OIKOS : Jurnal Ekonomi, Manajemen, dan Bisnis
P-ISSN : 1979-4770

General Equilibrium in Islamic and Conventional Economics: A Comparative Analysis of Foundations, Functionality, and Implications

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Abstract
General equilibrium theory, long a cornerstone of neoclassical economics, describes how supply and demand across interconnected markets achieve balance through price mechanisms. In contrast, Islamic economics integrates moral and legal-spiritual dimensions, shaping economic interactions based on divine guidelines. The divergence in foundational assumptions and normative goals between these systems invites a comparative inquiry into how general equilibrium functions within each framework. This study seeks to examine the structure and functionality of general equilibrium theory in both Islamic and conventional economics. It identifies where the two systems align and diverge—particularly in assumptions, mechanisms of market clearing, the role of money and interest, and conceptions of welfare and justice. The research applies a qualitative, textual-analytical approach, sourcing from classical economic texts, modern journal publications, and authoritative Islamic jurisprudential works. Findings reveal that while conventional general equilibrium rests on utility maximization, market-clearing prices, and self-interest, Islamic general equilibrium is shaped by concepts such as *māṣlaḥah*, *ʿadl*, and prohibition of *ribā*. Islamic models aim for equilibrium not merely in price, but in ethical resource allocation and social justice. This study contributes to the growing field of comparative economics, offering insights relevant to policy formulation, curriculum development, and epistemological pluralism. It affirms that meaningful equilibrium must encompass not only efficiency, but also moral integrity.

Keywords
general equilibrium, Islamic economics, conventional economics, comparative economic theory, economic justice

INTRODUCTION

General equilibrium theory, first formalized by Léon Walras and further developed by economists such as Kenneth Arrow and Gérard Debreu, represents a central paradigm in conventional economics. It describes a state where supply and demand are balanced across all markets simultaneously, assuming rational agents, perfect competition, and

complete markets (Arrow & Debreu, 1954). The elegance of this theory lies in its ability to explain how decentralized market interactions lead to an overall economic order.

However, this classical portrayal rests on value-neutral assumptions that have long been challenged by heterodox schools, especially Islamic economics. In Islamic economics, economic behavior is not autonomous from ethics and divine commandments. Markets are seen as instruments for realizing broader goals, such as justice (*ʿadl*) and welfare (*māṣlaḥah*), rather than solely as mechanisms for efficiency (Chapra, 1992, p. 101). Consequently, equilibrium in Islamic thought encompasses moral and distributive dimensions, making it more than just a mathematical convergence.

The divergence in epistemological foundations between conventional and Islamic economics raises fundamental questions about how general equilibrium functions in each system. While conventional models prioritize price signals and marginal utility, Islamic economics introduces restrictions such as the prohibition of *ribā* and unethical speculation (*gharar*), thereby altering the market dynamics and equilibrium conditions (Al-Ghazālī, 1993, p. 212; Mannan, 1984, p. 73).

Further, while general equilibrium in neoclassical models implies welfare optimization through Pareto efficiency, Islamic economics critiques such efficiency for ignoring equity and ethical externalities. The Islamic notion of *al-falāḥ* (true success) broadens the scope of equilibrium beyond material metrics, integrating spiritual and communal well-being (Siddiqi, 1981, p. 55). This creates the need to assess whether equilibrium as understood in conventional theory can be reconciled with Islamic economic values.

The current body of literature has treated Islamic economics either in isolation or as a critique of neoclassical paradigms, but few works provide a systematic comparative analysis of how general equilibrium operates within both frameworks. This study aims to fill that gap by identifying where theoretical structures converge and diverge, and what implications these have for policy and economic modeling.

Based on the above, the research raises the following questions: How does general equilibrium theory function within conventional economics in terms of assumptions, mechanisms, and outcomes? What are the conceptual foundations of general equilibrium in Islamic economics? In what ways do Islamic and conventional economic systems differ in defining and achieving equilibrium? How do these differences influence the applicability of general equilibrium models in policy and economic planning?

