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Ibn Khaldun's Theory of Supply and Demand and Its Relevance to Pricing Policy in Indonesia

[1]**Annas Syams Rizal Fahmi***, [2]**Dakum**, , [3]**Aang Asari**
[1] University of Siliwangi, Indonesia, [2]Universitas Muhammadiyah Magelang, Indonesia, [3]Universitas Islam Negeri Walisongo Semarang, Indonesia
[1] annassyams@unsil.ac, [2]dakum@unimma.ac.id, [3]aangsari@walisongo.ac.id

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Abstract:
In the modern era, most people are able to meet their basic needs adequately. However, there are still segments of society that struggle to fulfill their essential needs due to economic limitations. This disparity is often closely related to the fluctuation of prices of basic goods in the market. Ibn Khaldun, a classical Islamic economic thinker, stated that market prices may vary depending on societal conditions, resulting in uneven access to essential goods. His theory of supply and demand explains that when demand for a product increase while supply is limited, prices tend to rise; conversely, when supply exceeds demand, prices tend to fall. This study aims to analyze the theory of supply and demand according to Ibn Khaldun and assess its relevance to current price-setting policies in Indonesia. The research employs a qualitative descriptive approach. The findings indicate that Ibn Khaldun's economic thought remains highly relevant in the context of Indonesia's price regulation policies. The principle of balancing supply and demand, as described by Ibn Khaldun, can serve as a reference for formulating fair and sustainable pricing strategies. The government may intervene in the market wisely to protect consumers without disrupting the natural price mechanism.

Kata Kunci:
Ibnu Khaldun; Supply; Demand; Kebijakan Penentuan Harga; Indonesia

Abstrak:
Pada zaman modern saat ini, sebagian besar masyarakat telah mampu memenuhi kebutuhan pokoknya secara layak. Namun demikian, masih terdapat kelompok masyarakat yang kesulitan memenuhi kebutuhan dasarnya karena keterbatasan ekonomi. Ketimpangan ini sering kali berkaitan erat dengan fluktuasi harga barang kebutuhan pokok di pasar. Ibnu Khaldun, seorang pemikir ekonomi Islam klasik, menyatakan bahwa harga dalam pemasaran dapat berubah sesuai dengan kondisi yang terjadi di masyarakat, yang mengakibatkan kebutuhan belum tentu dapat tercukupi secara merata. Teori permintaan dan penawaran yang dikemukakannya menyatakan bahwa ketika permintaan terhadap suatu barang meningkat sedangkan penawaran terbatas, harga akan cenderung naik; sebaliknya, jika penawaran melimpah dan permintaan rendah, harga akan turun. Penelitian ini bertujuan untuk menganalisis teori supply dan demand menurut Ibnu Khaldun serta mengevaluasi relevansinya dengan kebijakan penentuan harga di Indonesia saat ini. Pendekatan yang digunakan dalam penelitian ini adalah metode kualitatif deskriptif. Hasil penelitian menunjukkan bahwa pemikiran Ibnu Khaldun masih sangat relevan dalam konteks kebijakan penetapan harga di Indonesia. Prinsip keseimbangan antara permintaan dan penawaran sebagaimana dijelaskan oleh Ibnu Khaldun dapat menjadi acuan dalam menyusun kebijakan harga yang adil dan berkelanjutan. Pemerintah dapat menerapkan intervensi pasar secara bijak untuk melindungi konsumen tanpa mengganggu mekanisme alami pasar.

Introduction

Today in modern era, many people have been able to meet their basic needs as expected. Although a large portion of the population enjoys access to essential goods, there remains a segment of society that is unable to fulfill these basic needs due to economic hardship.

Basic necessities are distributed by suppliers and sold to consumers, but the prices of these goods can vary over time depending on societal developments and prevailing conditions. For example, during the global COVID-19 pandemic, the public urgently needed face masks for health protection. As demand surged and supply was limited, prices rose significantly due to scarcity. Conversely, as masks became more widely available over time, demand decreased while supply increased, leading to a drop in prices. This pattern reflects the classic law of supply and demands a concept that has long been discussed by prominent Muslim thinkers, including Ibn Khaldun.

Abdurrahman Abu Zaid Waliuddin ibn Abu Abdillah Muhammad ibn Ibrahim ibn Abdurrahman ibn Khalid, more widely known as Ibn Khaldun, was born in early Ramadan 732 AH, corresponding to May 27, 1332, CE, in Tunisia. He came from a family deeply devoted to knowledge and learning. His father, Abu Abdillah Muhammad, was a teacher and scholar who possessed deep mastery of religious sciences, including Arabic literature. Meanwhile, his paternal grandfather, Muhammad ibn Abi Bakar Muhammad ibn Khaldun, held an important position in government. The family's political background, combined with their passion for scholarship, clearly influenced Ibn Khaldun's life as well as that of his four brothers: Umar, Musa, Muhammad, and Abu Zakaria Yahya, all of whom held ministerial posts. (Abduwahid, 1985)

