



# ANALYSIS OF THE CONCEPT OF ISLAMIC CHOICE (IKHTIYAR) ON OPPORTUNITY COST AND TIME VALUE OF MONEY IN ISLAMIC ECONOMICS AND FINANCE

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**ABSTRACT** The paper discusses the concept of Islamic choices (ikhtiyar) and its implication on the

opportunity cost's concept. In choosing between good and bad, there is no opportunity cost involved as the good is the only choice. Opportunity concept only applies when the choice is between two or more good choices. To forgo investments in interest bearing deposits is not an opportunity cost. However, to forgo getting a fixed salary in an employment (ijarah) contract while choosing to work as mudarib has an opportunity cost. This concept of ikhtiyar also has an impact on the conception of time value of money as it is derived from the concept of opportunity cost. Compensation for time value of money in loan or receivable is not permitted, while that for credit sale is permissible. Time alone cannot be the basis for compensation and counter-value. It must be attached to other factors, such as guarantee, effort, and risk. Without meeting these requirements in credit sale, the sale such as murabahah would become an invalid sale, which must not be chosen by Islamic banks.

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