputs (resources) are transformed into outputs (goods and services).
- **The enterprise as a distribution center**: It is the location where the revenues obtained from the sale of goods and services are divided and distributed among the economic agents who contributed to the production process.
- **The enterprise as a center of social life**: It is the place where work is carried out collectively, in cooperation and coordination, within the framework of the enterprise's rules and values. Workers spend a third or more of their lives in the enterprise, which leads to the establishment of various social dynamics (affection, satisfaction, conflicts).
- **The enterprise as a center for economic decision-making**: In conducting its activities, the enterprise is required to make multiple decisions regarding the type of products, quantities, prices, distribution, export, transportation, and promotion. Therefore, it plays an important role in the economy as a hub for economic decisions. Sound decision-making requires consideration of various factors, including resources, objectives, environment, and qualifications.
- **The enterprise as an information network**: Effective decision-making requires information from various sources, both internal and external to the enterprise. Therefore, the enterprise must establish an information system, where the informational and communication network serves as a vital component of the organization.
- **The enterprise as a center of risk**: As an open system operating in a challenging environment, the enterprise is continuously exposed to risks (partial or total losses) due to management difficulties and competitive pressures. Consequently, the enterprise's capital is often contributed by individuals or institutions to pool significant funds while simultaneously reducing risks and potential losses.[2]

[1] Ghoul Farhat, Al-Wajeez in Business Economics, Al-Khaldounia Publishing House, First Edition, Algiers, 2008, pp. 9–12.
[2] Amer Habiba, The Role of Economic Enterprises in Achieving Sustainable Development in the Context of Global Economic Blocs – Case Study of a Group of Algerian Economic Enterprises, Doctoral Thesis, Management Sciences, University of Mohamed Boudiaf, M'sila, 2016/2017, p. 8.

Figure (06): Characteristics of the Economic Enterprise



Source: Rassaa Hayat, Previously Cited Reference, p.14.

4. Role of the Economic Enterprise

The economic enterprise plays both an economic and a social role:

1. Economic Role: This involves the interests of its owners, employees, and consumers.

- For the owners: Profit is one of the most important objectives the enterprise must achieve, as owners accept the risk of investing their capital when deciding to establish the enterprise.

- For the employees: Since labor is a key element in the production process, the enterprise must provide workers with favorable material and psychological conditions.

- **For the consumers**: The enterprise must meet consumer demands regarding appropriate price, required quantity, quality, and timely availability.

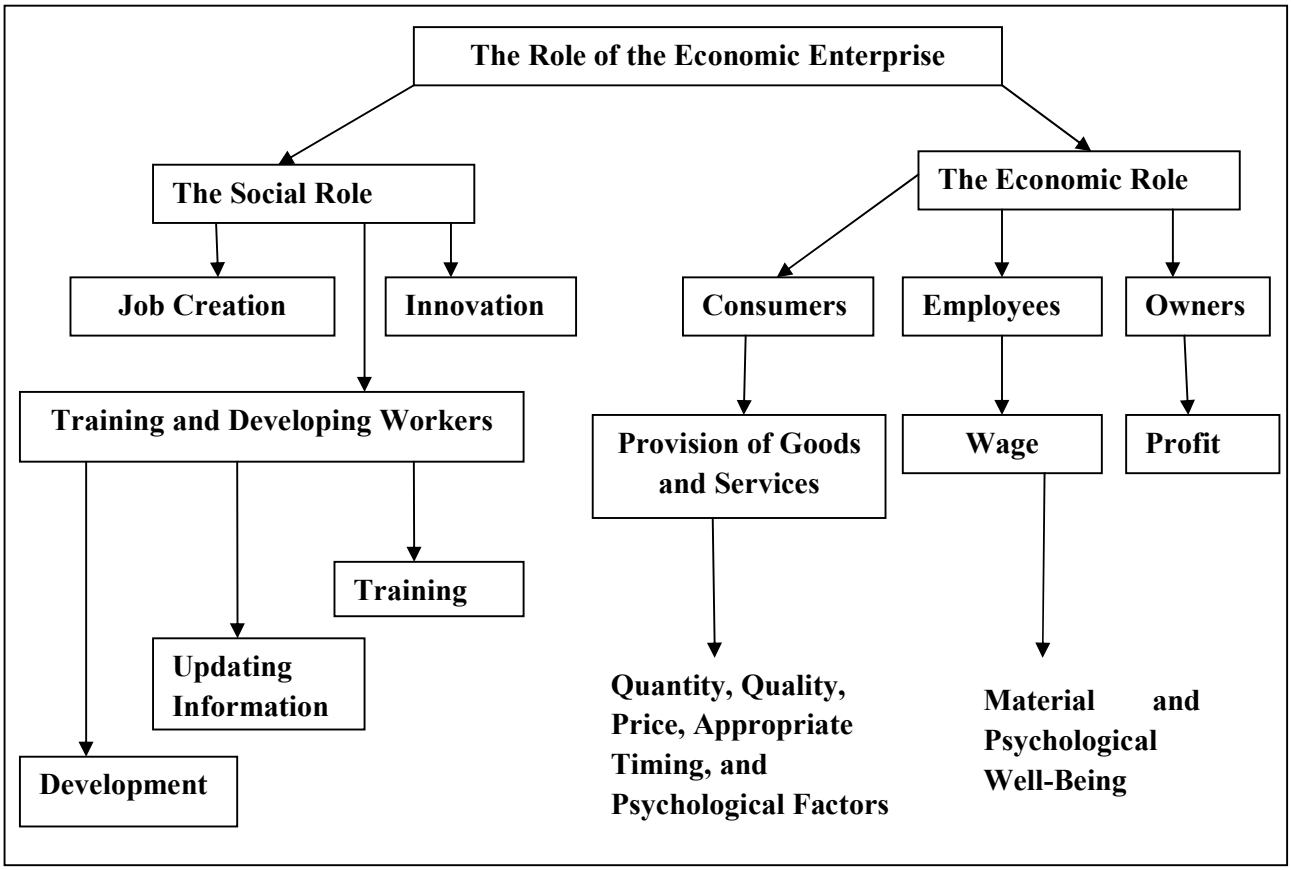
2. Social Role:

The enterprise is a source of creativity, which is essential for the development of civilization. Therefore, it should avoid mere imitation, as it reduces potential benefits; innovation is the path to achieving substantial profit.

The enterprise plays an important role in education by training employees, which enhances and updates their knowledge and develops their skills. It is also partially responsible for promoting human values among the majority of society's members.

Reducing unemployment: By providing job opportunities.[1]

Figure (07): Role of the Economic Enterprise



Source: Rassaa Hayat, Previously Cited Reference, p.16.

[1] Abdelhadi Mokhtar, Business Economics Course Material, Prepared for Second-Year Bachelor's Students, Major in Economic Sciences, Management, and Commercial Sciences, University of Ibn Khaldoun, Tiaret, Algeria, 2020/2021, pp. 20–21.

Chapter Seven: The Market

Chapter Seven: The Market

The market is considered one of the fundamental components of any economic system. It serves as the framework where supply and demand forces meet to exchange goods and services and determine prices. The concept of the market is not limited to a physical location; it also encompasses the virtual and economic environment in which buying and selling occur. Understanding the nature and mechanisms of the market is important because it helps explain the behavior of consumers and producers, guides the economic decisions of enterprises, contributes to the efficient allocation of resources, and reflects the level of competition and innovation within the economy. Thus, the market represents a central focus for studying economic and commercial relationships in modern societies.

1. Definition of the Market:

In its broad sense, the market refers to any encounter between supply and demand. The market has both traditional and modern concepts.

1.1 Traditional Definition:

- Geographical perspective: From a geographical standpoint, the market is the place where buyers seeking goods or services meet sellers offering goods or services for sale to complete their exchange transactions.

This definition focuses on the spatial and physical dimension, reflecting past circumstances when communication between buyers and sellers was limited and restricted to a specific location. Today, with advancements in communications and transportation, the entire world can serve as a market for many goods and services.

- Economic perspective: Economically, the market is defined as the mechanism through which prices and quantities of exchanged goods and services are determined. The driving forces of this mechanism are supply and demand, collectively referred to as market forces.[1]

1.2 Modern Definition:

The modern concept of the market refers to the set of reciprocal relationships between sellers and buyers whose desires converge in the exchange of a specific good or service, that is, in its supply and demand. It is assumed that sellers and buyers of a particular good are in contact with one another and that buyers are aware of the quantities they purchase over a given period of time.

[1] Al-Sriti, Mohamed Ahmed, Advanced Economic Theory – Micro and Macro: Between Theory and Application, Al-Dar Al-Jamia'iya, Egypt, 2011, p.81.

Accordingly, the scope of the market for a good is limited only by the ease of communication between parties and the good's transportability. Consequently, transactions between sellers and buyers can occur without meeting in a specific physical location.

The essential elements of a modern market include:

- The number of sellers and buyers.
- The nature of the good or service.
- Means of communication.
- Price.
- Transportation: availability of suitable transport conditions.

2. Functions of the Market

The market performs the following functions:[1]

➢ Determination of the value of goods and services: The market establishes the prices of goods and services based on supply and demand interactions.

➢ Organization of production: This function is achieved through cost considerations, as producers aim to produce a certain quantity at the lowest possible cost by optimizing the use of resources.

➢ Distribution of output: Individuals and resources receive income according to their productivity. Consequently, the most productive individuals are those who own productive resources and receive higher incomes, which increases their purchasing power for goods and services.

➢ Rationing: Rationing is central to the pricing process because it limits current consumption according to the available production.

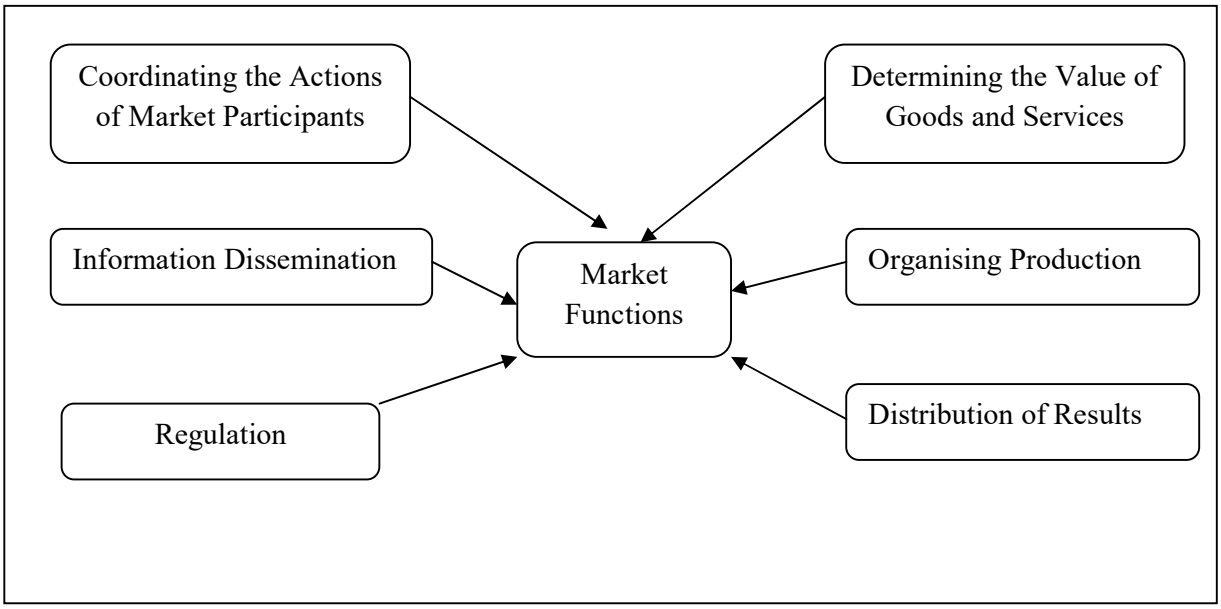
➢ Information transmission: One of the key functions of the market is to convey information. Prices communicate consumer evaluation of goods, and resource prices inform decision-makers of the relative importance of production factors. Markets gather and record information reflecting the choices of consumers, producers, and resource owners, and this vast quantity of information is summarized in the market price.

➢ Coordination of participants' actions: Prices coordinate the decisions of buyers and sellers, ensuring harmony between their actions. For example, if sellers offer a larger quantity of a good than consumers demand at the market price, the price will decrease, prompting producers to reduce production or withdraw from the market. Simultaneously, the lower price encourages

[1] Kamel Alawi Kazem Al-Fatlawi & Hasan Latif Kazem Al-Zubaidi, Principles of Economics, First Edition, Safaa Publishing and Distribution, Jordan, 2009, pp. 150–152.

consumers to purchase larger quantities, eliminating the surplus supply and restoring market equilibrium. Conversely, if the offered quantity is less than consumer demand, a market shortage occurs.

Figure (08): Functions of the Market



Source: Prepared by the researcher based on Kamel Alawi Kazem Al-Fatlawi & Hasan Latif Kazem Al-Zubaidi, Previously Cited Reference, pp. 150–152.

3. Concept of Demand and Supply

3.1 Definition of Demand: Demand is the quantity that buyers are willing to purchase at a specific price during a given period of time.[1]

3.2 Definition of Aggregate Demand (Market Demand): Aggregate demand in a market is the sum of individual demands, or the total demand of all individual consumers in the market for a specific good over a given period.

The market demand schedule is derived from individual consumer demand schedules by summing the quantities of the good demanded by each consumer at different prices over a specific period. Similarly, the market demand curve can be obtained by aggregating the individual consumer demand curves.[2]

3.3 Definition of Demand Elasticity: Elasticity expresses the degree to which a phenomenon responds to a change resulting from a variation in one of its influencing factors, including economic phenomena such as demand and supply.

[1] Kessab Ali, Economic Theory: Microeconomic Analysis, Diwan of University Publications, Algeria, p. 60.
[2] Daas Khalil, Previously Cited Reference, p. 35.

3.4 Definition of Supply: Supply is the total quantity of a good that producers are willing and able to offer for sale at a specific price during a given period of time. Generally, the higher the price of a good, the greater the quantity supplied in the market, and conversely, the lower the price, the lower the quantity supplied. This relationship is known as the Law of Supply.