Ibn Khaldun's ancestors originated from Hadhramaut, Yemen. Before settling in Tunisia, his father lived in Al-Andalus (Moorish Spain). Tracing his lineage, Ibn Khaldun was a descendant of Wail ibn Hujr, a well-known companion of the Prophet Muhammad (peace be upon him) who narrated numerous hadiths. Wail ibn Hujr and Mu'awiyah ibn Abu Sufyan were sent to Yemen by the Prophet to spread Islam. (Ahmad, 1967) Ibn Khaldun wrote about his genealogy in his work At-Taʿrīf, as cited by Ali Abdulwahid Wafi. His lineage is as follows:

"*Muhammad ibn Muhammad ibn Muhammad ibn Hassan ibn Muhammad ibn Jubayr ibn Muhammad ibn Ibrahim ibn Abdurrahman ibn Khalid (who was known as Khaldun—the highest ancestral figure in the Khaldun family, the forefathers of the entire Andalusian and Maghrebi lineage), ibn Uthman ibn Faris ibn al-Khattab ibn Ma'ad Yakrib ibn al-Harith ibn Wail ibn Hujr*."

Ibn Khaldun passed away in 808 AH / 1406 CE after spending nearly twenty-four years in Egypt, where he served as a teacher and the Chief Judge of the High Court (Qadi al-Qudat). (Ahmad, 1967)

Methodology

This study employs a qualitative descriptive approach using library research as its primary method. This approach was chosen because the research aims to examine and describe Ibn Khaldun's economic thought in depth particularly his theory of supply and demand and to analyze its relevance to price-setting policies implemented in Indonesia. Data were collected from various primary and secondary sources, such as Ibn Khaldun's original work al-Muqaddimah, as well as academic books, scholarly journals, and official government documents related to the regulation of essential commodity prices in Indonesia. The data were analyzed using content analysis, which enables the researcher to identify key themes from the texts and connect them to the context of contemporary economic policy. According to (Moleong, 2017), qualitative research seeks to understand phenomena holistically within their social and historical contexts, making this method highly appropriate for the study of classical thought and its modern-day applications.

Results and Discussion

A. Price Mechanism According to Ibn Khaldun

According to Ibn Khaldun, there are two categories of prices: those related to essential needs, such as food and clothing, and those related to complementary or luxury needs, such as household items and buildings. The price of these needs varies depending on the market conditions in a particular area. As he stated:

"When a city is large and densely populated, the prices of essential goods such as food tend to be cheap, while the prices of luxury goods such as leather goods and fruits become expensive. Conversely, in a small city with a weak civilization, the opposite is true." (Khaldun, 779)

Ibn Khaldun further elaborates on how supply and demand interact and affect the price of commodities:

"This is because various types of grains are among the essential food items. As a result, the demand for them is very high. No one neglects the food needs of themselves or their families, whether monthly or annually. Therefore, the effort to obtain these foods involves the entire urban population, or at least most of them, either within the city itself or in the surrounding areas. It is undeniable that each person striving to secure food for their household often ends up producing more than they need. This surplus can meet the needs of a significant portion of the city's population. Thus, the city ends up with more food than it requires, and food prices generally become low. This may change if a natural disaster or disease disrupts the food supply.

In such years, even if food is hard to find, it may still be given away freely because of the overall abundance due to the large population." (Al-Muqaddimah, Ibn Khaldun)

From this statement, Ibn Khaldun explains that high demand for necessities stimulates large-scale production. Therefore, it can be concluded that when demand is high and supply is low, prices will tend to rise. Conversely, when supply is abundant and demand is low, prices tend to fall. However, according to Ibn Khaldun, this condition is not permanent. He emphasized that the prices of essential goods will remain relatively stable due to their vital importance to society. (Khaldun, 779)

Ibn Khaldun also pointed out that limited supply and high demand in small cities can lead to increased prices. He described the situation as follows:

"In small cities with few inhabitants, food is scarce due to limited labor. Because the town is small, people fear running out of food. Therefore, they store and preserve what they have. These reserves become extremely valuable to them, and anyone wishing to purchase food must pay a high price." (Al-Muqaddimah, Ibn Khaldun)

