
Stability of Demand from the Perspective of Islamic Economics in the Market of Pontianak City, West Kalimantan, Indonesia

Ichsan Iqbal¹, Erni Panca Kurniasih², Norika Handayani³

¹IAIN PONTIANAK Postgraduate Program, Indonesia
Letjend. Soeprapto, 78124, Pontianak, West Kalimantan

²Faculty of Economics and Business, Tanjungpura University, Indonesia
Jenderal Achmad Yani, 78124, Pontianak, West Kalimantan

³IAIN PONTIANAK, Indonesia
Letjend. Soeprapto, 78124, Pontianak, West Kalimantan

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Abstract

This research article aims to show the stability of demand from the perspective of the consumers. The stability of demand is mainly influenced by consumer income, commodity prices, forecasts of future prices and taste.

The methodology used in this research was the phenomenological method. This research analyzes the phenomena regarding the increase in the prices of basic staple commodities from the perspectives of the sellers and the buyers who face the price increase, and their views on price increases to maintain price balance.

The increase in prices at the markets in Pontianak City occurred ahead of Eid al-Fitr al-Fitr, and burdened people with lower-middle income because it reduced the purchasing power of the people ahead of Eid al-Fitr. Even though the 'market operation' program had been carried out by the Government to balance the prices in every urban villages around the City, it still failed to cope with the price increase ahead of Eid al-Fitr. Therefore, it can be assumed that the stability of demand in Pontianak City has not been achieved.

Keywords: Stability of Demand, Market, Income, Purchasing Power.

1. Introduction

Price stability is the maintenance of a general price level that does not change from time to time in an economy. Price stability, in terms of avoiding inflation, is a major goal of macroeconomic policy, which is the responsibility of the government to stabilize the price.

The government's role is to keep market prices from dramatic fluctuation. These aspects will have a fatal impact on the country's economy. When prices continue to decline, there will be a lot of bankruptcy and unemployment because non-state-owned businesses such as the private sector and Small and Medium Enterprises (SMEs) will have difficulty making profits, or in many cases most private businesses and SMEs can only break even and suffer losses. Meanwhile, if prices

continue to increase, inflation will occur, so it is very important to stabilize prices to ensure the business of SMEs or traders can continue.

For the people, stable prices will have an impact on their welfare, where previously they were able to fulfill all their needs but with the increase in prices, they would limit the purchase of the basic staple commodities. According to the law of supply and demand, if the price increases, the purchasing power of the people will decrease. On the other hand, if the price goes down, the people's purchasing power will increase.

Therefore, the government must maintain stable prices because only in such condition, the people's purchasing power will be stable, and traders will not suffer losses that will subsequently affect economic growth which will also have an impact on state income. In line with the role of regional governments regarding trade as stated in Law of the Republic of Indonesia No. 7 of 2014 concerning Trade Article 95 point c, that the local government is in charge of monitoring the availability, stable prices, and distribution of basic needs and/or important commodities.

A majority of the literature classifies the causes of price volatility into four categories as follows: (1) agronomic factors such as bad weather that affects crops, (2) inadequate infrastructure and asymmetric information, (3) incomplete or missing institutions, and (4) high volatility in world markets (Luc Ngare, et al. : 2014). Other studies (Rashid, 2007; Gilbert, 2010) have identified the most common causes of food price volatility, such as infrastructure climate factors, policy blows and uncertainty of exchange rate.

Based on the research conducted by Mahpud Sujai (2011: 298) entitled *The Impact of Fiscal Policy in Efforts to Stabilize Prices of Agricultural Commodities*, it is stated that commodity prices are very volatile and tend to increase recently are strongly influenced by international prices, where the current surge in world food prices is in the highest position at the index level of 214.8. Based on FAO food prices index data which was calculated from a weighted average of 55 types of international traded commodities, FAO and the World Bank have warned that uncertain climate risks and geopolitical conditions in the world could lead to food production instability and have the potential to increase food commodity prices in the future. It indicates that similar to West Texas Intermediate (WTI) crude oil prices, food commodity prices as shown on the FAO Right Hand Side (RHS) index also continue to soar and even surpass conditions during the crisis.

The role and responsibility of the government is very important in neutralizing price fluctuations to achieve balance, namely by providing commodities and adjusting to the demand for stock of goods available in large quantities in the market. If prices continue to rise, the government, in this case the Office of Cooperatives, Micro Enterprises, and Trade needs to provide strict supervision of the market, so that the public (consumers) can still afford to pay for the basic needs and provide benefits for traders (producers). However, if the price increase is caused by the actions of traders, for example hoarding of goods, then the government has the right to set prices and produce competitive prices, both in terms of supply and distribution channels so that they are not controlled by certain market players.

