

Institutional Framework and Key Institutions

Learning objectives:

1. *The nature of risk and its economic implications.*
2. *How trust mitigates uncertainty and risk.*
3. *Rules are the essence of institutions.*
4. *What rules are important in all economic systems.*
5. *Islam is a rules-based system.*
6. *Rule compliance enhances trust and builds effective institutions.*
7. *Effective institutions are the foundation of economic and social progress.*
8. *The important institutions in Islam.*
9. *The importance of work ethic in Islam.*

All societies face two interrelated problems—uncertainty and coordination. The first stems from the fact that the future is unknown. Yet every human has to make decisions and take actions that affect his or her own future as well as the future of others. Making decisions is one of the most fundamental capabilities of humans, but it is bound up with uncertainty. Facing an unknown, and generally unknowable, future, humans make decisions and choose among alternative courses of action based on their expectations of future consequences of their actions. The problem becomes more complicated when uncertainty about the future is coupled with ignorance about how other individuals, or their collectivities, behave in response to unknown states of the world.