

INFLATION IN ISLAMIC AND CONVENTIONAL ECONOMIC PERSPECTIVES

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Abstract: Inflation is a monetary event that results in a decrease in the value of the currency against a certain item. These events cause disruption to the function of money, price distortions, damage output, undermine efficiency and productive investment, and cause social injustice. The method in writing this article is to use a literature study with a descriptive-analytic qualitative approach. This study was conducted to examine inflation and how to overcome it in Islam. In general, inflation is caused by: the large number of people's demand for an item, the increase in production costs, and the very high circulation of money in society. Meanwhile, According to its nature, inflation is divided into creeping inflation (creeping inflation), medium inflation (galloping inflation), high inflation (hyper inflation). According to the cause of inflation, it is divided into Demand Pull Inflation and Cosh Push Inflation. According to origin, Inflation is divided into Inflation originating from within the country and from abroad. Meanwhile, according to public expectations, it is divided into Expected inflation and Unexpected inflation. In conventional economics the way to overcome inflation is to implement monetary policy, fiscal policy, non-monetary/non-fiscal policies. Whereas in Islam inflation is overcome by printing money with a low / minimal amount, implementing the Dues Idle Fund strategy, and implementing fiscal policy.

Abstrak: Inflasi dalam Perspektif Ekonomi Islam dan Ekonomi Konvensional. Inflasi merupakan suatu peristiwa moneter yang mengakibatkan turunnya nilai mata uang terhadap suatu barang tertentu. Peristiwa-peristiwa tersebut menyebabkan terganggunya fungsi uang, distorsi harga, merusak output, melemahkan efisiensi dan investasi produktif, serta menimbulkan ketidakadilan sosial. Metode dalam penulisan artikel ini menggunakan studi kepustakaan dengan pendekatan kualitatif deskriptif-analitik. Penelitian ini dilakukan untuk mengkaji inflasi dan cara mengatasinya dalam Islam. Secara umum inflasi disebabkan oleh: banyaknya permintaan masyarakat terhadap suatu barang, meningkatnya biaya produksi, dan sangat tingginya peredaran uang di masyarakat. Menurut sifatnya, inflasi dibedakan menjadi inflasi merayap (creeping inflasi), inflasi sedang (galloping inflasi), inflasi tinggi (hiper inflasi). Menurut penyebab terjadinya inflasi dibedakan menjadi Demand Pull Inflation dan Cosh Push Inflation. Menurut asal usulnya, Inflasi dibedakan menjadi Inflasi yang berasal dari dalam negeri dan Inflasi yang berasal dari luar negeri. Sedangkan menurut ekspektasi masyarakat dibedakan menjadi Expected Inflation dan Unexpected Inflation. Dalam perekonomian konvensional cara mengatasi inflasi adalah dengan menerapkan kebijakan moneter, kebijakan fiskal, kebijakan non-moneter/non-fiskal. Sedangkan dalam Islam inflasi diatasi dengan mencetak uang dengan jumlah yang rendah/minimal, menerapkan strategi Idle Fund, dan menerapkan kebijakan fiskal.

Keywords: Inflation, Islamic Economic, Conventional Economic

Introduciton

Inflation is a monetary event that causes the value of a currency to drop in relation to a specific item. This event will disrupt the function of money, generate price distortions, harm output, impair efficiency and productive investment, and result in inequity and social conflicts. If it has been defined, Inflation is a circumstance in which the price of a certain good continues to rise over time. Inflation, according to R.Mc Connell Camobelll and Stanley L. Brue, is defined as an increase in the general level of prices, which means an increase in the general price of goods/commodities and services over a period of time.¹

In general, inflation is generated by an increase in people's purchasing power for an item; as people's purchasing power for an item rises, it may be assumed that public demand for the item rises, but supply is small or limited, resulting in an increase in prices. Inflation will result from higher production costs due to higher raw material prices and higher staff wages. As a result, producers take steps to raise prices. Furthermore, inflation will result from the high amount of money circulating in the community. This is due to the fact that when there is a great amount of money in circulation, people's purchasing power increases and things become scarce, resulting in price increases.