The government should make a policy regarding the price of basic commodities even though this is not easy. Policies must be carried out carefully by considering the various impacts and constraints that will be faced, such as the impact on small farmers and also low-income consumers.

2. Method

The methodology used in this research is the phenomenological method. According to John W Creswell (2015: 105) phenomenological research describes the general meaning of a number of individuals on the various life experiences of these individuals related to concepts or phenomena, focusing on describing what is common from all participants when experiencing the phenomena, and aiming to reduce individual experiences of the phenomena to descriptions of universal essence. This research describes the phenomenon of the increase in prices of basic staple commodities faced by both sellers and buyers, and the views on price increase to maintain balance of prices.

3. Results

Some economists explain the definition of demand as follows; demand is the relationship between the quantity of demand and the price (Sadono. 2009:75). Demand is the consumer's desire to buy an item at various price levels during a certain period (Veithzal. 2018: 180). The demand for goods or services is defined as the quantity of goods or services that people are willing to buy at various price levels in a certain period of time, (Mustafa Edwin Nasution et al. 2006: 80). Based on the above definition, it can be concluded that demand is the relationship between the quantity of goods demanded in the market and the price level in a certain period.

According to Mario J. Miranda and Peter G Helmbger (2010: 49) in their journal article entitled *The Effects of Commodity Price Stabilization Programs*, in order to stabilize prices on the demand side, a policy from the government is required by taking over private commodities in order to increase prices, while on the supply side, the government sells the commodity in order to lower the price, so both the supply and the demand 'work together' to stabilize the price where the former prevents a sharp drop in price and the latter prevents a sharp increase.

According to Benton F. Massel (2014: 290) in his journal article entitled *Price Stabilization and Welfare*, price stabilization is based on the forces of demand and supply, as shifts in demand are influenced by income and taste, and in substitute and complement prices.

According to the law of demand, "if the price of a good decreases, quantity demanded will increase, and conversely if the price increases, quantity demanded will decrease ". The law of demand is inversely proportional to price (Veithzal. 2018:186-187).

The quantity demanded of a good decreases when the price of the good increases and increases when the price of the good decreases. This means that the nature of the relationship between the quantity demanded of a good can be explained by the law of demand. the quantity demanded of a good is inversely proportional to the price. This relationship between price and quantity demanded holds for almost all goods in the economy, and in fact, economists everywhere refer to this as the law of demand. If other things remain constant (*ceteris paribus*), when a good increases in price, the quantity demanded for that good will fall. Conversely, when the price goes down, the quantity demanded goes up (Gregory Mankiw. 2012: 67). Likewise, the law of demand for *halal* goods is the same as demand in the economy in general, which is inversely proportional to the price of the *halal* goods decreasing and vice versa with the assumption of

ceteris paribus. (An'im Fattach. 2017: 453).

If the price of a good goes up, consumers will reduce purchases and switch to buying substitutes, conversely, if the price of a good goes down, buyers will reduce their purchases of substitute goods and will increase their purchases of goods that have decreased in price. Another reason is that an increase in the price of a good that is not followed by an increase in consumer income will reduce the purchasing power of consumers, which in turn will make consumers reduce their purchases of goods with rising prices.

Commodity prices are the main factor in determining the amount of commodity demanded, but commodity prices are not the only factor that can affect demand, there are many other factors that can affect the rise and fall of demand for a commodity, namely (Yoopi Abhimanyu. 2012:12-13), first, consumer income; According to As Siddiqi, demand is limited or determined by the initial distribution of income and wealth, and considers the unequal and unjust distribution of initial income and wealth as one of the situations that become a way for the entry into force of state intervention, in addition to meeting needs and maintaining honest market practices (Mohammad Aslam Haneef. 2010:51). Second, commodity prices; The price of goods is an important determinant of demand. In general, the relationship between the price level and quantity demanded is negative; the higher the price level, the lower the quantity demand, and vice versa (Center for the Study and Development of Islamic Economics. 2014: 12). Third, estimated future prices; Expectations of consumers in the future will affect the quantity of commodities demanded. Fourth, taste; Taste is one of the things that affects demand, this is mainly because there is a change in taste (Mustafa et al. 2006: 85).