This study argues that the comparative analysis of general equilibrium in Islamic and conventional economics is necessary not only for academic enrichment, but also for constructing models that reflect ethical diversity and pluralism. As economies grow

more culturally complex, the relevance of alternative economic epistemologies—particularly those rooted in religious ethics—becomes increasingly critical.

LITERATURE REVIEW

General equilibrium theory has long been a foundational pillar in neoclassical economics, gaining prominence through the formal mathematical models of Arrow and Debreu (1954). These models rely on strict assumptions such as complete information, perfect competition, and rational agents to describe an economy in simultaneous equilibrium. Critics, however, have pointed out that such models often fail to reflect real-world frictions, institutions, and ethical concerns (Hahn, 1984, p. 215). In conventional frameworks, equilibrium is typically treated as a value-free concept—an analytical endpoint where economic forces balance out.

Islamic scholars have approached this concept from a normative framework rooted in the objectives of *sharīʿah*. Chapra (1992, p. 96) critiques the conventional treatment of equilibrium for its neglect of distributive justice and ethical priorities, proposing that Islamic economics must redefine equilibrium as a state of socio-economic balance aligned with the divine will. This includes equitable wealth distribution, prohibition of *ribā*, and the obligation of *zakāh*. Siddiqi (1981, p. 48) and Mannan (1984, p. 79) argue that Islamic equilibrium is not merely an economic state but a moral condition embedded within social institutions.

Indonesian scholars have also engaged this discourse. Sakti (2006) in a Sinta-accredited journal asserts that conventional equilibrium models inadequately capture the Islamic economy's embeddedness in religious norms. Similarly, Marzuki (2009, p. 43) explains that equilibrium in an Islamic setting cannot be detached from the spiritual accountability of agents and the redistributive functions of Islamic fiscal instruments like *waqf* and *zakāh*.

Several Arabic scholars have contextualized equilibrium within classical Islamic jurisprudence. Al-Ghazālī (1993, p. 217) emphasized the role of justice and public interest (*maṣlaḥah ʿāmmah*) in maintaining market stability, which parallels modern notions of equilibrium but differs in its ethical anchoring. Ibn Taymiyyah also addressed the pricing mechanism within an ethical framework, suggesting that fair prices result not from competition alone but also from adherence to Islamic commercial principles (Ibn Taymiyyah, 2001, p. 102).

These diverse perspectives highlight a critical distinction: while conventional general equilibrium is technically efficient, Islamic general equilibrium aspires to moral harmony. This evolving literature underscores the necessity for a deeper comparative

analysis that bridges methodological and epistemological divides between the two economic traditions.

Theoretical Framework

The classical formulation of general equilibrium theory traces back to Léon Walras, who introduced a model in which all markets reach equilibrium through a tâtonnement process, assuming perfect information and rational behavior. Arrow and Debreu (1954) later advanced the model using set theory and convex analysis, proving the existence of equilibrium under restrictive assumptions. These include perfect competition, absence of externalities, and complete markets, which allow for Pareto-efficient outcomes (Varian, 1992, p. 357). The Walrasian framework regards equilibrium as a self-regulating mechanism driven by utility-maximizing agents and profit-maximizing firms.

In contrast, Islamic economics challenges the neutrality of these assumptions. Human behavior in Islamic thought is guided not only by rational choice but also by adherence to divine injunctions. The theory of *maqāṣid al-sharīʿah* places justice (*ʿadl*) and public welfare (*māṣlaḥah*) at the core of economic activity (Chapra, 2000, p. 103). As such, equilibrium in Islamic economics is not a purely technical condition but an ethical outcome reflecting alignment with spiritual values and distributive justice (Siddiqi, 1981, p. 42).

While conventional theory treats money as neutral in the long run, Islamic economics places restrictions on monetary instruments. Interest (*ribā*) is prohibited, speculative transactions (*gharar*) are discouraged, and instruments like *zakāh* are institutionalized to ensure wealth circulation (Mannan, 1984, p. 61). These principles directly affect equilibrium by shaping both consumer behavior and market structure.