3.5 Market Equilibrium: The term equilibrium refers to the equality between the quantity supplied and the quantity demanded of a particular good in a specific market during a given period. This equilibrium is achieved geometrically at the intersection of the market supply curve and the market demand curve. The price and quantity at this point are referred to as the equilibrium price and equilibrium quantity, respectively.[1]

4. Market Classifications:

Markets can be classified according to several criteria:

- **Based on continuity**: There are permanent markets, such as financial markets, and temporary markets, such as village markets and exhibitions held annually or seasonally. Some markets are time-limited, such as daily or weekly markets.
- **Based on scope**: There are local markets, such as city markets, and global markets, such as the coffee market.
- **Based on the types of goods traded**: Examples include foreign exchange markets, real estate markets, and agricultural product markets such as rice and wheat.
- **Based on the purpose of the goods**: This distinction includes production goods markets and consumer goods markets.
- **Based on quantities traded**: This includes wholesale markets and retail markets.

5. Market Structures (Forms):

Market structure refers to the nature and type of competition prevailing in a market.

5.1 Perfect Competition: Several conditions must be met for a market to be considered perfectly competitive:[2]

- Homogeneity of the good: The goods are identical in all specifications and characteristics, meaning there is no difference between the products offered by competing firms.

[1] Majid Ali Hussein & Afaf Abdel Jabbar Said, Introduction to Macroeconomic Analysis, First Edition, Wael Publishing and Distribution, Jordan, 2004, p. 72.

[2] Abdelkader Mohamed Atiya, Microeconomic Analysis: Between Theory and Practice, Al-Dar Al-Jamia'iya, Egypt, 2005, p. 290.

- Large number of sellers and buyers: There are many sellers and buyers such that the absence of any single participant does not affect the market price, as the individual's size is negligible relative to the overall market.
- Freedom of entry and exit: Buyers and sellers have the liberty to enter and exit the market freely.
- **Perfect knowledge of market conditions**: The market is transparent, meaning all buyers and sellers are fully aware of the prevailing prices and the conditions of supply and demand, preventing any manipulation of the good's price.

2. Monopoly Market:

A monopoly market represents the opposite of perfect competition in all its conditions. It refers to a situation in which a single producer supplies a good for which no close substitute exists. The following conditions characterize a monopoly:[1]

- **Single producer or seller**: The monopolist is the sole producer or seller of the good and enjoys monopoly power due to the ability to control the price.
- **Lack of substitutes**: No other good in the market can replace the original product in terms of satisfaction and characteristics.
- **Imperfect knowledge of market conditions**: The monopolist alone possesses full knowledge of the production conditions, costs, and pricing of the product.
- **Barriers to entry**: These may include legal barriers such as patents, governmental barriers such as regulations, production barriers such as ownership of production methods, or technological barriers related to the technology used in the production process.

3. Monopolistic Competition Market:

This market combines features of perfect competition (a large number of producers) and monopoly (product differentiation). The goods are similar but not identical. Its main conditions include:
- The presence of many producers, though not necessarily as numerous as in perfect competition.

- Product differentiation: goods can be distinguished by quality, brand name, packaging, design, color, shape, durability, and advertising.
- Variation in product prices.

[1] Omar Sakhri, Principles of Microeconomics, Office of University Publications (Diwan), Algeria, 2016, p. 197.

- Entry to and exit from the market are possible, although they may be difficult.

4. Oligopoly Market:

In this market, a small number of producers or sellers operate in contrast to a large number of buyers. Its main characteristics include:

- A limited number of producers.
- Difficulty of entry and exit for new producers.
- Each product is differentiated from others, and competition is primarily based on quality and consumer appeal.

Table (03): Market Structures

Market Structures	Number of Producers	Type of Goods Produced	Selling Price	Producer's Ability to Control Price	Market Entry Conditions
Perfect Competition	Very Large	Completely Homogeneous	Fixed	None	Easy
Monopolistic Competition	Large	Similar	Varies Inversely with Quantity Sold	Present to a Limited Degree	Easy
Monopoly	Single	Different with No Close Substitutes	Changes Inversely with Quantity Sold	Present to a Very High Degree	Closed

Source: Lahoul Ali, Previously Cited Reference, p.36.

6. The Enterprise and the Market

6.1 Relationship Between the Enterprise and the Market:

The economic enterprise is the cornerstone of the production process within any economy. It is the unit that combines human, material, and technological resources to produce and deliver goods and services while creating added value for society. The enterprise operates within a dynamic external environment, where the market is a key element. The market serves as the space where supply and demand forces meet, facilitating the exchange of products and the determination of prices.

Understanding the relationship between the economic enterprise and the market is crucial. On one hand, it explains the enterprise's existence, continuity,

and success—its success depends on the ability to analyze consumer needs, respond to market changes, and compete effectively. On the other hand, it can also explain failure. The market serves as a source of inputs and a channel for outputs, providing the enterprise with customers, competitors, raw materials, financial resources, and all operational necessities. Therefore, the market forms the framework within which enterprises develop strategies and achieve their economic objectives.

6.2 Types of Markets for the Enterprise:

The enterprise participates in various markets, such as the capital market, labor market, materials market, and goods and services market, either as a supplier or as a demander. This distinction defines the market as either a backward (input) market or a forward (output) market.

❖ **Backward Market:**

This includes markets for materials, labor, and capital, which can influence the enterprise's activities. Enterprises can leverage their bargaining power to affect these markets.

- **Materials Market**: Supplies raw materials, semi-finished goods, and finished goods that serve as inputs for production processes.
- **Labor Market**: Provides the enterprise with skilled or unskilled labor necessary for its operations.
- **Capital Market**: Financial institutions and capital markets supply the enterprise with funds to implement various projects.

❖ **Forward Market:**

This market involves customers and competitors. The enterprise establishes direct relationships with the demand side for its goods or services, forming its sales and competitive interactions.[1]

[1] Marzouki Yasser, Lecture Notes on Business Economics, Department of Economic and Commercial Sciences, Institute of Economic, Commercial, and Management Sciences, Milla University Center, 2019/2020, p. 39.

Chapter Eight:

The Economic System and Economic Policy

Chapter Eight: The Economic System and Economic Policy

Understanding economic systems and economic policies is essential for analyzing how national economies function and assessing their capacity to face challenges and achieve sustainable development. The economic system is the overall framework through which economic activities are organized within society. It determines the methods of producing, distributing, and consuming goods and services, as well as the nature of the relationship between the state and individuals in the economic domain. Economic systems differ according to the philosophies and priorities adopted by societies. Examples include the capitalist system, which relies on market mechanisms and economic freedom; the socialist system, which emphasizes the role of the state in planning and resource allocation; and mixed systems, which combine market mechanisms with varying degrees of state intervention.

Economic policies are the tools and measures employed by governments to achieve specific economic objectives, such as financial stability, economic growth, reducing unemployment, controlling inflation, and promoting social justice. These policies include fiscal policy, related to government spending and taxation; monetary policy, concerned with controlling money supply and interest rates; and sectoral and structural economic policies, aimed at developing production sectors and improving economic efficiency.

1. Economic System

Each historical stage has produced a specific economic system, distinct from its predecessors. Since the dawn of human civilization, various economic systems have emerged.

1.1. Definition of Economic System:

Economists have differed in defining the concept of an economic system, using diverse criteria such as the nature of economic activity, means of economic exchange, scope of economic activity, forms of production, and patterns of distribution, consumption, and exchange.

The term "system" refers to an organized set, structure, or framework. In this context, an economic system is the complex whole of interrelated and continuous relationships between various parts, serving to achieve a specific goal by following certain fundamental rules.

Accordingly, an economic system is a complex whole of economic relationships characterized by interconnection and continuity among its various components. It serves to achieve specific objectives by following legal rules and principles that align with the nature of society, temporal realities, the

development of productive techniques, and the prevailing political system, in addition to being influenced by spiritual and ethical elements.[1]

- **Economic system**: It is the set of relationships, rules, and principles that govern the interaction and mutual influence between human needs on one hand and the available resources—natural, human, knowledge-based, and technological progress—on the other.[2]
- **Economic System**: It is a set of standards, principles, and rules that dictate and guide the functioning of the economy.
- **Economic System**: It comprises a set of fundamental variables that determine the performance of a given economy, such as ownership of the means of production and societal objectives, considering that the means of production are employed to carry out economic activities that achieve these objectives.
- **Economic System**: It is the collection of principles and foundations upon which the economic life of a society is based. It also includes the methods for solving economic problems, organizing economic relations, and managing and planning the economy according to these principles and foundations.[3]
- **Economic Organization**: This refers to the method or approach through which an economic system organizes activities, relationships, and economic operations within a society, distinguishing it from other economic systems. For example:

- The capitalist economic system relies on free economic organization to address economic problems.
- The socialist economic system relies on directed or planned economic organization.

Economic systems can be classified in two ways:

Single-criterion method: Based on the form of ownership of the means of production. According to this criterion, there are three main economic systems:

- Collective ownership system
- Private ownership system
- Mixed system, which combines both collective and private ownership.

[1] Kamel Alawi Al-Fatlawi & Hasan Latif Kazem Al-Zubaidi, Principles of Economics, First Edition, Safaa Publishing and Distribution, Jordan, 2009, p. 36.
[2] Lahoul Ali, Previously Cited Reference, p. 25.
[3] Mounir Rahmani, previously cited reference, p. 36.

Multi-criteria method: Differentiates economic systems using multiple indicators such as ownership structure, labor system, role of the state, and economic freedom.

Economics vs. Economic System: There is a distinction between the two. Economics is the study of economic phenomena, whereas the economic system refers to the way a society organizes its economic life and solves its economic problems. It is also the set of economic, legal, and social relationships governing economic life in a society at a given time, focusing on the relationships, rules, and principles that regulate the interaction and mutual influence between human needs and available resources.[1]

2. Objectives of the Economic System:

The primary goal of any economic system is to address the economic problem in the most efficient and effective manner. Within this overarching goal, several specific objectives can be identified:

- Optimal utilization of resources.
- Meeting the needs and desires of individuals.
- Efficient and effective allocation of economic resources.
- Fair distribution of income and wealth.

Organizing and directing economic activities by providing appropriate mechanisms and methods.

- Regulating economic relationships among economic agents.
- Achieving economic stability and balance.
- Promoting economic and social development.

3. Economic Systems:

Since ancient times, humans have developed and applied various economic systems, which can be discussed according to their historical evolution:

3.1. Primitive Economic System:

This was the first socio-economic system known to humanity. Humans used simple and primitive means of production, basic work skills, and minimal knowledge. The economy was primarily based on agriculture, and life was characterized by primitive tools and methods, such as stone implements and bows.

3.2. Slave Economy (Slavery System):

With the advancement of civilization, slavery emerged as a system in which captives were used for labor for the benefit of the community instead of being killed. This system appeared around 3000–4000 BCE and lasted until the

[1] Chetibi Hanane, Previously Cited Reference, p. 45.

3rd–4th centuries CE. Production included activities such as herding, agriculture, and craftsmanship. Slaves were considered the property of their masters and were stripped of all political and civil rights.

Characteristics of Economic Activity in the Slave Society:[1]

The slave class formed the economic foundation of production and was the primary source of wealth in slave societies. Production was no longer aimed solely at meeting the economic needs of the community; instead, a segment of society labored to generate a surplus for the ruling class.

Means of production experienced notable development during this period, as humans discovered and employed various tools and techniques for construction, agriculture, and other productive activities.

Division of labor was organized along social-class lines:

- **Physical labor**: Assigned to slaves, focusing on material production such as construction, mining, and road building.
- **Intellectual labor**: Reserved for the ruling class, who engaged in governance, politics, philosophy, literature, poetry, art, and skilled craftsmanship.

3.3. The Feudal Economic System:

The feudal system was a socio-economic and political structure based on land ownership. Kings granted vast tracts of agricultural land to princes and nobles in exchange for their loyalty and submission. A portion of the land was retained by the lord for personal use, while the remaining land was distributed equally among peasants, who cultivated their plots for personal benefit but were required to give a share of the harvest to the feudal lord and the Church. Additionally, peasants were obliged to work on the lord's land on designated days without compensation.

3.4 The Capitalist Economic System:

3.4.1 Definition: The capitalist system is characterized by a mode of production that divides society into two main classes: the owners of the means of production (companies or individuals) and the working class, which must sell its labor power due to the lack of ownership of production means and capital.

3.4.2 Conditions for the Emergence of Capitalism: The rise and spread of capitalism were facilitated by a series of historical conditions:

- **Early Capitalism (16th century):** Capitalism gradually emerged in Europe, which was still governed by imperial structures inherited from the feudal system (14th–16th centuries), often intertwined with it.

[1] Ben El-Hadj Djaloul Yacine, Previously Cited Reference, p. 117.

- **Intellectual Movements**: Calls for individual freedom and the creation of secular nations arose. In the second half of the 18th century, classical economists like Adam Smith and David Ricardo developed the ideas of natural liberty.
- **Scientific Revolution**: Innovations from Isaac Newton (gravity, the spherical Earth) influenced the Classical School of Economics.
- **Industrial Revolution**: Beginning in 1776, industrialization advanced alongside classical economic ideas, particularly in England. Inventions replaced simple tools, and steam power mechanized production.
- **Response to Feudalism**: Capitalist ideas gained momentum as feudal oppression, poverty, hunger, and widespread ignorance sparked calls to protect individual property rights and limit state intervention in the economy.
- **Industrial Capitalism**: Production factors concentrated in industry due to mechanization, giving rise to industrial capitalism.
- **Shift in Economic Focus**: Commerce, previously central to economic activity, became secondary to industry, which assumed the leading role.
- **Separation between Capitalists and Workers**: The Industrial Revolution created a distinct division between owners of production (capitalists) and workers, who relied on selling their labor as a commodity.

3.4.3. Principles of the Capitalist System:

- **Principle of Private Ownership of the Means of Production**: Individuals have the right to own property and capital. Ownership encompasses the rights to use, exploit, and dispose of property, but it is subject to limitations that prevent actions harming neighbors' interests or societal welfare. Inheritance is also recognized as a legitimate means of acquiring ownership.

- **Principle of Freedom of Contract and Labor:** In capitalism, goods and services are exchanged in the market based on competition. Labor, like any commodity, is governed by supply and demand laws, with legal frameworks ensuring freedom of exchange and contractual agreements.

- **Principle of Minimal State Intervention**: The state should limit its role in economic activity to essential functions such as regulating property, providing education, healthcare, and security, while allowing markets to operate freely.

- **Principle of Free Competition**: Competition enhances productive and economic efficiency, reduces costs, and promotes overall welfare.