Another opinion about the determinants of demand is that there are many other economists' opinions that affect demand, namely according to Kate Louw et al. (2008) in their journal article entitled *Determinants of electricity demand for newly electrified low-income African households*, factors included in economic demand --such as price and household income-- influence choices, taste and preferences and external factors --such as distance to suppliers-- are expected to influence preferences. According to Mustafa et al. (2006: 84-85), demand is influenced by income, prices of other related goods, taste, and quantity. Customer demand is based on various considerations, including the ability of customers to buy (purchasing power), the willingness of customers to buy, the position of a product in the customer's lifestyle, the benefits that the product provides to customers, the price of substitute products, the potential market for the product, the nature of non-price competition, consumer behavior in general, and segments in the market (M. Birusman Nuryadin. 2007: 92).

In light of the opinions above, it can be concluded that the price of goods, the price of substitute goods, income, income distribution, taste, population, and price expectations in the future are the determining factors of a demand.

The concept of demand in Islam considers that not all commodities (goods or services) can be consumed or used, distinguishing between what is *halal* (permitted) and what is *haram* (forbidden). Therefore, in the Islamic demand theory, demand for *halal* goods is discussed, while

in conventional demand, all commodities are valued the same, can be consumed and used. (An'im Fattach. 2017: 453).

Allah SWT in QS. Al Ma'idah: 87-88 said, which means: "O believers! Do not forbid the good things which Allah has made lawful for you, and do not transgress. Indeed, Allah does not like transgressors. Eat of the good, lawful things provided to you by Allah. And be mindful of Allah in whom you believe."

According to Shihab in his tafsir [commentary] (2000; 87-88), this verse was revealed when there was a people from among the companions who were determined to fast and pray at night; they did not want to approach women, wear perfume, eat meat and sleep in beds.

According to Ibn Taimiyah in the book *Majmu' Fatwa* as quoted by Veithzal (2018: 201), the things that affect the demand for a good are as follows: first, people's desires or taste (*raghbah*) for various types of goods are different and always changing. When people already have a taste for a good, this will affect the quantity demanded of that good. Second, the number of people interested (*tulab*) in the good; if the number of people who want a good increases, the price of the good will increase. In this case, it can be likened to the population; the more the population, the more the number of enthusiasts for the good. (Third) The quality of the buyer (*al-Mu'awdid*). The level of income is a characteristic of good buyer quality; the greater the income level of the people, the quality of people who buy a good will increase. Fourth, weak or strong need for a good; if the need for a good is high, the demand for that good is also high. Fifth, the method of payment --either in cash or in installments. If payment is made in cash, demand will be high. Sixth, the amount of the transaction fee. If the transaction fee of a good is low, it is likely to increase.

The definition and the factors that influence conventional demand and Islamic demand have similarities. This is because both are the result of empirical research of each economic unit. According to Veithzal (2018: 199-200), there are fundamental differences between the two, namely:

- a. The main difference between the two theories is, of course, the source of law and the existence of sharia limitations in Islamic demand theory. Demand in Islamic principles is that Islam as a way of life that is directly guided by Allah SWT. Demand from the Islamic perspective clearly recognizes that the source of knowledge does not only come from experience in the form of data which then crystallizes into theories, but also comes from the word of God (revelation) which illustrates that Islamic economics is dominated by religious belief variables in the system mechanism, while conventional economics, which is based on western philosophy, focuses on the goal of profit and materialism. This is natural and is reflected in the power of creativity, information processing power, and human imagination even though the human mind is God's creation and has limited reason compared to abilities.
- b. The concept of demand in Islam considers that not all commodities can be consumed or used because it is distinguished between *halal* [permitted] demand and *haram* [forbidden] (Q.S Al-Maidah verses 87-88). Therefore, the Islamic demand theory

discusses the demand for *halal* goods, *haram* goods, and the relationship between the two. As for conventional demand, all commodities are valued the same, can be consumed or used.

- c. The Islamic demand motive emphasizes the level of consumer need for these goods, while the conventional demand motive is more dominated by the notion that egoism is a consistent value in influencing all human activities.
- d. Islamic demand aims to obtain prosperity or victory in the afterlife (*falah*) as a derivative and the belief that there is eternal life after death, namely the afterlife, so that the existing budget must be set aside as provisions for the afterlife.

Based on the explanation above, it can be concluded that the determinants of stable demand are the price of goods, income, taste, population, and price expectations in the future and limits, of *shar'i* [legal and moral code in Islam] namely *halal* [permitted] and *thoyib* [good] commodities.

