

A STUDY OF DIFFERENCE IN COST OF CONVENTIONAL BANKS VERSUS ISLAMIC BANKS

By

TAYYABA TALIB

02-221162-042

A thesis presented to the Department of Management Sciences, Bahria University
Karachi Campus, in partial fulfillment of the requirements
of the MBA degree



FALL, 2018

Bahria University Karachi Campus

Acknowledgement

First of all I would like to thank Almighty Allah for His blessing upon which I would be able to complete my thesis with full strength and devotion.

I would like to thank my thesis supervisor as well Professor Muhammad Faisal who facilitated me all the way through my thesis and encourages me from the beginning till the end of my thesis. She validates my thesis work and guides the way on which I would be able to put essential value to my study.

I want to thank all the open sources various websites and links to which I would be able to access & conduct my research and added an extensive value to my thesis with ease.

ABSTRACT

Purpose –

In this study we are interested to know the difference between different modes of banking effects on different costs i.e. Cost of Capital, cost of employees, and cost of borrowing/deposits.

Methodology –

The source of data is the official web site of State Bank of Pakistan under the section of financial statement analysis. Ten years data has been taken on annual basis from 2007 to 2016. Four Islamic banks and eight Conventional banks are been selected to see the difference between costs. Two-way ANOVA test has been run to see the impact of mode of banking on its three main costs.

Findings –

The first hypothesis concerning that Cost of Capital does not found variation between Islamic and conventional banks .It may be due to the size of banks selected as sample. While other two hypotheses showed significant results in favor of assumption. It may because time value is the basis for charging interest on funds. Profit on trade of goods or charging on providing service is the basis for earning profit.

Practical implications –

This sort of investigation will help to know that how cost the cost differentiate in terms of Islamic and conventional banking and can assist while making cost management policies to both type of banks.

Keywords –

Conventional banks, Islamic Banks, Cost behavior, Mode of banking

Table of Contents

APPROVAL FOR EXAMINATION.....	II
Declaration of Authentication	III
Dedication	IV
Acknowledgement	V
ABSTRACT.....	VI
Plagiarism Report.....	VII
List of Tables	Error! Bookmark not defined.
List of figures.....	IX
List of Abbreviations	X
Table of Contents.....	XI
1 INTRODUCTION	2
1.1 Background of the study	2
1.2 Significance of Study	3
1.3 Problem Statement	4
1.4 Research Questions.....	4
1.5 Scope	4
1.6 Objectives.....	5
1.7 Limitation	5
1.8 Definitions of Term.....	5
1.7.1 Sharia’ah Compliant.....	5

1.7.2	Riba	6
1.7.3	Shariah Supervisory Board.....	6
1.7.4	Musharakah	6
1.7.5	Mudarabah.....	6
2	Literature Review	7
2.1	Literature Review	7
2.1.1	Upward trend in Islamic Banking.....	13
2.1.2	Differences and similarities	13
2.1.3	Religiosity and Rationality.....	15
2.1.4	Sharia'ah Supervisory Board.....	15
2.2	Conceptual Framework.....	17
3	RESEARCH METHOD	18
3.1	Methodology.....	18
3.1.1	Sampling Design.....	18
3.1.2	Instrument Design.....	18
3.1.3	Sources of Data	18
3.1.4	Treatment of Data.....	18
3.2	Justification of test	Error! Bookmark not defined.
3.3	Research purpose.....	18
3.4	Research design.....	19
3.5	Variable description	19
3.2	Hypothesis.....	19
4	Data Integration and Analysis.....	20

4.1 Cost of capital..... 20

4.2 Cost of employees 25

4.3 Cost of funds 28

4.4 Result Summary 33

5 Discussion 34

6 Conclusions & Recommendations..... 36

6.1 Conclusion 36

6.2 Recommendation 36

References 37