Another key theoretical divergence lies in the treatment of externalities. Conventional economics addresses externalities through market correction mechanisms like taxes or subsidies, assuming these distortions are exceptions. Islamic economics, however, inherently integrates externalities by obligating ethical conduct and socio-economic responsibilities through the principle of *ḥisbah*—a form of moral regulation that ensures market fairness (Al-Ghazālī, 1993, p. 221).

Furthermore, in Islamic theory, equilibrium extends beyond market efficiency to encompass social stability. The presence of institutions like *bayt al-māl* (public treasury) plays a redistributive role, altering resource allocation and affecting general equilibrium outcomes. This broader institutional framework redefines equilibrium as a

dynamic and ethically moderated condition, unlike the static models prevalent in conventional economics (Ibn Khaldūn, 2004, p. 118).

Thus, the theoretical foundation of general equilibrium in Islamic economics represents a holistic paradigm that seeks not just economic balance, but moral and social harmony. This epistemological breadth contrasts sharply with the abstraction and reductionism of conventional economic modeling.

Previous Research

In his seminal work, Siddiqi (1981, p. 38) laid early groundwork for Islamic economic modeling, emphasizing that Islamic systems must construct their equilibrium models independently of neoclassical assumptions. He argued that equilibrium in Islamic thought must incorporate ethical constraints and spiritual objectives.

Mannan (1984, p. 65) built upon Siddiqi's foundation by highlighting institutional mechanisms—such as *zakāh* and *bayt al-māl*—as essential to maintaining socio-economic equilibrium. He contended that these institutions alter income distribution, differentiating Islamic general equilibrium from the conventional one based on unregulated market forces.

Chapra (1992, p. 107) offered an integrated view by contrasting the goals of Islamic economics with those of secular economic systems. His work critiqued the Pareto efficiency criterion and proposed that Islamic equilibrium must reflect justice and *māṣlaḥah*, not merely optimal allocation.

In Indonesia, Sakti (2006), writing in a Sinta-accredited journal, explored the challenges of applying Walrasian models to Islamic economies. He observed that Islamic economies function within a normative framework that requires rethinking equilibrium concepts, particularly regarding interest, consumption ethics, and market behavior.

A study by Marzuki (2009, p. 51) examined how Islamic fiscal instruments affect market equilibrium. He found that mandatory redistributive mechanisms like *zakāh* and prohibition of *ribā* systematically prevent the accumulation of wealth, influencing equilibrium by stabilizing aggregate demand and supply relations.

Ibn Taymiyyah's classical work (2001, p. 102) anticipated many aspects of equilibrium theory by advocating for fair pricing under ethical constraints. His ideas prefigure modern concerns about market fairness and the role of moral governance in maintaining stable economic relations.

Al-Ghazālī (1993, p. 217), another influential classical scholar, proposed that justice in transactions and public interest are prerequisites for market stability—an implicit formulation of ethical equilibrium grounded in Islamic legal theory.

Despite these foundational contributions, existing studies have tended to explore Islamic and conventional equilibrium models in isolation. There remains a significant gap in systematic comparative analysis, particularly one that situates both models within a unified analytical framework. Most prior research either critiques conventional models from an Islamic perspective or elaborates Islamic principles without contrasting them with mainstream economic theories. This study seeks to fill that void by offering a structured comparison of the assumptions, functions, and implications of general equilibrium in both paradigms.

RESEARCH METHODS

This study employs a qualitative research design with a focus on textual and conceptual data. The data sources include international economic theory texts, Islamic jurisprudential writings, journal articles from reputable international publications, and Indonesian Sinta-Garuda accredited journals. Classical Arabic sources by scholars such as Al-Ghazālī and Ibn Taymiyyah were also reviewed to extract normative principles guiding Islamic market behavior and equilibrium. The inclusion of diverse textual traditions ensures that the comparative framework is rooted in both empirical and epistemological plurality.

The types of data used in this research are primarily qualitative and normative. These include theoretical formulations, juristic interpretations, economic assumptions, and institutional frameworks relevant to general equilibrium in both Islamic and conventional economics. The data also cover philosophical orientations, such as *ʿadl*, *ribā*, and *māṣlaḥah* from Islamic texts, and concepts like Pareto optimality and utility maximization from conventional theory (Siddiqi, 1981, p. 51; Varian, 1992, p. 327).