- **Principle of Profit Incentive for Owners of Production**: Profit is the main driver of capitalist activity. Owners of the means of production make decisions and utilize resources to maximize profits.
- **Principle of Consumer Sovereignty:** Consumer preferences determine the areas of production with the highest profitability. Increased consumer demand for a product directs producers to supply more of it, making consumer choice the central determinant of what is produced.
- **Principle of the Price Mechanism as an Economic Regulator**: Consumer desires constitute the demand forces, and the quantity of goods offered represents the supply forces. The interaction of supply and demand determines market prices and influences economic activity.[1]

Table 04: Principles of the Capitalist System

Principles of the Capitalist System	Definition
Principle of Private Ownership of the Means of Production	An individual has the right to own property. This right of ownership includes the rights of use, usufruct (enjoyment/benefit), and disposition. However, there are certain restrictions that may prevent the owner from using their property in a manner that harms the interests of neighbors or the welfare of society, for reasons of public interest.
Principle of Freedom of Contract and Labor	Goods and services are exchanged in the market on the basis of competition, and labor—like any other commodity—is governed by the law of supply and demand.
Principle of Minimal State Intervention in Economic Activity	The state should intervene in economic activity only to the narrowest extent—such as regulating property rights, education, health, and security—while allowing markets to perform their natural role.
Principle of Free Competition	Competition enhances productive and economic efficiency, reduces costs, and promotes welfare.
Principle of Profit Incentive for Owners of Production	After the profit incentive, it is the primary driver of the activity undertaken by the capitalist owner of the means of production and the main motivator for any decision made by producers.
Principle of Consumer Sovereignty	Consumer preferences determine the areas of production with higher profitability; the greater the consumer demand for a particular product, the higher the demand, leading producers to focus on producing that product for greater profit. Thus, consumer preferences dictate what should be produced.

[1] Zeinab Hassan Awadallah, Principles of Economics, Al-Dar Al-Jami'iya for Printing and Publishing, Egypt, 1998, pp. 151–156.

Principle of the Price Mechanism as a Regulator of Economic Activity	Consumer desires are referred to as demand forces, and the products offered are referred to as supply forces; the interaction between supply and demand forces determines prices.

Source: Prepared by the researcher based on Zeinab Hassan Awadallah, Principles of Economics, previously cited, pp. 151–156.

4.4.3. Advantages of the Capitalist System: Key Positive Aspects of this System

- Advancement of the production process and a significant increase in both the quantity and variety of output.
- Relative improvement in the standard of living due to the development of production methods and processes.
- Efficient utilization of economic resources to achieve profits.[1]

5.4.3. Disadvantages of the Capitalist System: Key Drawbacks

- **Expansion of monopoly**: When an individual monopolizes a particular enterprise, they gain control over prices and quantities, disrupting the price mechanism, withholding goods to raise prices, and securing monopolistic profits. Monopolies also lead to misuse of economic resources and exploitation of consumers by leaving machinery idle and land uncultivated to reduce supply and increase prices.
- **Inequitable distribution of income and wealth**: Means of production concentrate in the hands of a few, while workers earn only wages. This situation increases the wealth of capital owners while keeping workers at a low standard of living, intensifying class disparities.
- **Spread of unemployment and recurring economic crises:** Despite optimal resource utilization achieved through the price mechanism, the natural functioning of capitalism leads to unemployment and periodic economic crises.
- **Illusory freedom: Freedom is not absolute**; it is enjoyed only by those owning the means of production. Workers lack true freedom in employment due to intense competition forcing them to accept low wages to avoid unemployment, and consumer freedom is limited by low income, preventing full satisfaction of needs.

5.3. The Socialist Economic System:

With the development of capitalist society, the emergence of intense class conflict, and the absence of social justice, socialism arose as a reaction to the destruction and imbalance caused by capitalism.

[1] Said Saad Martan, Introduction to Economic Thought in Islam, Risala Publishing and Distribution, Lebanon, 2000, p. 29.

5.3.1 Definition of the Socialist System:

It is a system of collective ownership, replacing individual ownership with collective theory. Private ownership is completely abolished, and the state replaces the individual, with public interest replacing profit motives. The state owns the means of production, such as land, machinery, and factories, makes all economic decisions through a planning apparatus, aims to achieve social justice, and provides employment opportunities without exploitation. Socialism emerged under Karl Marx.

The socialist system is one in which the state owns the means of production (land, machinery, and factories) and makes all economic decisions through a centralized planning system.[1]

5.3.2 Origins of Socialist Thought:

Socialist principles and foundations did not emerge independently but developed as an extension and result of the capitalist system. They were introduced by Karl Marx (1818–1883), whose ideas later embodied the working-class consciousness in a scientific theory of the highest level, serving as a guide for the labor movement (the proletariat).

5.3.3 Principles of the Socialist System:

The main principles upon which this system is based are:[2]

- **Principle of collective ownership of the means of production**: Individuals do not have the right to own the means of production—the economic resources generating the production process—except for owning consumer goods. The ownership of production means is collective and managed by the government, taking two forms: either state ownership or cooperative associations, which may consist of groups of farmers or small industries. Individuals receive wages for their labor contribution.

- **Principle of satisfying collective needs and eliminating the profit motive**: The primary goal of economic activity is not profit but the reduction of class disparities. In place of profit as an economic incentive, national and collective sentiment serves as a motivator. Additionally, this system provides for societal needs free of charge, such as education, healthcare, and recreation.

- **Principle of central economic planning**: Since the state owns the means of production and sets production priorities to satisfy collective needs, it is

[1] J. H. D. Cole, Socialism and Fascism in the 1930s, translated by Abdel Hamid Al-Islambouli, Egyptian General Authority for Authorship and Publishing, Egyptian House for Authorship and Translation, Egypt, 1964, p. 6.
[2] Zeinab Hussein Awad Allah, Principles of Economics, Al-Dar Al-Jamia'iyya for Printing and Publishing, Egypt, 1998, pp. 161–169.

responsible for organizing economic operations through centralized planning by establishing a comprehensive national plan.

5.4.3. Advantages of the Socialist System:

- The state is the sole authority, as the concepts of individual persons or private wealth are absent from power structures.
- Equitable distribution of income.
- Relative elimination of periodic economic crises.
- Absence of monopolistic practices in markets.

5.5.3. Disadvantages of the Socialist System:

Although the system aims to achieve equity in income distribution and stability in the national economy, these objectives often remain theoretical because actual implementation frequently diverges from the principles. The main disadvantages are:

- Despite the material and moral incentives encouraging workers to produce, these incentives are generally weaker than the profit motive in the capitalist system, leading to laxity among some officials in managing projects efficiently.
- Since decision-making authority rests in the hands of a small group of planners, erroneous decisions can have widespread negative effects on society as a whole, whereas in the capitalist system, the consequences of a wrong decision are borne solely by the decision-maker (the producer).
- Direct or indirect state management of various projects through a large and complex administrative apparatus, along with monitoring systems, tends to increase production costs and slow down many operational procedures.[1]

3.6 The Mixed Economic System:

The mixed economic system combines features of two or more economic systems. Its main principles are:

- Existence of both public and private ownership of enterprises in conducting economic activity.
- Presence of a degree of government planning or regulation alongside reliance on the market.
- Achievement of both private and public benefits.
- Promotion of equity and efficiency.[2]

[1] Chatbī Ḥanān, previously cited reference, pp. 54–55.
[2] Faysal Boutayba, Introduction to Economics, Dar Jusur for Publishing and Distribution, Algeria, 2017, pp. 51–52.

3.7. The Islamic Economic System:

The Islamic economic system is a set of general economic principles derived from the Qur'an and Sunnah, adapted to the surrounding environment and the contemporary era.

3.7.1 Definition of the Islamic Economic System:

- It is an economic approach based on Islam for utilizing resources to meet people's needs.
- It consists of a set of rules grounded in the fundamentals of Islamic faith, including the Qur'an, Sunnah, and jurisprudential reasoning (Ijtihad), to build an economy based on these principles according to the context of each era.[1]

3.7.2 Origin and Development of the Islamic Economic System:

Although the term "Islamic economics" is relatively modern, the issues and subjects it addresses are ancient, tracing back to the emergence of Islamic Sharia, which organized the affairs of individuals and society across various aspects of life, including financial and economic matters. Islam prohibited usury (riba) and monopolies, regulated exchange transactions, and recognized both private and collective ownership, each within defined limits.

Scholarly research by Muslim thinkers on economic issues has historically been linked to jurisprudence, exegesis, and Hadith studies, initially focusing on the Islamic rulings governing financial transactions. Among these works is Kitab al-Kharaj by Abu Yusuf, which, while seemingly concerned with the organization of land tax and public revenue, is in essence a plan for financial and economic reform aimed at increasing productivity in the Islamic community and achieving economic development.[2]

- Ihya' 'Ulum al-Din by Al-Ghazali, which addressed the difficulties of barter, the importance of money, and its functions.
- Al-Muqaddimah by Ibn Khaldun (late 8th century AH), which discussed the division of labor, prices, money, supply and demand, and the classification of goods into necessities and luxuries.

Ighathat al-Ummah bi-Kashf al-Ghummah by Al-Maqrizi, which examined the high cost of living in Egypt, attributing it to poor administration, corruption, and excessive circulation of money.

Although Ibn Khaldun's studies were deep and logically analytical, they were not conducted within an independent economic framework but were

[1] Delmi Fatiha & Rahmani Sanae, Principles and Characteristics of Islamic Economics, International Forum on Islamic Economics: Reality and Future Challenges, University of Ghardaïa, Algeria, 23–24 February 2011, p. 4.
[2] Fouad Abdullah Al-'Amr, Introduction to the History and Development of Islamic Economics, Islamic Research and Training Institute, King Fahd National Library during publication, Saudi Arabia, 2003, p. 50.

connected to history and other social issues; thus, he is not considered the founder of economics.

In the modern era, most studies had a jurisprudential and doctrinal character, focusing on rules regarding usury, insurance, monopolies, banking operations, and some exploring the general foundations of the Islamic economic system, such as property, freedom, social solidarity, and the financial system of the Islamic state, including:

- Financial Policy in Islam by Abdul Karim Al-Khatib, 1961.
- Foundations of Economics between Islam and Contemporary Systems by Sheikh Abu Al-Ala.
- The Economic System of Islam by Dr. Muhammad Al-Mubarak, 1972, among other works.

❖ **Collective contributions:**

- Multiple Fiqh Weeks, beginning with the first Fiqh Week held in Paris in 1951, which addressed topics such as usury, insurance, and monopolies.
- Islamic conferences, including the 1964 conference at Al-Azhar, which discussed financial resources in Islam, banking transactions, Islamic rulings on these issues, usury, and investment.
- The First World Conference on Islamic Economics in Mecca in 1976, covering key topics such as the concept and methodology of Islamic economics, consumer and enterprise behavior in the Islamic economy, economic development within an Islamic framework, zakat, fiscal policy, banking, and insurance. This conference marked a significant milestone in the development of Islamic economics, although it did not provide sufficient momentum to establish Islamic economics as an independent scientific discipline.

3.7.3. Stages of Development in Islamic Economic History:

It is difficult to trace economic events throughout the eras of the Islamic state due to the complexity of encompassing them fully. Therefore, some key economic events in the development of Islamic economic history will be analyzed. Scholarly and jurisprudential knowledge was the fundamental factor in shaping Islamic economics and its various stages. Based on the economic conditions and political influence of the Islamic nation, the history and development of Islamic economics can be divided into the following stages:

The Early Islam Period (Formation and Establishment Stage):[1]

This stage began with the Prophethood and ended with the assassination of Caliph Ali ibn Abi Talib, may Allah be pleased with him. Prominent features

[1] Fouad Abdullah Al-'Amr, previously cited reference, pp. 99-103.

in economic life included the brotherhood (Mu'akhah) between the Muhajirun and the Ansar as a model of social solidarity until the Muhajirun settled and acquired economic resources, such as assisting them with land rental or participation in agriculture and trade. Wealth was distributed to those in need. The Prophet Muhammad ﷺ did not rely solely on social solidarity and aid as a source of economic stability; rather, he emphasized work and productivity, focusing on three main professions: agriculture, trade, and services, alongside market regulation,[1]

As for Caliph Abu Bakr al-Siddiq (may Allah be pleased with him): he focused on the financial development of the state through the collection of zakat and enforcing its payment by the tribes.

Caliph Umar ibn al-Khattab (may Allah be pleased with him) opened the lands of Iraq, Sham, and Egypt and established new cities, which led to a focus on agricultural development, as land and its resources became the foundation of the Islamic economy. The concept of dual ownership (land of the Sawad) emerged, and trade with neighboring non-Muslim countries increased, prompting the establishment of a taxation system through the collection of tithes (ushr). Financial resources expanded, enhancing the administrative capacity for managing these funds, leading to the creation of diwans, including the Bait al-Mal (House of Wealth) as an independent administrative unit for safeguarding and distributing funds (public finance).

Caliphs Uthman ibn Affan and Ali ibn Abi Talib (may Allah be pleased with them) continued implementing the economic and financial policies of Caliphs Abu Bakr and Umar, but political crises and civil strife prevented them from fully completing these measures.

❖ **Growth and Stability Phase:**

This phase began with the Umayyad Caliphate and ended with the conclusion of the First Abbasid era and the beginning of the Second Abbasid era. During this period, the economy remained almost entirely dependent on agriculture, with well-organized public finances, economic prosperity, abundant resources, active administration of diwans, and political stability.

The Islamic conquests of agricultural lands did not lead to economic stagnation because the Muslims ensured that the local populations retained their lands while imposing the kharaj tax, which provided sustainable economic

[1] Fouad Abdullah Al-'Amr, Introduction to the History and Development of Islamic Economics, Islamic Research and Training Institute, King Fahd National Library at the time of publication, Saudi Arabia, 2003, pp. 99-103.

development. The Umayyads continued Umar ibn al-Khattab's (may Allah be pleased with him) kharaj policy, with some modifications, such as replacing crops with monetary payments.

This period was also characterized by active exportation of goods and commercial openness with other peoples. The abundant agricultural production brought widespread prosperity to the Islamic nation, except during occasional political disturbances. North Africa came under Islamic control, removing the Mediterranean from Byzantine dominance and monopolizing maritime transport. By the mid-9th century AH, trade with China expanded, and attention to currency as a medium of exchange increased (Islamic dinar), alongside gold and silver extracted from Islamic lands, Andalusia, and Central Asia after their conquests. These resources became the main driver of the Islamic world's political and economic power.

Baghdad continued to serve as a central hub for international trade throughout the Abbasid Caliphate.

❖ **Decline Phase:**

This phase spanned three centuries, encompassing the Second Abbasid era. It began with the caliphate of Al-Muti' Billah, during which the Islamic Ummah fragmented, and the caliphate split into three entities: the Abbasid Caliphate in Baghdad, the Umayyad state in Andalusia, and the Fatimids in Africa. The sultans held power in practice, reducing the caliph's authority. The performance of the Islamic economy declined, and financial abundance disappeared due to escalating military expenditures, excessive spending, loss of Abbasid prestige, secession of some provinces, and governors' domination over financial resources. The manipulation of currency standards by governors undermined confidence in Islamic money, leading to reliance on Italian and European currencies.