Inflation is one of the key indicators used to assess economic growth, unemployment, poverty, and export-import balances. Inflation is a major issue in every country's economy, including Indonesia's. Domestic shocks will result in price variations in the domestic market, which will lead to a rise in inflation in the economy. In 1998, Indonesia had the highest inflation rate, at 77.6%. The fall of the rupiah exchange rate, the economic crisis, and forecasts of high inflation are all factors contributing to this inflation. When the old order fell in 1966, Indonesia witnessed hyperinflation. Inflation is thus a psychological problem for the Indonesian people.

Implementing monetary policy is one strategy to keep inflation under control. The monetary authorities implement monetary policy through changing monetary variables such as money supply, SBI interest rates, and currency rates. If a country wishes to keep its inflation rate low, the government must limit price rises. Attempts to reduce this price can be made by slowing the rate of expansion in the money supply, for as by limiting lending or raising loan interest rates (tight money policy). However, the result would be sluggish investment and an increase in unemployment, both of which will lower national income².

Keep in mind that a modest degree of inflation can be dangerous, especially until it approaches deflationary territory. Deflation is the polar opposite of inflation, which is defined as a circumstance in which prices fall and the value of money rises. Inflation that is too low will have a significant impact on businesses. Entrepreneurs lose money, causing the economy to slow down, resulting in a slew of layoffs and a drop in people's earnings. The economic growth of a country will be slowed by a sluggish economy. The normal rate of inflation corresponds to a country's level of economic growth. In developing countries, inflation is considered reasonable if it stays between 3% and 4% per year, with a 1 percent to 2% deviance tolerance. However, in industrialized countries such as the United States,

¹ Serena Sila Sebo and Moch Nafi, "Pengaruh Inflasi, Nilai Tukar, Suku Bunga, Dan Volume Transaksi Terhadap Harga Saham Perusahaan Pada Kondisi Pandemi Covid-19," *Jurnal Akuntansi dan Perpajakan* 6, no. 2 (2021): 113–126.

² Roni Wiranata, Siti Aisyah, and Triwilujeng Ayuningtyas, "Analisis Pengaruh Tingkat Inflasi Dan Pengangguran Terhadap Pertumbuhan Ekonomi Pada Masa Pandemi Covid-19 Di Provinsi Jawa Timur" (n.d.): 24–32.

the United Kingdom, and Japan, the central bank normally sets a target of 2% inflation. When hyperinflation happens, it means a country is in the midst of a financial crisis (recession). As a result, this paper analyzes inflation, its origins, and ways to combat it both in Islam and in the West.³

Research Method

This is a library research project (library research). Data for this study was gathered from both primary and secondary sources. The primary sources for this study are books, journals, articles, and news about the central subject, namely inflation from a sharia and conventional economics standpoint. This study employs a qualitative technique. Despite the fact that the goal of this study is to comprehend reality and its deeper meaning. There are a number of other reasons why qualitative methods were used in this research. To begin with, study findings are not gathered and finalized using statistical methods and techniques, nor are they quantified. Second, a qualitative analysis of the inflation outlook will be more useful. Third, this investigation will focus on the meaning or nonsensical parts of a current phenomena. This type of study can't be done in a quantitative manner. A phenomenological technique is used in this study. The goal of this method is to create new economic categories, theories, and real-world concepts. The research method is centered on the discovery of economic truth, which may be used to evaluate and explain economic actions by constructing organized results statements.⁴

Inflation from a Traditional Economic Point of View

Inflation is defined as an increase in the price of goods and services that occurs over time. Inflation is defined as an increase in the price of goods and services as a whole. This means that an increase in the price of one type of item does not count as inflation. Inflation is a symptom of a general and constant increase in the price of commodities, according to Rahardja and Manurung in Zaini Ibrahim's book. In the meantime, according to Sukirno, inflation is an increase in the price of goods and services that occurs when market demand exceeds supply.

There are three inflation theories that are used to answer different questions concerning why inflation happens, namely:⁵

1. Quantity Theory

According to quantity theory, inflation is generated by only one factor: a rise in the money supply (JUB). The following is the essence of this theory: Inflation can only occur if the amount of money in circulation increases (either an increase in currency or an increase in demand deposits). Irving Fisher proposed the quantity theory, which states that $MV = PT$. V and T are constant factors, thus if M (the amount of money in circulation) rises, there will be inflation (price increase). The rate of rise in the money supply, as well as public psychology (expectations) about future price increases, determine the rate of inflation. If people already believe this, they are less likely to save money and prefer to keep their riches in the form of things. Inflation can only occur if

³ Mauizhotul Hasanah and Safarinda Imani, "Pandemi Covid 19: Inflasi Dan Pengangguran Dalam Perspektif Ekonomi Islam," *Asy Syar'iyah: Jurnal Ilmu Syari'ah dan Perbankan Islam* 6, no. 1 (2021): 1–22.