Data collection was conducted through library research and document analysis. Peer-reviewed journal articles, economic textbooks, Islamic law treatises, and official publications were collected using database searches and cross-referenced bibliographies. All sources were selected based on credibility, relevance to the subject matter, and alignment with the methodological scope of the study (Mannan, 1984, p. 70).

Data analysis was conducted using a comparative-analytical method. The study systematically compared the conceptual foundations, assumptions, and operational frameworks of general equilibrium theory across the two systems. Texts were

interpreted thematically, using coding strategies to identify shared and divergent principles. This method allowed for both horizontal (inter-system) and vertical (intra-system) comparisons to reveal structural contrasts and overlaps (Chapra, 1992, p. 89).

The conclusions were drawn through interpretative synthesis, aligning empirical findings with theoretical insights. This was followed by integrating Islamic normative ethics with economic modeling to conceptualize a balanced understanding of general equilibrium. The process ensured that final insights reflected both descriptive accuracy and normative depth. The robustness of conclusions rests on triangulated sources and careful interpretation within the frameworks of both disciplines.

RESULTS AND DISCUSSION

This study finds that while general equilibrium operates as a foundational analytical model in both conventional and Islamic economics, it diverges substantially in its underlying assumptions, normative goals, and institutional instruments. In conventional economics, general equilibrium is viewed as a state of systemic harmony achieved through decentralized decision-making, where rational individuals and profit-maximizing firms interact in competitive markets.

The process relies on price mechanisms to allocate resources efficiently, assuming perfect information, complete markets, and absence of externalities (Debreu, 1972, p. 108; Varian, 1992, p. 357). The focus is primarily on allocative efficiency, with equilibrium often defined through the Pareto optimality criterion, which, while efficient, remains ethically indifferent to inequality or distributive justice (Hahn, 1984, p. 215; Stiglitz, 1989, p. 141).

Islamic economics, by contrast, redefines equilibrium not merely as a technical condition of market clearing, but as a moral and social state aligned with the objectives of the *sharīʿah*. The equilibrium sought in Islamic thought encompasses both material sufficiency and ethical harmony, underpinned by values such as *ʿadl* (justice), *māṣlaḥah* (public interest), and the prohibition of *ribā* (interest), as well as wealth redistribution through obligatory instruments like *zakāh* (Chapra, 1992, p. 101; Siddiqi, 1981, p. 48). These principles are not supplementary to economic functioning but foundational. Unlike the utilitarian focus of conventional economics, the Islamic conception integrates ethical accountability and communal well-being (*al-falāḥ*) as essential components of equilibrium (Mannan, 1984, p. 73).

In Islamic economic systems, individual economic behavior is not guided solely by self-interest but by compliance with divine injunctions and ethical mandates. Agents are considered morally accountable beings whose choices must reflect both spiritual and

social responsibilities (Siddiqi, 1981, p. 42). Therefore, equilibrium is not just a matter of intersecting demand and supply curves but a reflection of a just economic order in which transactions occur without exploitation, speculation (*gharar*), or unethical gain. This paradigm shift implies that even when similar mathematical models are used, the interpretive and policy implications of equilibrium in Islamic economics differ sharply from those in the conventional framework.

Furthermore, institutional structures play a critical role in shaping equilibrium outcomes in Islamic systems. Instruments such as *bayt al-māl* (public treasury), *ḥisbah* (market supervision), and *zakāh* are not exogenous interventions but core institutional mechanisms designed to correct market failures, prevent wealth concentration, and promote distributive equity (Marzuki, 2009, p. 50; Mannan, 1984, p. 61). These institutions function as embedded stabilizers, ensuring that market operations remain aligned with moral and social objectives. Al-Ghazālī (1993, p. 217) emphasized that justice and transparency in economic transactions are prerequisites for societal harmony, while Ibn Taymiyyah (2001, p. 102) argued that fair pricing emerges from ethical behavior rather than from market competition alone.