Partial economic recovery occurred in certain regions, while others continued to deteriorate. Syria experienced revival in 564 AH with Salah al-Din al-Ayyubi's rise to power in Egypt. However, after his death, Western threats persisted, and in the 7th and 8th centuries AH, the Mongol invasions and ongoing Crusades further weakened political influence and economic development, causing destruction of infrastructure (water systems and roads), prolonged stagnation, and extreme inflation.[1]

❖ **Stage of Decline: The Ottoman Caliphate:**

[1] Fouad Abdullah Al-'Amr, previously cited reference, pp. 107–109.

This period lasted approximately three centuries. The Ottomans focused on public finance, tax collection, and general administration, but paid little attention to economic development. Poor financial organization led to increasing state debts and inability to repay them, currency depreciation, and rising military expenditures, which worsened the financial situation. The main challenge facing the Ottoman state was the fragility of the monetary system, high expenses, and weak financial management. Foreign powers increasingly intervened to protect creditors' interests (e.g., in Egypt and Tunisia), particularly after the opening of the Suez Canal in 1869, which boosted maritime trade in the ports of the Arabian Gulf and Basra.

-Stage of Decline:

The stage of decline marked the economic dependence on the West. Islamic economic performance and competitiveness weakened, and economic integration across its regions diminished. Interregional trade declined, banking and taxation systems became dominant, and state and regional debts—such as in Turkey and Egypt—increased. Economic development and productive structures were largely neglected, and the trade balance shifted in favor of Western countries.

3.7.4 Principles of the Islamic Economic System: The Islamic economic system is based on a set of principles that distinguish it from other systems in terms of its nature, means, and objectives. The most important include:

Principle of Faith: The Islamic system derives from Islamic belief, which makes faith in God and piety a fundamental factor in production. This principle encompasses several doctrinal foundations, including:

- Stewardship (Khilafah): Humans are regarded as God's stewards on Earth, responsible for its development and the utilization of its resources.
- Subjugation (Tashkhir): God has made the Earth subservient to humans to enable them to fulfill their stewardship.
- Utilization (Intifa'): Stewardship and subjugation entail the human right to benefit from available resources.
- Instrumentality (Wasiliyyah): Economic activity—production, consumption, and investment—is not an end in itself but a means to worship God and uphold religion.
- Universality ('Umumiyyah): Stewardship and utilization apply to all people.

- Responsibility (Mas'uliyyah): Every individual bears the consequences of their work and activities, both in this world and the hereafter.
- Principle of Ethics: The Islamic economic theory is inseparable from the ethical dimension. A Muslim must embody the virtuous traits promoted by the Qur'an and Sunnah, including honesty and truthfulness in all transactions, generosity and flexibility in dealings with others, justice in profit, and contentment.[1]
- Principle of Reward and Punishment: A Muslim seeks through economic activities to attain the maximum reward in the Hereafter by following God's guidance and adhering to His law.
- Principle of Halal and Haram: This principle directs economic activity by considering the welfare of the Islamic society. Muslims must observe what is permissible and avoid what is prohibited, as stated in the Qur'an: "Allah has permitted trade and forbidden usury" (Al-Baqarah, 2:275), due to its negative effects on both micro and macroeconomic variables.[2]

Second: Economic Policy

To ensure social, political, and economic stability, the state—through all its institutions—must adopt an effective economic policy. Economic policy refers to the set of mechanisms and instruments employed by the state to achieve specific social and economic objectives.

1. Concept of Economic Policy

The concept of economic policy denotes the approach pursued by the state in the economic sphere—that is, with respect to production, consumption, exchange, investment, and other areas—and the scope of its intervention in economic life in accordance with the principles it establishes.

Economic policies require the clear determination of objectives by articulating society's economic aspirations, specifying a time schedule, and identifying the means through which the stated objectives are to be achieved.

Economic policy is essentially implemented through fiscal policy and monetary policy, each of which has its own instruments and sphere of influence. Fiscal policy primarily affects the goods (production) market, and its main tools are government expenditure and taxation. Monetary policy primarily affects the

[1] Delmi Fatiha, Rahmani Sana, previously cited reference, p.7.
[2] Nasser Murad, Principles and Methodology of Islamic Economics, International Forum on Islamic Economics: Reality and Future Challenges, University of Ghardaia, Algeria, 23–24 February 2011, p.6.

money market, and its main instruments include money issuance, which directly influences the money supply, product prices, and purchasing power.[1]

2. Types of Economic Policy:

2.1 Monetary Policy:

Definition: It is a set of rules, tools, methods, procedures, and measures implemented by the monetary authority to influence the money supply in a way that aligns with economic activity to achieve specific economic objectives within a certain period. Monetary policy requires state intervention through the central bank.

2.2 Objectives of Monetary Policy:

- **Price stability**: The monetary authority seeks to contain price level fluctuations at the lowest possible level.
- **Monetary stability**: Adjusting the money supply according to the level of economic activity.
- **Contribution to balance of payments**: Improving currency value through an exchange rate policy, such as floating the currency.

- **Contribution to full employment**: By increasing the money supply during unemployment or recession to boost effective demand, thereby increasing investment and employment.
- **Participation in achieving a high growth rate**: By fostering full employment.

2.3 Types of Monetary Policy:

- **Contractionary monetary policy**: Used by the state to absorb excess money in order to reduce prices of goods and services. This is achieved by raising interest rates and encouraging the purchase of government treasury bonds.
- **Expansionary monetary policy:** Applied during economic recession and slow growth periods. This policy increases the money supply in the market to stimulate investment, which leads to higher production, creation of new jobs, and consequently an increase in overall consumption.[2]

[1] Daaas Khalil, previously cited reference, p.97.
[2] Maghdouri, Chahrazad, Lecture Notes on Introduction to Economics, Faculty of Economic Sciences, Commercial Sciences, and Management Sciences, University of Blida 2, p. 96.

2.1.3. Monetary Policy Instruments: These include quantitative and qualitative tools:

❖ **Quantitative Tools:**

• Discount Rate: Commercial banks can rediscount the commercial papers they hold at the central bank at a specific interest rate applied to those papers previously discounted.

• Legal Reserve Requirement: The central bank requires commercial banks to keep a certain percentage of funds in liquid form as a mandatory reserve to protect against unexpected withdrawals by depositors. The central bank can raise this reserve ratio under a contractionary policy or lower it under an expansionary policy to enable banks to extend more credit.

• Open Market Operations: The central bank can act as a buyer of securities to inject liquidity under an expansionary policy or as a seller of securities to withdraw liquidity under a contractionary policy.

❖ **Qualitative Tools:**

• Credit Rationing: Under a contractionary policy, the central bank sets ceilings on loans and directs credit to specific sectors, either by raising loan limits or capping interest rates to encourage investment in targeted sectors.

• Selective Credit Policy: This involves setting limits on loan amounts, the number of borrowers, or the repayment period to restrict or prevent lending in certain sectors that do not align with the adopted economic policy.[1]

2.1 Fiscal Policy:

2.1.1 Definition of Fiscal Policy:

- It is a set of activities, objectives, and instruments adopted by the state to meet the needs of society, achieve overall stability, address any future contingencies, and promote economic and social development.

- It comprises the objectives and programs that the state seeks to achieve through financial instruments, represented by public expenditures and public revenues.[2]

2.1.2. Objectives of Fiscal Policy

The objectives of fiscal policy include:

- **Achieving efficiency**: through the optimal use of available resources, i.e., the factors of production.

[1] Magdouri, Chahrazad, previously cited source, p. 97.

[2] Abdel Latif Haddadi, "The Development of Fiscal Policy under Economic Systems," Journal of Economic Integration, University of Adrar, Algeria, Vol. 5, No. 3, 2017, p. 24.

- **Promoting fairness in income distribution**: This is among the state's social objectives and responsibilities; fiscal policy should therefore take into account how income is distributed in order to reduce disparities among social groups.
- Achieving economic growth.

2.1.3 Objectives of Fiscal Policy

Fiscal policy seeks to achieve resource reallocation, income redistribution, economic development, and economic stability.

2.1.4 Instruments of Fiscal Policy

Fiscal policy operates through two main instruments: public expenditure and public revenues.

- The driving force of fiscal policy lies in mobilizing revenue sources and determining how they are used to achieve economic and social development. Fiscal policy typically intervenes in two situations: inflation and recession.
- In the case of inflation: which is accompanied by rising prices and declining purchasing power, the state intervenes by raising taxes and reducing government spending to absorb excess liquidity.
- In the case of contraction (recession): which leads to higher unemployment, the state intervenes by increasing government spending, reducing taxes, or both.[1]

Third: The Relationship Between the Economic System and Economic Policy

The economic system does not operate independently of economic policies. Economic policies constitute the procedural and executive dimension through which the principles of the economic system are translated into concrete plans and programs. While the economic system provides the theoretical framework and fundamental rules, economic policies specify how the economy is managed in practice through instruments such as fiscal and monetary policy, trade and investment policies, employment policies, and subsidy/support policies. Thus, economic policies are the tools through which the state can steer the economy toward specific objectives, such as stability, growth, social justice, and enhanced competitiveness.

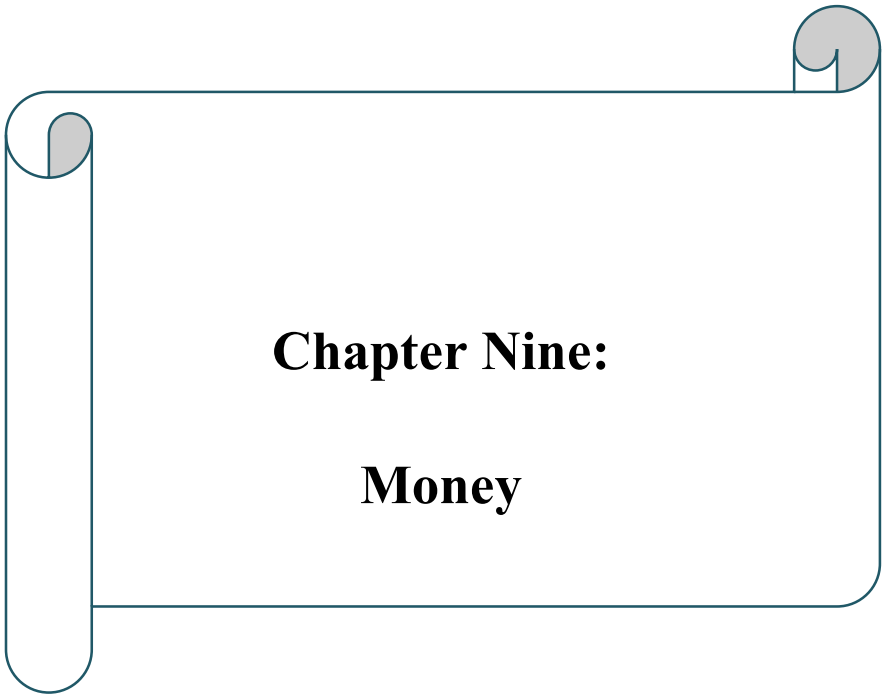
The relationship between economic systems and economic policies involves a high degree of interaction and complementarity. The economic system shapes the range of policies that can be adopted and defines the limits of state intervention and the role of the market. Conversely, economic policies contribute to strengthening the effectiveness of the economic system by

[1] Karima Mohamed Al-Husseini, "The Role of Fiscal Policy in Achieving Economic Stability," Scientific Journal for Commercial Research and Studies, Helwan University, Egypt, Vol. 32, No. 1, 2018, p. 16.

highlighting its advantages, mitigating its shortcomings, and enhancing its capacity to confront internal and external challenges while maintaining a stable business environment.

Accordingly, understanding this relationship is essential for analyzing how national economies function, explaining differences in economic performance across countries, and assessing their ability to adapt to local and international conditions.

The theoretical framework established by the economic system has no practical effect unless it is translated by the state into clear and coherent economic policies. Economic policies represent the operational and executive side of the economic system and, through their various instruments—such as fiscal policy, monetary policy, trade policy, and employment policy—embody the state’s economic choices in a manner consistent with its objectives of achieving stability, growth, and improved social welfare. In this regard, economic policies constitute a vital mechanism for regulating macroeconomic performance and addressing structural imbalances that may confront the economy.



Chapter Nine:

Money

Chapter Nine: Money

Exchange is among the oldest economic activities practiced by human beings to satisfy their needs. It initially took the form of barter—the direct exchange of goods and services. As societies developed and needs expanded, money emerged as a fundamental instrument for facilitating exchange and overcoming the limitations of barter. Money functions as a general medium of transactions, a means of valuing and storing value, which has made it a central component of economic life. It has also contributed to organizing markets and strengthening commercial activity both within and across countries.

Money emerged to facilitate exchange and trade after barter had impeded the speed of transactions and constrained the scale of economic activity. By virtue of its core functions—as a medium of exchange, a measure of value, and a store of wealth—money became a cornerstone of the modern economy and of the regulation of transactions among individuals, firms, and states.

First: The Origin and Evolution of Money

It is not known with certainty when humans first used money, since barter was sufficient for meeting exchange needs at a time when specialization and the division of labor had not yet reached high levels of complexity. Production was primarily directed toward satisfying needs directly. However, as specialization increased and the division of labor spread, the need to expand exchange intensified. At that point, barter became incapable of coping with the expansion necessitated by the development of economic activity in production and distribution. The difficulties of barter thus emerged, along with a growing need for an instrument that would facilitate exchange. Money therefore emerged as a solution to these difficulties.

Accordingly, there is broad agreement among scholars of monetary affairs that the need to use money arose when barter could no longer adequately facilitate exchange in the face of increasing specialization and a widening division of labor. Money did not develop all at once; rather, it evolved gradually as the need for it grew and as economic relationships shifted from self-sufficiency to specialized production, thereby highlighting money's effective role in managing the economy. Historically, monetary evolution passed through three stages: a closed (self-sufficient) economy, an economy based on barter exchange, and an economy based on monetary exchange.