⁴ Sonny Leksono, *Penelitian Kualitatif Ilmu Ekonomi: Dari Metodologi Ke Metode* (Jakarta: Rajawali Pers, 2013).

⁵ Adrian Sutedi, *Hukum Keuangan Negara* (Jakarta: Sinar Grafika, 2012).

the volume of money supply, both currency and demand deposits, increases, and the inflation rate is also governed by the rate of growth in the money supply and public expectations of future price increases, according to this idea.

2. Keynes Theory

According to Keynes' theory, public demand is the most important factor in determining the stability of a country's economy (effective demand). This has to do with production and the amount of capacity that is available. Because of the insufficient capacity of items produced, the price of goods rises, resulting in inflation. The key premise of Keynes' inflation model is that inflation arises when people seek to live beyond their financial means.

As a result, the effective demand for products in society (aggregate demand) exceeds the number of goods available (aggregate supply), resulting in an inflationary gap. Because short-term production capacity cannot be increased to counterbalance the increase in aggregate demand, there is a limited supply of goods (aggregate supply). As a result, this model is most commonly employed to explain the short-term inflation phenomenon.

3. Structural Theory

The focus of this theory is on emerging countries. The following are the elements that influence the economy, according to this idea. Export Revenue Inelasticity In comparison to other industries, export value expanded at a slower rate. The reasons for this are as follows: in the global market, the price of export goods from that country is increasing, and export goods production does not respond to price rises and domestic Food Supply or Production Inelasticity⁶.

Inflation in Islamic Economic Perspective

Because the currencies used in Islam are dinars and dirhams, which have a steady value and are justified by Islam, inflation is not referred to as such. Sheikh An-Nabhani presented various reasons why gold was the right money, according to Adhiwarman Karim. When Islam forbids the practice of hoarding riches, it solely forbids gold and silver, despite the fact that wealth encompasses all commodities that might be used as wealth⁷.

When Islam requires diat, the measure is in the form of gold, which is related to standard and immutable regulations. Rasulullah established gold and silver as the only acceptable forms of currency, and he established gold and silver as the only acceptable standard of money. When Allah imposes zakat on money, he does so in conjunction with the nisab of gold and silver. Money transactions are only carried out in gold and silver, and other transactions are only expressed in gold and silver, according to the regulations governing currency exchange.

The value of the dinar or dirham can still fall, especially if the gold price, which underpins the nominal value of the dinar, falls.⁸ Some of them are attributable to the large-scale discovery of gold, but this is an extremely unlikely scenario. The deficient condition had only transpired once, just before the Hunain battle, while the Messenger of Allah was

⁶ Adhiwarman Azwar Karim, *Sejarah Pemikiran Ekonomi Islam* (Jakarta: Rajawali Pers, 2004).

⁷ Adhiwarman Azwar Karim, *Sejarah Pemikiran Ekonomi Islam* .

⁸ Fadilla, "Perbandingan Teori Inflasi Dalam Perspektif Islam," *Islamic Banking* 2, no. 2 (2017): 1–14.

alive. As a result, Al-Maqrizi distinguishes between two types of inflation: inflation caused by a shortage of goods and inflation caused by human error. Drought or war caused the first type of inflation, which happened during the reign of Rasulullah and Khulafaur Rashidun. Three factors contribute to inflation induced by human error: corruption and poor administration, high taxes, and large sums of money. The increase in pricing that occurs is in the form of money; there is rarely an increase in the form of dinars. According to Al-Maqrizi, the amount of money should be kept to the bare minimum required for small-denomination transactions.

Causes of Inflation

In 1998, when Indonesia was hit by a monetary crisis, inflation erupted as a result of Indonesia's inability to pay a considerable amount of debt owed to foreign countries. Suharto's leadership, which was deteriorating, was to blame for this. Furthermore, natural calamities produce drought, requiring the government to spend a significant amount of money to alleviate the situation. In 1998, Indonesia saw the worst inflation in its history ⁹.

