Determinants of Stock Market Participation under Islamic Perspective

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1. Introduction

It is considered that the concept of stock market was first introduced in France in the thirteenth century. The Islamic concept of *mudrabah1*, which in some way resembles with the modern stock market concept, on the other hand, can be dated back to the age of Prophet Muhammad (PBUH) in the sixth century (Al-Barwari, 2002; cited by Osmani& Abdullah, 2009). Researchers also traced the origin of stocks to medieval Muslim traders (Robertson, 1933).

Though Muslims are considered as the pioneer of profit and loss sharing investments in businesses through contractual agreements, which predate the concept of stock markets, the current form of stock market restricts the devout among them from seeking economic bounties from it due to unsatisfying several provisions from the Islamic law or *shariah*. As a consequence, in spite of religious encouragement for Muslims to seek economic opportunities, they cannot engage wholeheartedly in the trading of conventional stock markets.2 Moreover, stock markets that follow the Islamic principles are still in early stages of development, as observed by Naughton&Tahir (1988). Tag El-Din (2002) further mentioned that most of the stock exchanges in Muslim countries are basically western-style markets which tolerate many practices that do not comply with Islamic principles. Hearn et al. (2010) mentioned that due to limited focus on the Islamic finance, there are limited literatures available on the roles and principles of Islamically compliant stock markets. Moreover, only a handful of stock markets across the globe -- such as Khartoum Stock Exchange (KSE) in Sudan, Kuala Lumpur Stock Exchange (KLSE) in Malaysia and Tehran Stock Exchange (TSE) in Iran, for example -- accommodate for the Islamic Laws of trading in the stock market.

The conventional stock markets under the capitalistic system failed to protect the interests of ordinary investors time and again due to repeated stock market crashes across the globe, resulting chronic financial crises and economic depressions. The conventional theory of Efficient Market Hypothesis (EMH) indicates that no one can get abnormal profits from the market by using any type of historical, private or public information, but many studies have shown that the market efficiency theory does not