

The Mechanism of Profit Rate Formation in Iranian Banking System

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Received Date: 28/06/2020 - Accepted Date: 29/07/2020

DOI: 10.22096/esp.2021.129920.1368

Abstract

The goal of this research is to design mechanism of profit rate formation in Iranian banking system such that guarantees allocation efficiency. To this aim, it analyzes pricing mechanism from point of Islamic Scholars using an Islamic jurisprudential method of research. The results show that in a normal condition, setting the prices including banks profit rates, is forbidden and is in contrast to the Sharia Principles. Accordingly, this research proposes mechanism of profit rate formation based on truth and justice and an asset-based interbank money market. In this framework, central bank sets corridor of rates and banks finance firms by issuing commercial papers. Papers rates set based on return in real sector of economy and profit rate in banking system set by transaction of papers in the market.

Keywords: Real return, profit rate formation, an asset-based interbank money market.

JEL Classification: G24, G23, G12, E52, E43.

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