In general, the causes of inflation are: ¹⁰ The first is the quantity of people who want something. The public's requests for goods signal that the commodities are in high demand or are required by the community, forcing the suppliers of these goods to raise their prices. If it lasts for a long time, however, it cannot be called inflation. The second reason is an increase in production costs; if production costs rise, such as raw materials, worker wages, fuel, and so on, a company will have to raise the price of the things it produces. Third, because money circulates widely in society, people who have a lot of money are more likely to spend it on purchasing an item, resulting in a rise in demand, which encourages producers to raise the selling price of an item.

In Islamic economics, the following are the reasons of inflation, according to Al-Maqrizi Taqyudin: ¹¹.

Natural Inflation

Natural inflation is inflation that occurs in the absence of human intervention. A drop in aggregate supply or a rise in aggregate demand causes this inflation. For example, when natural inflation occurs, such as when a flood comes, we will not be able to avert the tragedy since it is Allah SWT's will. Farmers would experience crop failure as a result of the flood natural catastrophe, resulting in a decline in the supply of staple goods such as rice, which could lead to scarcity. Rice is in high demand because it is a staple diet for the population.

Because of the lack of rice, the price of rice will rise, resulting in inflation. On the other hand, because items like rice are so important in everyday life, demand for them has soared. Prices skyrocketed, outstripping people's ability to pay. As a result, economic activity will be disrupted, stagnated, or possibly halted. And if it continues, it will result in famine, plague, and death all throughout the world. To solve this problem, the government will have to spend a lot of money, which will lower state revenues.

Natural inflation is a change in the quantity of goods and services produced by a business. The price will rise if the number of items produced drops while the money supply

⁹ Adiwirman Azwar Karim, *Ekonomi Makro Islam* (Jakarta: Rajawali Pers, 2007).

¹⁰ Wafa Raihany Salam, "Inflasi Ditengah Pandemi Dalam Perspektif Islam," *Jurnal Syntax Transformation* 1, no. 25 (2020): 1–9.

¹¹ Reni Mulyani, "Inflasi Dan Cara Mengatasinya Dalam Islam," *Jurnal Studi Islam dan Sosial* 1, o. 2 (2020): 267–278.

remains high. Furthermore, as people's purchasing power rises, the value of exports rises faster than the value of imports, resulting in the import of money, which reduces the amount of money in circulation. Prices will grow if the velocity of money circulation and the quantity of goods and services remain unchanged.

Natural inflation is created by a rise in exports and a drop in imports. As a result, a large amount of money from abroad enters the country, increasing aggregate demand. During the reign of Umar ibn Khattab, this occurrence occurred. Exporters who sold their goods overseas during the time bought fewer things from abroad than they sold. This resulted in extra money being brought to Medina, resulting in an increase in people's income and purchasing power, as well as an increase in prices. To combat this, Umar ordered Medina inhabitants to refrain from purchasing commodity goods for two days in a row, reducing aggregate demand and allowing prices to return to normal.

Human Error Inflation

Human Error Inflation is inflation caused by human error, these errors include: ¹²

- a. Corruption and poor administration, due to the appointment of bribed officials and nepotism, officials will abuse their positions to gain personal interests, either for economic needs or for the luxury of life. Corruption is rampant and will result in lower state revenues. This will cause the economy of a country to decline. The spirit of corruption has spread not only to high-ranking officials, but to the sub-district/village level.
- b. High taxes, because many officials are corrupt, state spending will increase. So that the government finally sets a very high tax fee, and it is very burdensome for the community, especially the small community. This tax increase will cause an increase in production costs so that the goods produced will experience an increase in price.
- c. Excessive printing of money, when there is a budget deficit, due to economic congestion or the actions of corruptors who spend state money, the Government ends up printing a lot of money. Too much money will cause the price level to rise and the value of the currency to fall.

In addition, inflation can also be caused by the following:

- a. Prices of imported goods have increased;
- b. The increase in the amount of supply for money is excessive without being offset by an increase in production or supply of goods.
- c. The chaos of the political and economic system which is the result of an irresponsible government

In addition to the increase in the money supply, the increase in demand is also caused by expected inflation. If people believe that inflation is high this year, then people will spend their money now and buy and store goods, especially goods that can protect the wealth of inflation, such as gold and property. So that will cause inflation.