4. Discussion

The factors that influence demand are the price of goods, people's income, taste, expectations of future prices, population, *halal* and beneficial goods, but if these factors experience significant fluctuations, then demand stability cannot be achieved. The following discussion illustrates demand stability in Pontianak city, especially at the Flamboyan Market:

a. From Buyers' Point of View

In the Pontianak City market, according to most buyers, there is a lot of stock of basic staple commodities, but as Eid al-Fitr draws near, people's needs increase and it affects the price of these commodities. However, the purchasing power of the people or buyers decreases which leads to reduced quantity demanded. Most buyers complain about their income causing them to have difficulty of meeting all their needs.

However, prices of staple commodities continued to fluctuate prior to the fasting month of Ramadan until after Eid al-Fitr, and people found it difficult to meet their daily needs with their current state of income, so that it had an impact on their purchasing power, namely buyers reduced the number of purchases to adjust to their purchasing power. Thus, it can be considered that the decline in demand as a result of rising prices of staple commodities as well as the availability of *halal* and beneficial goods will continue to influence buyer demand, but taste and expectations of future prices will not greatly affect demand.

The demand in the Pontianak City Market can be considered to be unstable due to the decline in people's purchasing power as a result of the rising prices of basic food items as the income of the people or buyers is relatively constant.

b. From Sellers' Point of View

The stock of fish and shrimp in the Pontianak City market was quite low, so there was an increase in prices for these commodities. It was mainly caused by the weather being not favorable for fishermen to go to sea which subsequently caused a shortage of stock of fish at the agent. The stock of vegetables, especially mustard greens, also decreased ahead of Eid al-Fitr, because buyers preferred this vegetable to the others, causing the stock to decrease and the price to increase.

The sellers at the Pontianak City market are not affected by future price forecasts as they continue to purchase goods for stock as usual, and some retail sellers such as fish, shrimp and chicken sellers, do not make purchases for their stock because these sellers usually sell out their goods every day, and rarely have a lot in stock.

People's taste with regard to staple commodities do not really affect the demand for goods as buyers always look for good quality goods to buy, and the halal market in Pontianak City is already known to the public.

In the Pontianak City market, the stock of staple commodities is affected by the weather and the increase in demand, as well as the price which tends an increase due to unfavorable weather and increased demand during the fasting month of Ramadan and Eid al-Fitr. Thus, it is safe to assume that the sellers take advantage of the moment of high demand by increasing prices which reached 40% of higher than before the fasting month, and this increase in the price of staple commodities is burdensome for the people especially those of lower-middle class who usually shop at traditional markets, thereby reducing the amount of their spending which ultimately results in a decrease in income of the sellers.

In light of the description above, it can be concluded that according to the sellers, the demand in the Pontianak City market is unstable because the purchasing power of the people decreases due to an increase in the price of staple commodities.

c. From the Point of View of the Office of Cooperatives, Micro Enterprises, and Trade of Pontianak City

“The stock of staple commodities is still stable, and can meet the people’s needs. As Eid al-Fitr approaches, the stock of staple commodities is stable. Prices have also started to fall from ahead of Eid al-Fitr. If there is a shortage of these commodities, there will be an increase in prices above HET, and of course people will be upset, so we check prices every working day every week in each market”.

In order to meet the increasing demand during the fasting month and ahead of Eid al-Fitr, the government has prepared a stock of staple goods in order to cope with rising prices due to an increase in demand.

The West Kalimantan Provincial Government ensures that the food stock during Ramadan and during Eid al-Fitr celebration is sufficient to meet the people’s needs. The government admits that there has been an increase in a number of basic commodities during the first week of the Ramadan. However, the increase that occurred is still within normal limits.

Based on the explanation above, it can be concluded that the availability of basic commodities to cope with the increase in demand during the fasting month of Ramadan and ahead of Idul Fitri has been anticipated by the government, but what happened in reality was that prices rose up to a 40% higher than before the fasting month, and it was still considered reasonable by the government based on the Regulation of the Minister of Home Affairs No. 96 of 2018 concerning Consumer Sales Reference prices. However, the increase is quite burdensome for people with lower-middle income as it reduces people's purchasing power, and results in unstable demand for basic commodities.

Acknowledgments

The increase in prices at the Pontianak City market that usually occur ahead of Eid al-Fitr are quite burdened for people with lower-middle income, causing their purchasing power before Eid al-Fitr to decrease. Even though the government had carried out market operations as a form of a balancing market in every urban village in the City, these market operations or the so-called low-cost markets still had not been able to overcome the price increase ahead of Eid al-Fitr. Thus, it can be concluded that the stabilization of demand in Pontianak City has not been stable.

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