Consequently, while both paradigms utilize general equilibrium theory as an analytical tool, their conceptual foundations and applications reflect fundamentally different worldviews. Conventional economics treats equilibrium as an outcome of impersonal market forces and self-regulated systems. In contrast, Islamic economics frames equilibrium as a multidimensional state—economic, ethical, and spiritual—that must be actively cultivated through divine guidance, moral behavior, and institutional support. This reconceptualization challenges the neutrality of conventional models and underscores the Islamic economy's commitment to integrating economic justice with systemic balance.

General Equilibrium in Conventional Economics

In conventional economics, general equilibrium is defined as a state where all markets in an economy are simultaneously in balance, such that supply equals demand at prevailing prices. The model developed by Walras and formalized by Arrow and Debreu (1954) mathematically proves that under specific assumptions—such as convex preferences, complete markets, and perfect information—an equilibrium exists (Debreu, 1972, p. 108). This theoretical elegance makes general equilibrium central to neoclassical economics and welfare analysis.

The foundational assumption is that individuals act as rational agents who seek to maximize utility, while firms aim to maximize profit. Price serves as the sole coordination mechanism. These assumptions allow for the derivation of supply and demand functions that intersect at an equilibrium point. As Varian (1992, p. 342) notes,

this system is internally consistent, though often criticized for being overly idealized and detached from real-world complexities.

Pareto efficiency is the evaluative criterion in conventional equilibrium, wherein no individual can be made better off without making another worse off. However, this condition does not necessarily guarantee equity or fairness. Hahn (1984, p. 219) highlights this limitation, arguing that equilibrium can exist alongside significant inequality and structural inefficiencies if markets are incomplete or distorted.

Market failures, such as externalities, monopolies, and public goods, are considered anomalies within the general equilibrium framework. Conventional economics addresses them through corrective interventions—subsidies, taxes, or regulations—without fundamentally altering the assumptions of the model (Stiglitz, 1989, p. 141). This reveals a conceptual rigidity, where equilibrium is maintained by treating ethical and distributive concerns as secondary.

Moreover, monetary elements are treated as neutral in the long run, meaning that changes in the money supply do not affect real variables like output or employment. This contrasts sharply with Islamic economic thought, where money is seen as a means of exchange and store of value, but not a commodity to be traded for profit through *ribā* (Mishkin, 2001, p. 99).

Despite its abstract nature, the general equilibrium model remains influential due to its analytical coherence and wide applicability in policy simulation, market design, and trade theory. Yet, it is precisely this abstraction that invites critique when applied to ethically grounded economic systems like Islam.

Conceptual Foundations of Equilibrium in Islamic Economics

In Islamic economics, the concept of equilibrium is inseparable from the ethical and legal foundations of the *sharīʿah*. Unlike the value-neutral assumptions in conventional theory, Islamic economic behavior is guided by divine injunctions that prioritize social justice (*ʿadl*), public welfare (*māṣlaḥah*), and moral conduct (*akhlāq*). Chapra (1992, p. 101) argues that equilibrium in Islamic economics must serve not just efficiency, but also equity and spirituality. Thus, the market is not autonomous, but part of a divine order subject to moral governance.

Equilibrium in Islamic economics emerges when all economic activities conform to the objectives of *maqāṣid al-sharīʿah*, including the preservation of faith, life, intellect, lineage, and wealth. This holistic framework implies that equilibrium is achieved not only when prices balance supply and demand, but also when social obligations like

zakāh, fair trade, and prohibition of *ribā* are upheld (Mannan, 1984, p. 67). Such equilibrium reflects ethical stability and socio-economic harmony.

Key to this structure is the concept of *al-falāḥ*—success in this life and the hereafter—which contrasts sharply with the utility-maximizing objective in conventional models. Siddiqi (1981, p. 46) emphasizes that economic agents in Islam are simultaneously spiritual and rational beings, whose choices are filtered through ethical obligations. As such, market outcomes must align with justice and compassion, not just efficiency.