Second: Definition of Money

Economists approach money from multiple perspectives. It may be defined on the basis of the functions it performs, or on the basis of its physical characteristics; hence, definitions of money are numerous and diverse. Among these definitions is the following:

- Henry defined money as essentially an instrument that ultimately provides its holder, in an economic sense, with purchasing power, and, in a legal sense, with a means of discharge and settlement—i.e., a means of clearing or paying debts.
- Robertson defined money as a commodity used as a medium of exchange for other goods in order to settle current obligations. This is a narrow definition of money, as it is largely confined to commodity money, which is demanded for its own sake.[1]
- Keynes defined money as "anything used to settle payments, provided that it enjoys general acceptance as a medium of exchange and is used to preserve purchasing power."
- Some writers use "money" as a synonym for income, while others use it as a synonym for wealth; however, wealth encompasses elements that go beyond what is included in the concept of money.
- According to Milton Friedman, money is the means that individuals seek to acquire in order to use it to obtain the goods and services they desire in the present or the future, and it enjoys general acceptability within society.[2]
- Money is anything that is generally accepted as a medium of exchange and a measure of value.
- Money is anything that performs the function of a medium of exchange.

Third: Conditions/Requirements of Money

- General acceptability: Money must be widely accepted by members of society as a medium of exchange and as a means of settling the value of goods.

- Homogeneity (uniformity) of units: Its units should be standardized and identical in quality.

- Divisibility: It should be divisible into smaller units to facilitate small transactions.

- Durability (resistance to deterioration) Money should not be easily damaged or perish as a result of use and handling.

Fourth: Functions of Money

[1] **Hassiba Hadouqa**, *previously cited reference*, p. **66**.
[2] Maher Zahir Butrus, Money and Banking, Cairo University Center for Open Education, Egypt, 2006, p. 14.

Money performs multiple functions. These include traditional monetary functions, as well as more modern functions linked to economic activity:

1. Traditional Functions

- **Money as a medium of exchange**: This is one of the most important functions of money, as it serves as an intermediary for exchanging goods and services instead of barter.
- **Money as a measure (unit) of value**: Money is used as a general measure of the value of goods and services and for valuing wealth. Just as weight is measured in kilograms, the value of goods is expressed in money, which is referred to as the price.
- **Money as a store of value**: Money is regarded as a convenient store of value because it can be held over time.
- **Money as a standard of deferred payment**: Since some transactions are settled in the future, money is used as a means for deferred payment.

2. Modern Functions

- **Money as a factor influencing production**: money plays a role in enabling and supporting production activities (e.g., through financing and facilitating transactions).
- **A key element for individuals and firms in consumption and distribution**: particularly with respect to the fairness of income distribution.
- **An instrument of monetary policy**: used by authorities to influence monetary conditions and macroeconomic performance.
- **An international dimension**: money serves as a means of international exchange and cooperation, and can also function as an instrument of influence and control.[1]

Fifth: Types of Money

1. Commodity Money: This is the oldest form of money. It consists of specific commodities commonly accepted by people and used as a medium in exchange and transactions, such as livestock, wheat, and gold.

2. Metallic Money: Economic exchange evolved from barter to commodity money and then to metallic money. Metallic money initially involved the use of various metals—such as iron, copper, and bronze—because they could be stored, were easy to circulate, divisible, and flexible in use. Metallic money was associated with the emergence of a monetary economy; however, this stage did

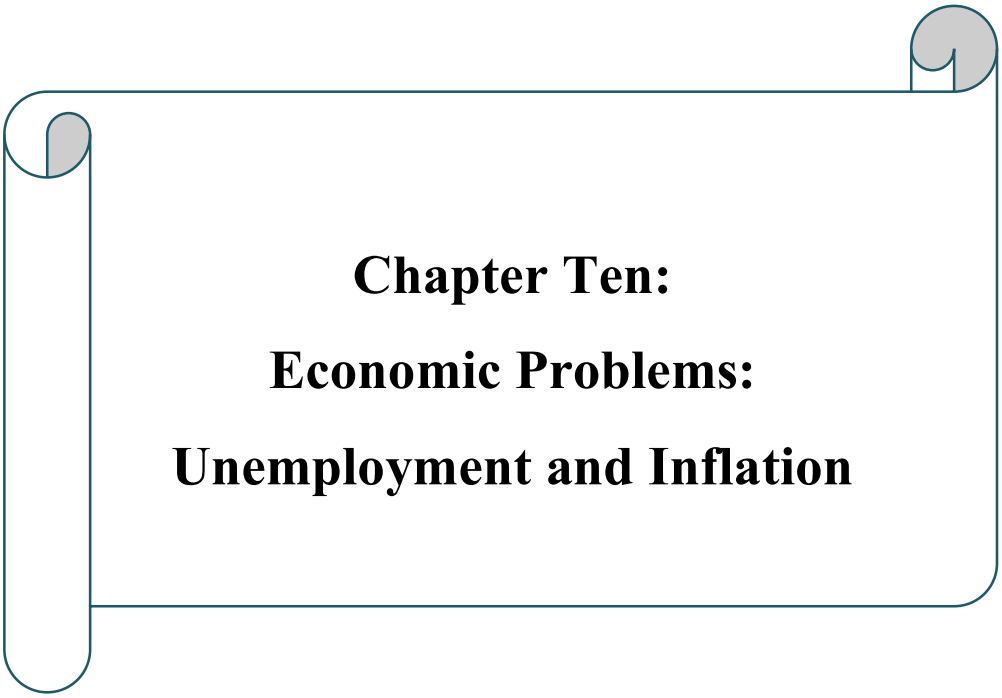
[1] Yassin Belhadj Jelloul, previously cited reference, p. 136.

not last long, and precious metals such as silver and gold were adopted due to their durability and resistance to deterioration.

3. Paper Money: Despite the widespread and long-term use of metallic money, transporting it for transactions involved risks such as theft and loss. Consequently, coins were deposited with money changers in exchange for certificates or receipts indicating the deposited amounts, redeemable on demand. These certificates were transferred from one person to another through endorsement. With the spread of commercial banks, banks began issuing banknotes backed by the metallic money deposited by individuals.

4. Bank (Deposit/Credit) Money: This refers to deposit money or credit money (e.g., cheques, bank deposits, and transfers). It is also called book money or scriptural money. Its source is bank deposits, as it is generated from demand deposits/current accounts, whose ownership can be transferred from one person to another through payment orders or transfers—most commonly via cheques.

5. Electronic Money: Advances in information and communication technologies have enabled the transfer of funds without paper instruments physically passing from hand to hand. Electronic money is characterized by security, speed, ease of use, and lower transaction costs. It can be used online to pay for goods and services through a designated account accessed via a personal computer (or digital devices).



Chapter Ten:

Economic Problems:

Unemployment and Inflation

Chapter Ten: Economic Problems—Unemployment and Inflation

Across all spheres of life, societies experience various economic, social, and political crises—events that deviate from normal conditions and result in changes affecting the real economy, such as declines in production in its various forms, rising unemployment in labor markets, and price-level disturbances in the form of deflation or inflation.

Unemployment and inflation are among the most prominent economic challenges confronting countries at different levels of development, given their direct impact on macroeconomic stability. High unemployment rates signal imbalances in the labor market and lead to reduced purchasing power and a slowdown in economic activity. Inflation, in turn, threatens the value of currency and living standards through a sustained rise in prices. When these two phenomena occur simultaneously, they complicate policymakers' task of striking a balance between growth and stability. Therefore, studying, understanding, and analyzing unemployment and inflation is crucial for grasping economic dynamics and for proposing effective policies to mitigate their adverse effects.

First: Unemployment

Unemployment is a socio-economic phenomenon of global character. It constitutes an economic and social problem in every society, whether developed or developing; however, it is particularly significant in developing countries due to its effects on economic and social life.

1. The Historical Evolution of Unemployment

The concept of unemployment has undergone notable development over time. In ancient societies, unemployment was not recognized as an independent economic phenomenon, as work was largely tied to agriculture and traditional crafts that absorbed most individuals. With the emergence of the Industrial Revolution in the eighteenth century, a new form of labor market developed, based on machines and factories. This led to the displacement of many workers and the emergence of unemployment as an economic and social issue.

In the nineteenth century, classical economic schools began to study unemployment and link it to factors such as wages and market flexibility. The global economic crisis of 1929, however, marked a major turning point: unemployment expanded to unprecedented levels, reaching 40% in some industrial countries. This prompted Keynes to develop his theories on aggregate demand and the role of the state in combating unemployment.

In the second half of the twentieth century, new forms of unemployment emerged, such as structural unemployment resulting from technological change and cyclical unemployment associated with fluctuations in economic activity. Today, countries face an even more complex form of unemployment linked to globalization, digitalization, and rapid shifts in demanded skills.

2. Definition of Unemployment

The concept of unemployment has attracted substantial attention in research and analysis, as it has become a persistent and pressing issue on the international agenda, engaging both social and economic researchers.

2.1. Linguistic Definition

In Arabic lexicography, the term unemployment (البطالة) is derived from the root (batala), which conveys the meaning of becoming invalid or no longer fit for purpose, or of losing one's entitlement. Accordingly, al-battāl (البطّال) refers to a person who is out of work, implying that they have lost their entitlement or functional role.

By contrast, in English and Russian, the term generally denotes nothing more than being without work. In French, the word chômage (unemployment) is derived from a verb that conveys the idea of ceasing or being idle with respect to work; the verb chômer also carries the meaning of resting in the shade away from the sun—suggesting, in a figurative sense, a person who is temporarily inactive before resuming work.[1]

2.2. Technical (Terminological) Definition

According to a narrow definition: Unemployment is the absence of employment—i.e., the involuntary idleness of a portion of the labor force from economically productive work, despite having the ability and the willingness to work and produce.

Unemployment is also defined as a situation in which work is not available for a person who is willing to work in an occupation that matches their aptitudes and capabilities, due to prevailing conditions in the labor market.[2]

According to the standards established by the International Labour Organization (ILO), an unemployed person is an individual above a certain age who is without work, is able to work, is willing to work, and is actively seeking employment and would accept a job at the prevailing wage rate, yet cannot find a job opportunity.

[1] Issa Rahimi and Nasr Al-'Ayeb, "The Phenomenon of Unemployment: Its Concept, Causes, and Effects," IrtJournal for Economic Research and Studies, University of El Tarf, Vol. 1, No. 0, 2018, p. 143.

[2] Abdelkader Attia, Econometrics: Contemporary Issues Between Theory and Application, Al-Dar Al-Jami'iyya, Egypt, 2003, p. 22.

Accordingly, the Algerian National Office of Statistics considers a person unemployed if the following conditions are met:

-Being of working age, which is generally defined as between 18 and 60 years.

- Demonstrating a genuine willingness and readiness to work, whether in paid employment or self-employment; thus, an individual who possesses wealth and lives off it and does not wish to engage in any work is not considered unemployed.

- Undertaking an active and serious job search, which reflects a real intention to work, such as registering with or submitting an application to relevant bodies.

- Not having any work, which is arguably the most essential criterion for classifying an individual as unemployed.[1]

3. Measuring Unemployment

The unemployment rate is one of the macroeconomic indicators that contributes to shaping economic policy. Unemployment is measured by the unemployment rate, which represents the ratio of the number of unemployed persons (whether those who were previously employed or new entrants to the labour market) to the total labour force, according to the following formula:

Unemployment rate = (Number of unemployed / Labour force) × 100.

4. Causes of Unemployment

The causes of unemployment are numerous, since it is a phenomenon with complex and interrelated dimensions. Its determinants are primarily economic, while political and social factors also play a role.

Changes in the structure of demand: Economic development may, in some cases, lead to a shift from one economic model to another, resulting in reliance on a particular sector and the neglect of other sectors.

Technological progress and the intensification of the effects of the scientific and technological revolution on employment: In many sectors, capital-intensive production techniques have replaced labour, leading to a decline in demand for labour. Moreover, the more advanced technology becomes, the more unemployment may increase due to the substitution of robots and highly sophisticated machinery for human labour, particularly in industry.

Government policies: These include setting minimum and maximum wage levels that may not align with the preferences of workers and producers, as well as adopting contractionary policies and reducing current and investment public expenditure.

[1] Naji Ben Hussein, Mohamed El Hadi Moubaraki, Abdelhalim Aissaoui, "Unemployment in Algeria: An Analytical Study," Journal of Economy and Society, University of Constantine, Vol. 1, No. 1, 2002, p. 116.

Unemployment benefits: These may, in some cases, encourage unemployment.
- Population growth: This is often accompanied by labour force growth at a rate exceeding the growth of job opportunities. Demographic expansion thus contributes to the persistence of unemployment despite development efforts.[1]
- Imbalances between the supply of labour and the demand for it: resulting from rapid population growth or limited job opportunities.
- Economic slowdown or economic crises: which prompt enterprises to reduce hiring.
- Weak investment: leading to a lack of expansion in productive projects.
- Mismatch between skills and labour market needs: due to inadequate training or changes in job requirements.
- Social and political factors: such as instability, poor governance, widespread poverty, and the absence of local community development.
- Resignation from work and searching for a new job.

5. Types of Unemployment

Unemployment takes multiple forms that reflect the nature of economic and social changes within the labour market. Differences in its causes lead to a variety of patterns, each of which indicates a particular dysfunction in the economy. Understanding these types helps diagnose the problem accurately and design more effective policies to reduce it. Unemployment can also be classified according to its duration or its nature. The main types include:

5.1. Structural Unemployment

Structural unemployment refers to the inactivity of part of the labour force due to a mismatch between the requirements of the economic structure and the characteristics of the available workforce. In this case, a segment of workers finds that their abilities and qualifications are no longer suitable as a result of changes in the overall economic structure. This type of unemployment may also arise when machines replace human labour, as well as when firms relocate to regions where labour costs are lower.

5.2. Cyclical Unemployment

Cyclical unemployment is caused by a deficiency in aggregate demand for output (recession), which leads firms to lay off workers in industries experiencing a decline in demand for their products. Thus, cyclical unemployment is closely linked to the business cycle—expansion and

[1] Mohamed Mohamed Ali Hindi Emara, An Introduction to Mass Media and Societal Issues, Dar Al-Ulum for Publishing and Distribution, Egypt, 2009, p. 93.

contraction. Unemployment rates tend to decrease during periods of expansion and increase during periods of recession. Employment rises in the expansion phase and falls in the downturn phase (a key feature of recession is a high unemployment rate, whereas a key feature of expansion is a lower unemployment rate). Cyclical unemployment is considered involuntary, since unemployed individuals in this situation are willing and able to work at the prevailing wage, yet cannot find employment. In other words, the worker is forced to leave employment against his or her will, despite being willing and able to work at the current wage level.[1]

5.3. Frictional Unemployment

Frictional unemployment results from the dynamic and mobile nature of the economy and individuals (it is driven by continuous mobility across regions and occupations). Workers who must change their workplace, place of residence, or those seeking better opportunities often need a period of time to search for and obtain a suitable job. The main cause of frictional unemployment is imperfect information—on the one hand, workers lack information about available opportunities, and on the other hand, employers lack information about suitable candidates. The more available and transparent the information, the shorter the duration of this type of unemployment. It may arise, for example, when a worker moves from one region or city to another and needs time to find a job due to insufficient information about employers offering suitable vacancies.