Inflation can also be caused by people who are hedonistic and want to live beyond their limits. The limited wealth they have causes people to use credit cards to shop. The use of credit cards for consumption is an effort to spend by using wealth that is expected to be

¹² Made Ayu Dwijayanti, "Pengaruh Nilai Tukar Dan Inflasi Terhadap Harga Saham Perbankan Pada Masa Pandemi COVID-19," *Jurnal Bisnis & Kewirausahaan* 17, no. 1 (2021): 2021, <http://ojs.pnb.ac.id/index.php/JBK>.

received in the future. This will cause the amount of money in circulation to increase and exceed people's income and eventually inflation occurs.¹³

Types of Inflation

Inflation by its nature

There are several types of inflation, according to Nopirin (1992), including the following:

- a. A low inflation rate of less than 10% per year is referred to as creeping inflation. Price increases are gradual, occurring in small increments over a long period of time.
- b. Medium inflation (galloping inflation), which is a relatively large price increase that occurs over a short period of time and accelerates. The point is that prices are higher this week/month than they were last week/month, and so on. The impact of medium inflation is more severe than that of creeping inflation.
- c. High inflation (hyperinflation) is the most severe type of inflation. Prices can rise to three or four times what they are normally. People are no longer interested in saving money. The rupiah's value plummeted, and money's velocity increased. This situation usually arises when the government has a budget deficit and must print money to cover it¹⁴.

Inflation according to cause

According to Boediono (1995), inflation is classified as follows:

- a. Inflationary Demand Pull
This inflation starts with an increase in demand, even while production is at full capacity. If the economy has reached full employment, any new demand will only raise prices. An inflationary gap develops when the balance of GNP is over or above GNP at full employment as a result of this increase in demand. There will be inflation if there is an inflationary gap.
- b. Inflationary Cosh
Cosh push inflation is marked by increased prices and decreased output. As a result, inflation is accompanied by a recession, resulting in a reduction in total supply as production costs rise. A rise in production will result in higher pricing and a decrease in output.

Inflation by origin

Inflation is classified as follows:

- a. Inflation that originates within the country (internal inflation), which arises as a result of a budget deficit, causing new money to be produced, as well as crop failure, which is also inflation that occurs within the country. There will be a shortage as a result of agricultural failure, forcing goods prices to rise and eventually inflation¹⁵.
- b. Imported inflation (external inflation), which arises as a result of rising costs elsewhere, resulting in the following:

¹³ Yana Hendriana, "Inflasi Dan Mobilitas Masyarakat Di Masa Pandemi Covid-19," *Jurnal Akuntansi dan Ekonomika* 11, no. 2 (2021): 150–158.

¹⁴ Zaini Ibrahim, *Pengantar Ekonomi Makro* (Banten: Baraka Aksara, 2013).

¹⁵ Rina Maulina et al., "Pengaruh Tingkat Inflasi Dan Pengangguran terhadap Pertumbuhan Ekonomi" (n.d.): 46–54.

- 1) An increase in the cost of living index due to the importation of some current goods;
- 2) An increase in the price index as the cost of producing diverse commodities utilizing imported raw materials rises;
- 3) When the price of imported items rises, government and private expenditure rises in response, attempting to offset the rise in import prices.

Conventional Economic Policies in Overcoming Inflation

According to Adiwaman Karim, inflation can be overcome by reducing M (amount of money in circulation) and/or V (speed of money circulation) or increasing T (traded goods). For this reason, there are two policies that can be taken to overcome inflation, namely as follows:¹⁶

Monetary Policy

The central bank's monetary policy manages the amount of money circulating in the community in order to keep it steady. To combat inflation, the primary goal of monetary policy is to lower the amount of money in circulation and make it more difficult to extend credit. According to Adiwaman Karim, the central bank has three options for dealing with inflation:

- a. Discount policy, which entails combating inflation by hiking interest rates to encourage individuals to save, resulting in a reduction in the circulation of money in the community, hence reducing inflation.
- b. Open market politics, which involves selling securities to limit the amount of money in circulation.
- c. Politics of cash reserves by raising the cash ratio, which is utilized to limit the amount of credit available to the general population.