The institution of *zakāh* plays a pivotal role in ensuring redistribution and correcting inequalities that conventional equilibrium models often ignore. By mandating periodic wealth redistribution, *zakāh* directly impacts aggregate demand and fosters economic stability, particularly during downturns. This institutional mechanism substitutes for fiscal policies in conventional systems and represents a built-in equilibrium stabilizer (Marzuki, 2009, p. 50).

Classical scholars like Al-Ghazālī (1993, p. 221) argued that justice and transparency in trade are necessary for a sound market. He viewed unethical practices such as hoarding and cheating as causes of market instability. Similarly, Ibn Taymiyyah (2001, p. 102) advocated for price fairness based on ethical market behavior rather than unregulated competition. These views align with the Islamic principle of *ḥisbah*, which entails moral oversight to maintain market equilibrium.

Thus, Islamic economic equilibrium arises through the integration of ethical governance, redistributive justice, and compliance with divine law. It offers a paradigm in which economic balance is defined not just by mathematical symmetry but by the harmony between individual gain and collective welfare.

Comparative Differences in Achieving Equilibrium

The divergence between Islamic and conventional models of equilibrium becomes most apparent when comparing their respective methods and goals of achieving economic balance. In conventional economics, equilibrium is predominantly mechanistic, achieved through the invisible hand of price adjustments in response to market signals. It assumes that equilibrium naturally emerges when rational agents pursue self-interest under conditions of perfect competition (Debreu, 1972, p. 110). This process is largely autonomous, with limited room for moral or institutional intervention.

By contrast, Islamic economics mandates that equilibrium be attained through both voluntary market behavior and institutional oversight aligned with ethical imperatives.

For instance, the Islamic prohibition of *ribā* removes interest as a mechanism of capital allocation, compelling reliance on equity-based financing like *muḍārabah* and *mushārakah*. This fundamentally alters market dynamics, affecting both investment incentives and the structure of equilibrium (Mannan, 1984, p. 71).

The role of public institutions also differs markedly. In conventional systems, redistributive policies like taxation or subsidies are exogenous tools used selectively to address inequality. In Islamic systems, however, mechanisms like *zakāh*, *ṣadaqah*, and *waqf* are integral, continuous, and religiously mandated, ensuring that wealth circulates and prevents hoarding. These tools not only reduce inequality but contribute to economic stability—conditions necessary for achieving equilibrium (Marzuki, 2009, p. 53).

Moreover, while conventional equilibrium models assume moral neutrality, Islamic economics embeds moral conduct within the equilibrium process. Practices such as fair pricing, full disclosure, and avoidance of *gharar* (excessive uncertainty) are not mere recommendations but legal obligations. This ensures that the market remains transparent and accessible, aligning individual behavior with collective welfare (Al-Ghazālī, 1993, p. 218).

Another point of divergence lies in the treatment of time and uncertainty. In conventional theory, risk and time preferences are accounted for through interest rates and probabilistic models. Islamic economics prohibits the use of interest and promotes risk-sharing contracts instead. This shifts the equilibrium framework from one based on compensating for risk through fixed returns to one involving mutual responsibility and equity (Siddiqi, 1981, p. 59).

These differences culminate in contrasting conceptions of welfare. The conventional model prioritizes Pareto efficiency, which may coexist with significant inequality. Islamic economics, however, seeks *al-falāḥ*—a comprehensive form of welfare that includes spiritual, social, and economic well-being. Therefore, while both systems seek a balanced state, the Islamic approach redefines equilibrium not as a static endpoint, but as a continuous moral process embedded within a divine legal framework.

Implications for Policy and Economic Modeling

The comparative analysis of general equilibrium models reveals critical implications for economic policy and modeling in both Islamic and conventional contexts. In conventional economics, policies are designed to steer the economy toward equilibrium by correcting market failures through monetary and fiscal tools. Central banks manipulate interest rates, while governments adjust taxes and spending to

influence aggregate demand and supply. These policy instruments assume the flexibility of markets and the neutrality of money in the long run (Mishkin, 2001, p. 115).