5.4. Disguised Unemployment

Disguised unemployment is hidden (not openly observable) and is commonly associated with socialist systems, where the state guarantees employment for all individuals of working age. As a result, the economy may employ a surplus of labour, leading to overstaffing in economic activities.

5.5. Seasonal Unemployment

Seasonal unemployment has a seasonal character and affects certain activities during specific seasons. It is often dependent on climatic conditions; for example, farmers, construction workers, and workers in summer food and beverage activities may experience inactivity during winter.

[1] Taheri Lakhdar, "The Phenomenon of Unemployment in Algeria and Its Social Effects on Society," Intellectual Dialogue Journal, University of Adrar, Vol. 16, No. 1, 2023, p. 11.

5.6. Chronic (Voluntary) Unemployment

Chronic unemployment—also referred to as voluntary unemployment—describes individuals who do not seek work even during periods of economic prosperity.

5.7. Voluntary and Involuntary Unemployment

This is another classification of unemployment based on the individual's will. Voluntary unemployment occurs when a worker becomes unemployed by choice, such as resigning from a job either due to reluctance to work, a preference for leisure while having another source of income, or in order to search for a better job that offers higher pay and improved working conditions. Involuntary unemployment, by contrast, occurs when a worker becomes unemployed against his or her will, typically through layoffs or forced dismissal, even though the worker is willing and able to work and would accept employment at the prevailing wage rate.[1]

6. The Socio-Economic Effects of Unemployment and Methods of Addressing It

6.1. The Socio-Economic Effects of Unemployment

Unemployment is considered an undesirable phenomenon in society due to the risks it generates and the negative economic, social, and political consequences it imposes on individuals and the community:

- Waste of human resources and their underutilisation, leading to a loss of output and income that could have been achieved if these idle resources had been employed.
- Social consequences: the unemployed may become dependent on society and on the production of others, constituting a heavy burden on individuals, their families, and society in general. Over time, unemployment may contribute to the spread of crime, as well as psychological and mental disorders.
- Social underdevelopment, reflected in shortcomings in health care, education, nutrition, and housing.[2]
- Political consequences: the perceived success of governments' political performance is often judged by employment outcomes and by the ability to achieve low unemployment rates.
- External migration, whether through legal or illegal channels.
- The potential rise of extremism and terrorism.

[1] Naji Ben Hussein, Mohamed El Hadi Moubaraki, Abdelhalim Aissaoui, op. cit., p. 117.
[2] Rahimi Issa, Al-Ayeb Nasr El-Din, op. cit., p. 149.

6.2. Methods of Addressing Unemployment

Reducing unemployment requires comprehensive planning and represents a major challenge for the government and its various agencies within an integrated strategy that relies on the instruments of economic policy. Among the most important measures are the following:

❖ Increasing aggregate demand through the use of monetary and fiscal policy:

- Monetary policy may employ the following instruments:
  - lowering the interest rate on loans;
  - reducing the required legal reserve ratio;
  - central bank intervention in the securities market as a purchaser of bonds.
- Fiscal policy may employ the following instruments:
  - increasing government spending on service projects in order to raise incomes;
  - reducing taxes on income flows—especially low incomes—to strengthen individuals' capacity to spend.
- Facilitating labour mobility across economic sectors and regions in order to create employment opportunities, and enacting laws to limit incoming foreign labour.
- Implementing a wage policy that supports the expansion of employment and reduces working hours so as to employ the largest possible number of workers.
- Reducing subsidy levels and unemployment benefits provided to unemployed individuals.

Second: Inflation

Inflation occupies a prominent place in economic studies, as it represents a pathological condition from which most economies suffer. It is directly linked to individuals' daily lives and to market stability, and it has become a global problem. Inflation is also viewed as an indicator that reveals the nature of the transformations experienced by the economy, whether during periods of growth or during crises. Hence, there is a need to study inflation as a complex phenomenon in which internal and external factors interact, affecting various aspects of the economy.

1. Definition of Inflation

The phenomenon of inflation is multidimensional and complex, raising many issues and involving considerable ambiguity and apparent contradictions due to intellectual, doctrinal, and historical differences among economic schools

of thought. Therefore, there is no single meaning or precisely fixed concept of inflation among scholars of finance and economics. However, the commonly accepted meaning among most scholars is an abnormal (unusual) rise in prices.[1]

The definition of inflation has evolved alongside the development of economic thought in this field. In the period following the First World War, and under the influence of classical economic concepts prevailing at the time, a set of definitions of inflation emerged, most of which focused on an increase in the money supply. This emphasis reflected the fact that inflation during that period was closely associated with monetary expansion and increased currency issuance. In addition to rising prices, the term "inflation" may also be applied to other situations and phenomena, such as excessive monetary issuance—referred to as currency inflation—as well as to increases in monetary incomes, which are described as cost inflation, and to increases in incomes more generally, which are referred to as income inflation. Definitions of inflation may be classified according to two criteria:

1.1. Definition Based on the Factors Generating Inflation

Most definitions of inflation fall within this criterion. Some definitions are grounded in the quantity theory of money, which prevailed for a long period during the nineteenth century, while others are based on supply and demand, and still others on income and expenditure.

Quantity-theory-based definition: According to this approach, inflation is defined as any increase in the quantity of money in circulation that leads to an increase in the general price level. In this view, inflation is attributed to an expansion of the money circulating in the market.

Income-and-expenditure-based definition: This approach defines inflation as "an increase in the rate of spending and income." When both income and expenditure rise while the quantity of goods and services remains constant, inflationary pressures increase; the opposite occurs when monetary expenditure declines.

Supply-and-demand-based definition: Proponents of this approach build on the relationship between supply and demand, considering inflation to be the result of an imbalance between them. Accordingly, inflation is defined as "an increase in demand relative to supply that leads to higher prices." [2]

[1] Al-Saeed Farhat Jum'a, Financial Performance of Business Organizations: Contemporary Challenges, Dar Al-Mareekh Publishing, Riyadh, 2000, p. 357.
[2] Kamal Ben Deqfel, "Inflation Indicators in Algeria: An Analytical Study," Journal of Law and Human Sciences – Economic Studies, Ziane Achour University of Djelfa, Vol. 7, No. 1, 2013, pp. 347–348.

1.2 Definition Based on the Characteristics and Manifestations of Inflation

A number of economists, including Marshall, Flaman, and others, have proposed definitions of inflation that focus on its resulting effects, foremost among which is the behaviour of prices.[1]

Flaman defined inflation as a movement of the general rise in prices. This definition has become closely associated with inflation because this type is widespread and easily observed by the general public. In this context, a temporary increase in prices cannot be described as inflationary; rather, the rise in prices must be sustained and continuous.

Accordingly, inflation may be defined in terms of its causes (the factors generating it) as a monetary phenomenon—namely, monetary issuance—and in terms of its outcomes as a price phenomenon—namely, rising prices:

- Inflation as a monetary phenomenon: Under this perspective, inflation is the increase in money that leads to higher prices, whether this increase appears in the money supply, in monetary issuance, in credit expansion, or through increased demand for money.
- Inflation as a price phenomenon: Under this perspective, inflation is a tangible and persistent rise in prices over time; therefore, a slight and temporary increase in prices is not considered inflation.
- Inflation thus reflects an increase in the quantity of money in circulation to such an extent that it leads to a decline in its value, which is manifested in rising domestic price levels while income levels remain unchanged. Consequently, inflation reduces the purchasing power of the monetary unit.
- Despite the multiplicity of definitions addressing inflation, the most appropriate definition is the one that integrates them. Inflation may therefore be described as a monetary phenomenon expressed in a general rise in prices (in monetary terms), resulting from the issuance of an amount of money exceeding the economy's real needs, or from an increase in aggregate demand, or a decline in aggregate supply. The primary outcome of this phenomenon is a decrease in the purchasing power of money and its inability to perform its basic functions, such that money no longer serves as a measure of value or a store of wealth.[2]

[1] Belkadi Belkacem, "Inflation and Its Economic and Social Effects in Algeria," Journal of Economics, Management and Commerce Sciences, University of Algiers, Vol. 2, No. 28, 2013, pp. 141–142.
[2] Adam Ben Messaoud, Yassine Marah, "Mechanisms for Addressing the Problem of Inflation in Algeria," Ibn Khaldoun Journal of Creativity and Development, University of Tiaret, Vol. 5, No. 2, 2023, p. 54.

2. Causes of Inflation

Inflation occurs as a result of the interaction of several factors:

2.1. An Increase in Aggregate Demand

Inflation arises when aggregate demand for goods and services exceeds aggregate supply. According to the quantity theory of money, the price level is directly and proportionally related to changes in the quantity of money. Inflation occurs when the money supply expands. The rise in aggregate demand may be attributed to higher consumption and investment expenditure, an expansion of credit, and increases in wage levels.

2.2. A Decline in Aggregate Supply

After the Second World War, new theories emerged explaining that an increase in the general price level may result from a decline in aggregate supply. The main factors contributing to a reduction in aggregate supply include:

- Insufficient productive resources that the economy is able to provide, such as skilled workers and specialised employees, as well as raw and intermediate materals.
- Inadequate productive capacity: when the productive system is characterised by inflexibility, it becomes unable to compensate for shortages in supply.

2.3. An Increase in Production Costs

Inflation often results from rising production costs, particularly those related to labour. An increase in labour expenses is reflected in higher wage rates, largely due to workers' demands for wage increases. However, not all inflationary effects can be attributed solely to wage increases, as cost-push inflation is also linked to several other factors, including:

- Inflation driven by higher prices of goods and raw materials, which raises production costs and consequently increases prices.
- Higher import prices: if imported goods and services are used as inputs in domestic production, production costs rise, domestic supply declines, and the general price level increases.
- Higher interest rates: interest on borrowed funds constitutes a component of production costs; therefore, fluctuations in interest rates affect the final price of output according to the relative weight of this cost item within the overall cost structure.[1]

[1] Kamal Ben Deqfel, op. cit., p. 352.

2.4. Importing Most Goods and Services from Abroad

This is referred to as imported inflation, defined as the continuous and accelerating rise in the prices of goods and services imported from abroad, which is transmitted to their selling prices in domestic markets. In other words, such countries "import" inflation as it exists in the external world, since small economies with limited market power are unable to influence international price formation.

3. Types of Inflation

Inflation has numerous forms linked to a range of economic variables. Although these forms are not entirely distinct, they share certain common characteristics. In particular, all types of inflation share one essential feature: money becomes unable to perform its functions fully and effectively. Given the diversity of inflation, it has been classified according to different criteria as follows:[1]

3.1. According to the Degree of State Control over Prices (the Role of the State in Determining the Price Structure)

Open inflation: This type is characterised by a continuous rise in price levels without any government measures to prevent or limit it. Under open inflation, prices increase in response to excess demand; that is, prices rise automatically and freely.

Repressed (suppressed) inflation: This type refers to inflation that is not clearly observable due to government intervention in directing price movements. The authorities restrict upper price levels so that they do not exceed a maximum limit, through legislation and administrative pressures. Such intervention constrains the free operation of economic forces.[2]

The state's objective in limiting continuous increases in price levels is to mitigate their severity rather than to eliminate inflation altogether. In the absence of intervention by specialised government agencies in setting or regulating price levels, successive and accelerating increases in the general price level would occur, thereby intensifying inflationary pressures in the economy. In this sense, repressed inflation represents a situation in which price increases are prevented from rising because of constraints and controls—such as price supervision—resulting from government intervention and the adoption of rationing policies.

[1] Masoud Lachheb, "A Study and Analysis of the Determinants of Inflation in Algeria (2000–2022)," Journal of Economic Studies and Research on Renewable Energies, University of Batna, Vol. 10, No. 2, 2024, pp. 12–13.
[2] Adam Ben Messaoud, Yassine Marah, op. cit., p. 58.

2.3. According to the Severity of Inflation

Under this criterion, the following types can be distinguished:

Creeping (moderate) inflation: This type is also referred to as moderate inflation, where the rise in prices is slow and occurs over different time periods. Aggregate demand is moderate and can be controlled. In some cases, the state may deliberately aim to achieve this level of inflation in order to stimulate investment. This type is characterised by a gradual increase in prices, even when demand rises, without sharp surges in the price level.

Accelerating (severe) inflation: As noted in the discussion of creeping inflation, when moderate inflation persists over the long run, it may cease to be creeping and give rise to severe inflation, in which the general price level increases significantly and continuously. Some economists suggest that if inflation rates exceed 5% for four consecutive years, the economy may be experiencing severe inflation.

Hyperinflation: This is considered the most harmful form of inflation for the national economy, as the general price level rises rapidly and persistently, generating substantial economic effects that are difficult for government authorities to contain or remedy in the short run. Prices increase at a very high rate, often leading to a complete loss of confidence in the domestic currency and its abandonment. The value of money declines sharply until it becomes almost worthless, resulting in a collapse of the monetary system and of the value of the currency unit. In such circumstances, prices rise at extremely high rates, the velocity of money increases, and money loses one of its most important functions—its role as a store of value. Consequently, the public loses confidence in the national currency and seeks to dispose of it by purchasing goods and durable assets.[1]

3.3. According to the Source of Inflation

- Demand-pull inflation: resulting from an increase in aggregate demand for goods and services at rates that exceed the increase in aggregate supply.
- Cost-push inflation: arising from a reduction in aggregate supply of goods and services due to higher production costs.
- Domestic inflation: attributable to structural gaps and imbalances within the national economy.

[1] Masoud Lachheb, op. cit., p. 13.

- Imported inflation: inflation generated through international trade, whereby inflation is transmitted from a foreign economy to the national economy via the purchase of goods and services from abroad.

3.4. Sector-Based Inflation

- This refers to inflation in the goods market and inflation in factor markets.
- Genuine (explicit/true) inflation: occurs when the increase in aggregate demand is not matched by an increase in output, which is reflected in rising prices.

4. The Economic and Social Effects of Inflation and Methods of Addressing It

4.1. Economic Effects of Inflation

Inflation generates negative effects on individuals and society:

- **Effects on income redistribution**: Inflation reduces the purchasing power of money and disproportionately affects fixed-income groups. It operates as a biased and unfair "tax" that redistributes income and wealth among members of society in a random manner, widening disparities between social groups. It penalises low-income earners such as employees and pensioners, while benefiting those with less constrained incomes, such as traders and business owners.
- **Reduced saving and constrained investment**: Rising prices weaken individual incentives to save and invest, encouraging a shift toward immediate consumption spending.
- **Impact on the domestic monetary system**: Inflation may erode individuals' confidence in the currency and in saving.
- **Impact on the production structure**: It tends to divert financial resources toward activities that do not contribute to development—such as trade and importing—rather than toward investment and production.
- Spread of bribery and administrative corruption.