Fiscal Policy

Fiscal policy is a policy adopted by the government relating to expenditure and income in the form of government taxes. Efforts done to counteract inflation are to limit government spending, increase taxes, and offer government loans, by issuing SUN (State Debt Instruments) (State Debt Instruments).¹⁷

Islamic Economic Policy in Overcoming Inflation

Inflation in Islam

In Islam, inflation is not recognized because the currencies used are dinars and dirhams, which have a fixed value and are sanctioned by Islam. The deficient state had only happened once before the War of Occupation, during the Prophet's lifetime. Al-Maqrizi distinguishes between two types of inflation: inflation caused by low inventories and inflation caused by human error. Drought and war restricted the supply of products at the time of the Prophet, resulting in inflation¹⁸.

¹⁶ M. Yazid, "Inflasi, KURS, Dan Suku Bunga Terhadap Pertumbuhan Ekonomi," *Jurnal EKOMBIS* 1, no. 1 (2018): 38–45, <http://journal.feb.unmul.ac.id/index.php/JIEM/article/view/1381>.

¹⁷ Rindani Dwihapsari, Mega Rachma Kurniaputri, and Nurul Huda, "Analisis Efektivitas Kebijakan Moneter Dalam Perspektif Konvensional Dan Syariah Terhadap Inflasi Di Indonesia Tahun 2013-2020," *Jurnal Ilmiah Ekonomi Islam* 7, no. 2 (2021): 980–993.

¹⁸ Mulyani, "Inflasi Dan Cara Mengatasinya Dalam Islam."

Human mistake causes three types of inflation: corruption, poor administration, and excessive taxation, as well as printing a large amount of money. Inflation, according to Islamic economists, causes a country's economy to suffer in the following ways:

- a. Interfering with the money function, particularly the savings function (savings value), the prepayment function, and the calculating unit function. Inflation can also lead to more inflation (self feeding inflation).
- b. It makes people hesitant to save money.
- c. Increasing people's willingness to shop, particularly for non-essential and tertiary products.
- d. Investing in non-productive assets, such as land, buildings, precious metals, and foreign currencies, at the price of investment in productive areas like agriculture, industry, trade, and transportation.

Money Must be Printed in Low Amounts

Al-Maqrizi stated that money should be printed at the minimum level required for transactions and in denominations that have a small nominal value.¹⁹

Implementing The Dues Idle Fund Strategy (Tax on idle funds)

This is an instrument of Islamic monetary policy carried out by Bank Indonesia, namely the Statutory Reserves (GWM) at BI, the amount of which is determined by BI based on a certain percentage of third party funds. Third party funds are in the form of wadiah demand deposits, mudharabah savings, mudharabah investment deposits, sharia interbank mudharabah investment certificates (IMA Certificates), and Bank Indonesia Wadi'ah Certificates (SWBI).

Implementing Fiscal Policy

Baitul Mal's fiscal policy has a favorable impact on investment and aggregate supply, as well as on inflation and economic growth. A fiscal deficit, for example, is quite uncommon. This is due to the fact that expenses should only be paid if there is a profit. The amount of kharaj rate is determined by land productivity rather than zone, while commerce zakat is calculated based on profit rather than selling price.

Conclusions

From the above discussion, it can be stated that inflation is a circumstance in which prices rise in general and continue to rise. In other terms, inflation is the ongoing depreciation of a currency's value. In general, inflation is generated by a big number of individuals wanting the same thing, an increase in production costs, and a high level of money circulation in the community. Meanwhile, according to Al-Maqrizi Taqyudin, natural inflation (naturally) and human error inflation produce inflation in Islamic economics (by humans).

Inflation is classified as creeping inflation (creeping inflation), medium inflation (galloping inflation), and strong inflation based on its nature (hyper inflation). Demand Pull Inflation and Cost Push Inflation are two types of inflation based on their causes. Inflation is classified into two types based on where it comes from: within the country and beyond the country. Meanwhile, it is separated into Expected inflation and Unexpected

¹⁹ Nurul Huda, *Ekonomi Makro Islam: Pendekatan Teoritis* (Jakarta: Kencana, 2009).

inflation based on public expectations. In a traditional economy, monetary policy, fiscal policy, and non-monetary/non-fiscal policy are used to combat inflation. In Islam, inflation is combated by issuing money in small quantities, adopting the Dues Idle Fund plan, and enforcing fiscal control.

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