However, Islamic economics rejects some of these fundamental tools, most notably the use of interest as a policy lever. This necessitates alternative mechanisms for achieving macroeconomic balance. For example, instead of manipulating interest rates, Islamic financial systems use profit-loss sharing schemes, central bank lending based on real sector backing, and *zakāh*-based public redistribution to maintain liquidity and demand. These policies are grounded in risk-sharing, equity, and moral obligation rather than individual utility maximization (Chapra, 2000, p. 123).

In terms of modeling, the Islamic framework challenges the use of utility functions and production possibilities frontiers that exclude ethical variables. Islamic economic models require incorporating behavioral norms, institutional constraints, and welfare parameters such as justice (*ʿadl*) and *māṣlaḥah*. This calls for developing hybrid models that combine optimization with ethical constraints—a methodological departure from traditional neoclassical modeling (Sakti, 2006).

Another implication lies in the institutional infrastructure required to support equilibrium. Islamic economies must develop institutions such as *bayt al-māl*, Islamic courts, and *ḥisbah* to enforce contracts, oversee ethical compliance, and manage redistribution. These institutions act as stabilizers, preventing structural imbalances that could destabilize markets. Their presence fundamentally reorients policy frameworks from reactive correction to proactive moral governance (Ibn Taymiyyah, 2001, p. 105).

Finally, this analysis suggests that general equilibrium theory must be reconceptualized if it is to remain relevant in multi-ethnic, multi-religious societies where alternative economic values coexist. For policymakers in Muslim-majority countries, relying solely on conventional equilibrium models may result in socio-political dissonance. Conversely, integrating Islamic principles into economic modeling offers a holistic path toward sustainable development that reconciles material progress with spiritual well-being.

The comparison of general equilibrium in Islamic and conventional economics reveals not merely technical distinctions, but profound epistemological and normative divergences. While conventional models are rooted in mathematical abstraction and individualistic utility, Islamic models are grounded in a theocentric worldview that prioritizes justice, ethics, and communal welfare. Both systems aim for balance, but define and pursue that balance through different means.

In the conventional paradigm, equilibrium is largely a function of self-correcting market forces and rational behavior. It relies on price signals and decentralized decision-making to coordinate economic activity. Islamic economics, in contrast, embeds market behavior within a network of moral obligations and institutional checks. It envisions equilibrium not as a mere point of efficiency, but as a dynamic condition of fairness and spiritual alignment.

This duality underscores the importance of contextualizing economic models within their philosophical foundations. It also challenges the universal applicability of any single model, advocating instead for pluralist approaches that respect cultural and religious differences. General equilibrium theory, while powerful, is not ideologically neutral; its assumptions shape its outcomes.

By highlighting these differences, this study contributes to a deeper understanding of how economies can function under alternative value systems. It affirms that economic modeling must evolve to incorporate ethical and institutional diversity if it is to serve societies holistically. In doing so, the study calls for ongoing dialogue between economic traditions, aiming to enrich both theory and practice.

CONCLUSION

This study has explored the structure, assumptions, and implications of general equilibrium in both conventional and Islamic economics. It has shown that while both systems aim for economic balance, they diverge significantly in their foundational values, institutional frameworks, and policy tools. Conventional economics treats equilibrium as a technical condition achieved through market forces and individual rationality, whereas Islamic economics views it as a moral and social condition rooted in divine guidance and institutional ethics.

The findings reveal that Islamic equilibrium models are shaped by ethical principles, such as justice, redistribution, and prohibition of interest, which directly influence how markets function and how balance is maintained. These principles result in a framework where equilibrium is not only about price and quantity adjustments, but also about fairness, accountability, and social welfare.

This comparative approach has demonstrated the importance of considering alternative economic worldviews in a globalized and multicultural context. It affirms the need for pluralism in economic thought, especially in modeling systems that reflect the ethical and religious values of diverse societies. Future research should continue to develop hybrid models that integrate moral imperatives with technical rigor.

Ultimately, this study reinforces the notion that economic equilibrium, when stripped of ethical considerations, may achieve balance but not justice. A truly meaningful equilibrium must align market efficiency with human values and societal well-being.

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