4.2. Anti-Inflation Policies (Methods of Addressing Inflation)

Inflation can be addressed through the instruments of fiscal and monetary policy:

4.2.1. Monetary Policy

This consists of central bank measures—given its role as the monetary authority—aimed at controlling the money supply:

- raising the rediscount rate, which is followed by higher interest rates;
- open market operations;

- increasing the required legal reserve ratio.

4.2.2. Fiscal Policy

- This includes:
- tax policy through increasing taxes to absorb excess liquidity;
- rationalising public expenditure.

Chapter Eleven:
Economic Enterprises and International Economic Blocs

Chapter Eleven: Economic Enterprises and International Economic Blocs

In light of the profound transformations taking place in the global economy, economic enterprises and international economic blocs have emerged as key actors in regulating international economic relations and shaping the trajectories of development and integration among states. International economic institutions have become a pivotal instrument for establishing the rules governing international economic exchanges, ensuring the stability of the global financial, monetary, and trading system, and strengthening economic coordination among the various international actors. In the same context, international economic blocs constitute a strategic response to the challenges of globalization, as states seek—through such arrangements—to unify efforts, liberalize trade, deepen economic integration among member countries, and enhance collective competitiveness in ways that serve shared economic and developmental interests. Accordingly, the study of international economic institutions and international economic blocs is of considerable importance for understanding the mechanisms of the contemporary economy, the forms of economic cooperation and integration, and their implications for growth and economic stability at both regional and global levels.

First: International Economic Institutions

The war ended on 15 August 1945 after lasting six years, and the scale of destruction was harsh and deeply painful. The war destroyed much of Europe's productive capacity across industry, agriculture, and services, and the continent was marked by devastation, hunger, disease, and unemployment. Agricultural and industrial output declined sharply across Europe, resulting in a serious shortage in the supply of goods available for domestic consumption and an increased need for imports. Transport networks were also disrupted (bridges, railways, roads, etc.), and residential buildings, schools, hospitals, and public facilities (water and electricity infrastructure) were destroyed. In addition, European debt burdens vis-à-vis the United States increased—debts incurred during the war in the form of food, industrial, and military supplies. The United States provided ammunition and essential goods and services to the countries fighting Germany and Italy in return for loans to be repaid at an unspecified time. Moreover, many European countries were compelled during the war to liquidate their investments in the United States, thereby losing important sources of national income; a substantial share of Europe's gold reserves also flowed to the United States.

As for foreign exchange rates, they experienced a marked deterioration in the interwar period, a decline further reinforced by the Second World War due to growing balance-of-payments deficits and capital movements. In an effort to improve their trade balances, European countries devalued their currencies. Europe was thus confronted with the task of reconstruction at a time when the United States was at the height of its prosperity and influence, having functioned during the war as an industrial workshop for the Allied powers fighting the Axis, with its production apparatus operating day and night, thereby enabling it to displace Britain from its position as the center of the global capitalist economy.

The economic and social conditions of colonized countries were no less severe than those of Europe. Despite poverty, underdeveloped productive structures, and low living standards, their resources were exploited to support and finance the Allied war effort. The continuation of this domination generated intense ferment within national liberation movements.

As for the Soviet Union, it emerged from the war victorious in political and military terms, yet economically strained, while the number of states aligned with the socialist system increased.

All these post-war features had a clear impact on the formulation of the foundations of a new international order. In this context, the Bretton Woods Conference was convened, leading to the establishment of the International Monetary Fund and the World Bank, as well as the General Agreement on Tariffs and Trade (GATT).

1. The International Monetary Fund (IMF)

1.1. The Establishment of the International Monetary Fund

Planning began to outline the transition toward peace and to provide appropriate monetary, financial, and trade frameworks for European countries. In the summer of 1944,[1] representatives of 44 countries met in Bretton Woods (New Hampshire), United States, to discuss monetary arrangements. Two proposals were presented at this conference: one by Britain, which had represented the center of the global economy before the war, and another by the United States, to which this center had effectively shifted in the aftermath of the war. These proposals were as follows:[2]

[1] Zeinab Hussein Awadallah, International Economics, Al-Dar Al-Jami'iyya for Printing and Publishing, Egypt, 1998, p. 152.
[2] Bassam Al-Hajjar, International Economic Relations, The University Foundation for Studies, Publishing and Distribution, 1st ed., Egypt, 2003, p. 177.

The Keynes Plan: the establishment of a world bank and a global currency—Bancor—along with a unified clearing system to provide international liquidity. This British proposal, presented by Lord Keynes, included the creation of an International Clearing Union—an international institution with a global central character, whose role would resemble that of a central bank within a domestic monetary system. Each participating country would hold a quota determining its responsibilities in managing the institution's affairs. Keynes argued that the quantity of international liquidity should not be determined by gold production, but rather by the volume of international trade, and that the system should be based on an international currency not subject to the sovereignty of any state—Bancor—as a unit of account. This proposal sought to safeguard the interests of Britain and Europe and to prevent the U.S. dollar from dominating international transactions. This was evident to the United States, which therefore presented an alternative proposal through the American President's adviser.

- The Harry (White) Plan: the U.S. proposal:

The American plan proposed the establishment of a new international monetary system embodied in the International Monetary Fund (IMF), along with the issuance of an international monetary unit—Unitas—convertible into other currencies. Its value would be linked to a specified weight of gold, and national currencies would be defined in terms of gold or Unitas. [1]

Accordingly, this proposal was conceived as a framework for cooperation and coordination between national monetary authorities, rather than the creation of a supranational monetary authority that would replace the national monetary sovereignty of member states. The White Plan served U.S. interests by preventing American exports from being subjected to restrictions or competitive devaluations, and by promoting the removal of controls on external payments.

The two proposals were similar in terms of their underlying principles:[2]

- establishing a central international monetary institution;
- seeking to achieve balance-of-payments equilibrium;
- providing credit to member states;
- promoting exchange-rate stability.

[1] Ali Abdel Fattah Abusharar, International Economics, Dar Al-Maysara for Publishing, Distribution and Printing, Jordan, 2007, pp. 493–494.

[2] Diaa Majid Al-Mousawi, Economics of Financial Markets, Shabab Al-Jami'a Foundation, Egypt, 2005, p. 305.

The conference decision was influenced by the American proposal, given the economic strength of the United States. The conference concluded with an agreement to establish the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) (a financial institution), along with a set of decisions, including:

- ensuring fixed exchange rates, at least in the short run;
- requiring each country to intervene in the foreign-exchange market in order to maintain the exchange rate within a margin of 1% against the U.S. dollar;
- financing temporary balance-of-payments deficits through the use of international reserves and by borrowing from the IMF.

As for the Soviet Union, although it participated in the conference, it did not ratify the document and did not join the Fund, due to the evident dominance of the U.S. economy over the global system.

Participating countries included, among others, the United States, European countries, the Soviet Union, and Czechoslovakia; and from colonized territories: India, Egypt, and South Africa; as well as Iran and Iraq. From South America, participants included Mexico, Colombia, Cuba, Peru, Ecuador, and El Salvador; and from Asia, the Philippines and Honduras.

The Fund began its operations in March 1947. Its headquarters is in Washington, D.C., and it is governed by its members, which include almost all countries of the world. It comprises 184 member states and constitutes the central institution of the international monetary system (the system of international payments and exchange rates).

2.1. Functions of the Fund

In order to achieve its objectives, the Fund performs the following functions:

- providing the international liquidity required to settle international payments by increasing international reserves; in this context, it introduced what are known as Special Drawing Rights (SDRs);
- granting loans and credit facilities to member states, thereby resembling banks in its financing role;
- exercising surveillance by monitoring member states' policies in a manner that helps ensure exchange-rate stability and promotes international trade;
- correcting balance-of-payments imbalances in member countries.

3.1. Membership Requirements

A new country is admitted as a member of the Fund through a decision issued by the Fund's Board of Governors, subject to conditions that include:

- the value of the quota;
- the modalities and schedule of quota payment;
- providing the Fund with all necessary information and data.[1]

4.1. Fund Resources

The Fund's resources are diverse, including member states' subscriptions (quotas), as well as interest and fees charged for the use of its resources.

2. The International Bank for Reconstruction and Development (IBRD)

2.1. The Establishment of the International Bank for Reconstruction and Development

The IBRD was established in 1945 under the Bretton Woods Agreement. It is a global economic institution responsible for managing the international financial system and for supporting the implementation of economic policies aimed at achieving economic development through structural reform, development policies, and investment.

Its establishment was closely linked to the devastation and destruction suffered by European countries after the Second World War, as it provided them with loans to rebuild industries and to develop infrastructure and other development projects.

Its membership is limited to states that are members of the Fund.

❖ **The Bank is divided into two entities:**[2]

- The International Bank for Reconstruction and Development (IBRD);
- The International Development Association (IDA), established in 1960, to provide financial assistance to poor developing countries that are unable to meet the World Bank's lending conditions.

2.2. Functions of the Bank

The Bank works to:

- assist member countries in rebuilding and developing their economies;
- encourage long-term investment in developing countries through lending or participation;
- provide technical assistance and studies;

[1] Adel Ahmed Hashish, Magdy Mahmoud, International Economic Relations, Dar Al-Jami'a Al-Jadida, Egypt, 2005, p. 259.
[2] Younes Ahmed Al-Batriq, International Policies in Public Finance, 2nd ed., Al-Dar Al-Jami'iyya, Egypt, 2002, p. 49.

- promote the role of the private sector in developing countries through all available means;
- settle financial disputes between states.

2.3. Membership Requirements

- The state must be a member of the Fund;
- The state must possess sovereignty and independence.

3. The World Trade Organization (WTO)

3.1. The Establishment of the World Trade Organization

Before becoming the World Trade Organization, it was known as the General Agreement on Tariffs and Trade (GATT). After the Second World War, states began to move toward liberalising their foreign trade, with each country adopting its own liberalisation-oriented policies aimed at strengthening international trade. In this context, efforts began to develop rules and design policies intended to organise and promote the principle of free international trade.

Following an invitation by the United Nations Economic and Social Council, an international conference was convened in February 1946, during which representatives of 56 countries approved the Havana Charter for International Trade, which included:

- reducing customs tariffs and prohibiting discrimination;
- banning import quota systems and eliminating export subsidies.

However, the Charter was not adopted due to U.S. opposition, as the United States considered decisions on foreign trade to fall under the authority of Congress. Preparations were then made for a conference in Geneva in 1947, during which the GATT was signed on 30 October 1947 and entered into force in January 1948.

After the conclusion of the Uruguay Round, on 1 January 1995, this agreement was transformed into the World Trade Organization, which is more advanced and comprehensive than the original agreement. The WTO aims to facilitate the movement of goods, services, and persons across countries with minimal restrictions. While GATT was limited to trade in goods, the WTO covers goods, services, and intellectual property rights.[1]

[1] Abdelwahid Al-Afouri, Globalization and GATT: Challenges and Opportunities, Madbouly Bookstore, Cairo, 2000, p. 42.

3.2. Its Principles

The World Trade Organization (WTO) bases its work on a set of fundamental principles that constitute the reference framework of the multilateral trading system. The most important of these are:[1]

- Most-Favored-Nation (MFN) Principle: This principle requires that all member states be treated equally. Any trade advantage or privilege granted by one member to another must be extended to all WTO members without discrimination.

- National Treatment Principle: This principle requires member states to treat foreign goods and services, once they have entered domestic markets, in a manner equivalent to that accorded to domestic products, thereby preventing internal discrimination.

- Progressive Trade Liberalization: This principle aims to reduce tariff and non-tariff barriers gradually and in an organised manner through successive negotiating rounds, thereby facilitating the flow of international trade.

Transparency Principle: This principle requires the clear and accurate disclosure of information on trade policies, laws, and procedures, as well as notifying the Organization accordingly, thereby ensuring the availability of information and strengthening mutual trust among member states.[2]

- Fair Competition Principle: The Organization seeks to ensure competition based on clear rules by limiting unlawful trade practices, such as dumping and unjustified subsidies.

Special and Differential Treatment for Developing Countries: This principle recognises the granting of preferential treatment to developing and least-developed countries, such as longer transition periods and technical assistance, in order to support their integration into the global trading system.

Institutional and Legal Dispute Settlement Principle: Within the WTO framework, the trading system relies on resolving trade disputes through institutional and legal mechanisms rather than resorting to unilateral measures or trade retaliation.

These principles have constituted the legal foundation of the multilateral trading system since the entry into force of the GATT in 1947.

[1] Younes Mahmoud, International Economics, Al-Maktaba Al-Akademiyya, Cairo, 1999, p. 39.
[2]

3.3. Its Functions

The WTO is the only organization specialised in international legal rules related to trade. Its purpose is to regulate international trade and to enhance and ensure its smooth, convenient, and free flow within a multilateral framework. Its main functions include:[1]

- **Regulating international trade and establishing its governing rules:** The Organization develops and updates a set of international trade agreements that regulate exchanges among member states, ensuring transparency, non-discrimination, and equal opportunity in international trade.
- **Supervising the implementation of multilateral trade agreements:** The WTO monitors member states' compliance with signed trade agreements, including agreements on trade in goods, services, and intellectual property rights, thereby ensuring adherence to internationally agreed rules.
- **Settling trade disputes among member states:** It provides an institutional and legal framework for resolving trade disputes through the Dispute Settlement Mechanism, which helps limit trade conflicts and strengthens stability in the global trading system.
- **Serving as a forum for international trade negotiations:** The Organization constitutes a principal platform for conducting trade negotiations among member states aimed at liberalising trade, reducing tariff and non-tariff barriers, and achieving further trade openness.
- **Enhancing transparency in trade policies:** The WTO periodically reviews member states' trade policies, thereby promoting transparency, information exchange, and a better understanding of national trade policies and their international effects.
- **Supporting developing and least-developed countries:** The Organization provides technical assistance and capacity-building for developing and least-developed countries to enable effective integration into the global trading system and to benefit from international trade.
- **Cooperating with other international economic organizations:** The WTO seeks to strengthen coordination and cooperation with international economic institutions such as the International Monetary Fund and the World Bank, thereby promoting coherence among international trade, financial, and economic policies.

[1] Khazzar Mohamed, "The World Trade Organization and the Requirements for Algeria's Accession," Al-Ahyaa Journal, University of Batna, Vol. 5, No. 7, 2003, p. 14.

Second: International Economic Blocs (Economic Integration)

In the context of intensifying economic globalization and increasing international competition, economic blocs have emerged as an institutional framework aimed at strengthening cooperation and integration among groups of countries. These blocs seek to remove trade barriers and coordinate economic policies in a manner that ensures the optimal use of resources and enhances collective competitiveness. Economic blocs also represent an effective means of addressing global economic challenges and achieving development and economic stability at both the regional and international levels.

1. The Emergence of Economic Blocs

Economic blocs emerged as a result of the gradual development of international economic relations, particularly after the expansion of trade flows and the growing complexity of economic interests among states. Their early manifestations began in the nineteenth century through bilateral trade agreements and customs unions, such as the German Customs Union (Zollverein), which constituted an early model of economic cooperation among states.

The idea of economic blocs was further reinforced after the Second World War, in response to the economic destruction suffered by European countries and the need for reconstruction and economic stability. Regional groupings thus emerged to coordinate economic policies and liberalise trade, most notably the European Coal and Steel Community in 1951, which later paved the way for the establishment of the European Union.

With the acceleration of economic globalization during the second half of the twentieth century, economic blocs gained greater importance as a mechanism for confronting international competition and strengthening the bargaining power of member states. Consequently, other blocs emerged in different regions of the world, such as NAFTA in North America, ASEAN in Southeast Asia, and MERCOSUR in Latin America, making economic blocs one of the defining features of the contemporary global economic system.

- **Economic bloc**: a group of countries—usually geographically proximate—that strengthens its economic ties by opening markets to one another and expanding cooperation among its members.[1]

[1] Samir Ben Abdelaziz, Lectures for the Course "International Business Management" (with Assessment Questions and Model Answers), for First-Year Master's Students in Finance and International Trade, Department of Commercial Sciences, Faculty of Economic Sciences, Commercial Sciences and Management Sciences, University of Béchar, 2020/2021, p. 48.

- Economic blocs: institutional frameworks for economic cooperation and integration established among a group of states on the basis of formal agreements. They aim to liberalise trade exchanges and to coordinate or harmonise certain economic policies among member countries, thereby advancing shared economic interests, enhancing productive efficiency, and increasing the international competitiveness of member states within the global economy.

An economic bloc reflects a particular degree of economic integration among a group of countries that are economically, geographically, historically, culturally, and socially homogeneous. These countries share common economic interests and seek to maximise them by expanding intra-bloc trade in order to achieve the highest possible returns, ultimately attaining the greatest level of economic welfare for their populations.[1]

An economic bloc is an agreement between two or more countries to remove all barriers that hinder the movement of goods, capital, and persons among them. This does not stop at eliminating obstacles; it also extends to coordinating the economic policies of these countries with the aim of achieving growth across all member states.[2]

3. Benefits of Economic Blocs

Economic blocs are integration agreements among a group of countries aimed at reducing trade barriers. Their main benefits include:

- improving the terms of trade by liberalising the movement of goods, services, persons, capital, and investment among member states;
- benefiting from capital and skilled labour, ensuring the optimal use of available resources, and increasing productive efficiency within the integrated region;
- increasing the share of intra-bloc trade among the member countries;
- benefiting from economies of scale;
- securing advantages and gains that a single state may be unable to achieve on its own;
- enhancing welfare and promoting economic growth;

[1] Toufik Hajmaoui, Lectures in International Business Management, for First-Year Master's Students in Finance and International Trade, Department of Commercial Sciences, Faculty of Economic and Commercial Sciences and Management Sciences, University of Saïda, 2019/2020, p. 99.
[2] Youssef Messaadawi, Studies in International Trade, Dar Houma, Algeria, 2010, p. 140.

strengthening the international negotiating power of member states, enabling them to protect and defend their interests vis-à-vis other economic blocs.

4. Forms and Stages of Economic Integration

4.1. Stage One: Free Trade Area (FTA)

This stage is based on eliminating or reducing tariff and quantitative restrictions among member states, while each country maintains its own independent trade policy toward non-member countries.

4.2. Stage Two: Customs Union (CU)

This stage goes beyond a free trade area by adopting a common external tariff vis-à-vis non-members, in addition to ensuring free trade among member states (a unified customs arrangement).

4.3. Stage Three: Common Market (CM)

This stage includes the customs union and guarantees the free movement of factors of production—especially capital and labour—among member states without restrictions.

4.4. Stage Four: Economic Union

This stage is characterised by coordination of economic, fiscal, and monetary policies among member states, together with partial or full harmonisation of economic legislation.

4.5. Stage Five: Monetary Union

This stage involves the adoption of a single currency or a common monetary system and the establishment of a central monetary authority to oversee the monetary policy of member states.

4.6. Stage Six: Full Economic Integration

This represents the highest degree of integration, whereby economic, fiscal, and monetary policies are unified, and it may extend to political coordination, approximating the form of a single economic state.

Table (05): Forms and Stages of Economic Integration

Form of the Bloc	Characteristics
Free Trade Area (FTA)	No tariffs or trade restrictions among members (e.g., NAFTA).
Customs Union (CU)	The previous rules + a common external tariff vis-à-vis non-members (e.g., the Benelux Union).
Common Market (CM)	The previous rules + full freedom and coordination in the movement of goods, capital, and labour among member states.
Economic Union	The previous rules + a single currency + integration and harmonisation of economic policies in relation to foreign trade.
Full Economic Integration	The previous rules + a central bank + a federal parliament and court + tax harmonisation (a single state).

Source: Samir Ben Abdelaziz, op. cit., p. 48.

4. Examples of Economic Blocs

4.1. The European Union

The European Union (EU) is considered one of the largest and most significant economic blocs currently in existence, and among the most advanced in terms of its integration structures and institutional framework. It adopted the single currency, the euro, at the beginning of 1999. The EU began as a free trade area under the Treaty of Rome (1958), and its level of integration gradually and continuously deepened—from a customs union to a common market—until it reached the stage of an economic union. Its membership expanded to 25 states following the accession of Eastern European countries, as illustrated by the following stages:[1]

- **The European Coal and Steel Community (1951–1957):** This stage began with the signing of the Treaty of Paris in 1951 by six European countries (France, West Germany, Italy, Belgium, the Netherlands, and Luxembourg). It aimed to unify coal and steel production to prevent conflicts and promote economic cooperation.
- **The European Economic Community and the European Atomic Energy Community (1957–1993):** Established under the Treaty of Rome in 1957, the European Economic Community sought to create a common

[1] Ridouane Ben Toumi, "The European Union: A Study of the Stages of Development of the European Integration Experience," Academia Journal, No. 4, 2016, pp. 137–145.

market gradually, while the European Atomic Energy Community focused on cooperation in the nuclear field.

- **The European Common Market (1968):** This stage completed the customs union by abolishing customs duties among member states and adopting a common external tariff, representing a significant step toward deeper economic integration.
- **The Single European Market (1986–1993):** This phase was launched with the Single European Act of 1986 and reached full implementation in 1993, ensuring the four freedoms: the free movement of goods, services, capital, and persons.
- **The Establishment of the European Union (1992):** The EU was formally proclaimed under the Maastricht Treaty in 1992 (which entered into force in 1993). Cooperation was expanded to include economic, monetary, and political dimensions.
- **Economic and Monetary Union (1999–2002):** This phase began in 1999 with the adoption of the euro as a unit of account, followed by its introduction into cash circulation in 2002, alongside the establishment of the European Central Bank and the coordination of monetary policies.
- **Deepening and Enlargement of the Union (2004–present):** This stage has been characterised by major enlargements that included Central and Eastern European countries, as well as significant institutional reforms, notably the Lisbon Treaty (signed in 2007 and entering into force in 2009), which enhanced the effectiveness of EU institutions and strengthened the Union's international role.

The EU has come to dominate more than one-third of global trade and is described as generating one of the highest national incomes worldwide. It also represents a vast internal economic market, with a population exceeding 380 million and a relatively high average per capita income.

The European economic bloc has adopted an offensive strategy toward the global economy and seeks, with considerable determination, to occupy the apex of the hierarchical structure of the new global economic order in the twenty-first century.[1]

[1] Murad Mokhtari, Course Handout for the Module "History of Economic Events," intended for First-Year Licence Students, Department of Economic Sciences, Faculty of Economic Sciences, Commercial Sciences and Management Sciences, University of Algiers 3, 2018/2019, p. 80.

4.2. The North American Free Trade Agreement (NAFTA)

NAFTA is a free trade agreement between the United States, Canada, and Mexico. It entered into force on 1 January 1994, with the aim of eliminating customs duties and trade barriers and of expanding trade and investment flows among the member countries, thereby strengthening their competitiveness in global markets. It also emerged as a response to the Maastricht Treaty.[1]

Since the agreement's implementation, trade among the three countries has more than doubled, foreign direct investment has increased, trade procedures have been streamlined, and the movement of goods and services has been facilitated.

On 1 July 2020, NAFTA was replaced by the United States–Mexico–Canada Agreement (USMCA), which introduced amendments in areas such as digital trade, labour rights, and environmental protection.

4.3. The Association of Southeast Asian Nations (ASEAN)

ASEAN is an economic and political association comprising ten countries in Southeast Asia (Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Viet Nam, Laos, Myanmar, and Cambodia). It was established in 1967 with the following objectives:

- strengthening economic and trade cooperation among member states;
- achieving political and security stability in the region;
- promoting economic and social development and reducing disparities among member states;
- building a regional common market.

ASEAN did not adopt the traditional, stage-based approach to integration, as it did not set a specific timetable for reaching particular stages of economic integration; instead, it preferred a cooperative approach.[2]

Among its achievements:

- establishing the ASEAN Economic Community (AEC), which allows the free movement of goods, services, capital, and persons;
- signing trade agreements with international partners such as China, Japan, and South Korea;
- trengthening the position of Southeast Asian countries within global trade and globalization.

[1] Toufik Hajmaoui, op. cit., p. 103.

[2] Souhaila Abdeljabbar, Course Handout for the Module "History of Economic Events," intended for First-Year Licence Students, Department of Economic Sciences, Field of Economic Sciences, Commercial Sciences and Management Sciences, Tindouf University Center, 2020/2021, p. 136.

4.4. The Asian "Tigers" and "Dragons" Economies

Countries in Southeast Asia suffered from economic fragility and dependency in earlier periods; however, they rapidly addressed these challenges and began to formulate long-term strategies by joining regional blocs and investing in human capital. These economies became known as the "dragons" and the "tigers," namely:[1]

- The Asian tigers: the four countries referred to as "FAMAT": the Philippines, Malaysia, Indonesia, and Thailand.
- The Asian dragons: the four economies referred to as "SKTH": Singapore, South Korea, Taiwan, and Hong Kong.

These countries pursued the following strategies:

- establishing a flexible production structure that evolved from simple industries to more complex and technologically advanced ones;
- developing and modernising education as a foundation for progress and prosperity;
- emphasising quality and work excellence; the Asian worker was distinguished by greater commitment and mastery of work, reflecting ethical values that are regarded as essential and must be respected;
- prioritising scientific research: they began with imitation, then adaptation, and subsequently innovation, while avoiding turnkey projects; they invested in science and engineering, thereby achieving a degree of relative independence and endogenous development;
- encouraging domestic savings by raising interest rates and developing financial markets;
- adopting an export-oriented industrialisation strategy while ensuring a competitive advantage through high-quality production.

4.5. Economic Blocs in the Arab World

Despite the availability of the economic and cultural foundations required to establish a successful economic bloc in the Arab world, the absence of political consensus among Arab regimes, along with political instability in some Arab countries, has hindered the success of most Arab integration experiences. An exception is the experience of the Gulf Cooperation Council (GCC) countries, which began by establishing a free trade area in 1981 and then moved to the customs union stage in 2003.

[1] Fateh Harkati, op. cit., p. 127.

❖ **The Maghreb Union:**

The first practical step toward its establishment dates back to the First Conference of Maghrebi Parties and Political Organizations, held in Tangier from 28 to 30 April 1958. The conference brought together representatives of the Istiqlal Party in Morocco, the Neo Destour Party in Tunisia, and the Algerian National Liberation Front. Over three days of deliberations and discussions on the situation in the Maghreb, the conference concluded by issuing a set of decisions and recommendations, most notably the creation of a general secretariat for follow-up and the pursuit of establishing a federal union among the three countries. The idea of a Maghreb union had been discussed earlier, since 1923 in France, among Maghrebi workers and students through the establishment of a religious association; it later evolved into the founding of the North African Star Party. The idea was also circulated in the "Maghrebi Riwaq" at Al-Azhar in Cairo.

In 1964, a Committee of Ministers of Economy and Finance was formed, comprising Tunisia, Algeria, Libya, and Morocco, with the aim of coordination, cooperation, and economic integration among them.

Subsequently, a series of bilateral and trilateral unification initiatives and attempts took place, including the Djerba Declaration (1974) between Tunisia and Libya (12 April 1974), the Hassi Messaoud Declaration in Algeria between Algeria and Libya (28 December 1975), the Mostaganem Treaty (11) between Libya and Algeria in 1978, and the Treaty of Brotherhood and Concord between Algeria, Tunisia, and Mauritania in 1983. These serious attempts, along with others, collectively constituted important preliminary steps toward the emergence of the Maghreb Union.

A summit was held in Zeralda, Algeria, on 10 June 1988 on the sidelines of the Arab Summit hosted by Algeria. It brought together King Hassan II (Morocco) and the presidents Zine El Abidine Ben Ali (Tunisia), Chadli Bendjedid (Algeria), Muammar Gaddafi (Libya), and Maaouya Ould Taya (Mauritania). This summit marked a genuine turning point toward establishing the Maghreb Union.

Only eight months after the Zeralda Summit, the leaders of the five countries met at the Marrakech Summit on 17 February 1989, which announced the official birth of the Arab Maghreb Union (AMU) as an international regional entity covering a vast area of North Africa, and issued the Treaty establishing the Union.

Alongside the declaration of its establishment, a set of agreements was signed concerning economic aspects and joint projects across various fields aimed at improving the economic, social, and living conditions of the citizens of the Union.

The Treaty establishing the Union (February 1989) stipulated the creation of a free trade area before 1992, a customs union by 1995, and a Maghrebi common market by 2000. However, none of these objectives was achieved. Moreover, meetings of the Presidential Council ceased in 1994 after only six meetings held between 1989 and 1994. This indicates that the Union’s trajectory has been hindered and has effectively stalled since the earliest stages of its creation.

A review of the Union’s path since its establishment in February 1989 shows that it has been marked by numerous shortcomings, including difficulties in implementing the provisions of the Treaty and its associated agreements. As a result, the Union has remained a fragile structure that falls short of ambitions—an essentially top-down construction “on paper,” a governmental forum with little tangible presence in practice.