B. Factors Affecting Price According to Ibn Khaldun

1. *Supply and demand.* Ibn Khaldun stated that high demand and low supply lead to an increase in prices, whereas low demand and high supply cause prices to fall. A decline in prices may result in losses for traders and craftsmen, while a rise in prices makes it difficult for consumers to obtain the products they need. A fundamental difference between socialism and Ibn Khaldun's view lies in the macro concept of the market. Ibn Khaldun leans toward the free market system, whereas socialism advocates for full government control over macroeconomic systems, including markets. This leads to a centrally planned or directed market mechanism under government authority. (Magnis-Suseno, 2000)
2. *Labor Value.* Ibn Khaldun distinguished between base price and profit price. This concept is both rational and clearly defined, as he was able to separate the intrinsic value of a good from its profit margin accurately and logically. His view also reflects a high appreciation for the value of labor, recognizing that labor contributes fundamentally to the value of goods and services. (Muslim, 2011)
3. *Government Intervention.* In Ibn Khaldun's view, the government holds absolute authority over all aspects of social life, from the smallest to the largest matters. However, market intervention must be avoided, because when governments use their power for self-interest as part of aristocratic dominance, it distorts the market. In *al-Muqaddimah*, Chapter III, in the section titled *"Trade Conducted by Kings and States is Harmful and Damaging to Public Revenue"*, Ibn Khaldun explained that, initially, traders and farmers operated within a balanced mechanism in terms of wealth and influence. Under such conditions, price competition and market mechanisms functioned normally. However, when governments became involved in trade and agriculture, this balance was disrupted. Governments tend to dominate, produce, sell, and purchase goods

based on their own interests ignoring market conditions and fair pricing.

4. *Purchasing Power.* Purchasing power is a fundamental element of demand theory. Demand is not only determined by the desire or need for a product, but also by an individual's ability to pay for that product. When essential goods become unaffordable for consumers, demand for those goods inevitably decreases—even if the need remains. Ibn Khaldun analyzed the effect of purchasing power within the framework of demand, highlighting its reciprocal relationship with price and supply. His exploration of the sensitivity and complexity of pricing laid important theoretical foundations for economics. Ibn Khaldun’s insights represent a historically significant contribution to price theory and economic interpretation. (Khaldun, 1986)

C. Price Determination and the Relevance of Ibn Khaldun’s Thought

1. Market Mechanism

    In principle, the market mechanism means that prices move freely according to the laws of supply and demand. If supply exceeds demand, prices tend to decrease. Conversely, if demand exceeds supply, prices tend to rise.

    However, in everyday practice, it is uncertain whether the market truly operates based on a pure market mechanism without intervention or manipulation by certain powerful groups that may form cartels and so on. Understanding the market mechanism—especially in activities like stock trading in capital markets is not a simple task. It requires a high level of attentiveness and sensitivity to distinguish which stocks move according to market mechanisms and which are manipulated. Some stocks may be controlled by certain forces, even though this is difficult to prove.

2. Price Regulation

    Since early 2010, the Indonesian Consumers Foundation (YLKI) has warned that soaring basic commodity prices should not be ignored, as they place increasing burdens on households and Small and Medium Enterprises (SMEs). In line with what was expressed by Ibn Taymiyyah, if price instability occurs particularly involving essential goods whose prices rise due to manipulation or monopolistic actions—then the government must intervene and set fair prices that benefit both sellers and buyers. (Khaldun, 1986)

3. Monetary Policy

    Fundamentally, policies are formed in response to perceived economic symptoms. For instance, inflation during Ibn Khaldun’s era occurred due to an imbalance in currency circulation—specifically, the minting of fulus (copper coins) whose nominal value did not match their metal content. This led to depreciation when exchanged for gold, silver, or other valuable goods, eventually triggering inflation.

According to Ibn Khaldun, the government must ensure that the issuance of fulus is based on a balance between the volume of money and the proportion of transactions in the economy. This is essential for maintaining fair pricing. Furthermore, he advised not to withdraw existing currency from circulation, and instead, recommended that newly minted money reflect its real, intrinsic value. (Khaldun, 1986)

D. Pricing Policy in Indonesia: Relevance to Ibn Khaldun's Thought

Pricing is a crucial process in determining a company's revenue from the products or services it offers (Pratama, 2021). This process not only sets the value of an item but also serves as a marketing strategy that affects competitiveness and business sustainability (Glints, 2023). The main objectives of pricing include profit orientation, sales volume, company image, and price stability. In practice, pricing decisions are influenced by two major factors: internal factors such as marketing objectives, marketing mix strategies, cost structures, and organizational aspects; and external factors including market demand, competitor power, and government regulation (Pratama, 2021).

There are various strategies used in pricing established goods and services. One of them is odd pricing, which aims to create a psychological impression of lower prices for example, Rp9,900 appears cheaper than Rp10,000 (Glints, 2021). Price lining simplifies pricing decisions by grouping products based on quality or features within specific price ranges (Pratama, 2021). The loss leader pricing strategy is used to attract customers by lowering the price of staple items in hopes they will also purchase other regular-priced items.

Additionally, geographical pricing is applied by adjusting prices based on customer location due to transportation costs, resulting in different prices across regions (Glints, 2023). In scarcity situations, companies may apply opportunistic pricing, which involves raising prices significantly to maximize short-term profits (Pratama, 2021). Meanwhile, discount pricing is used to sell outdated, expired, damaged, or slow-moving inventory) The bundling strategy involves combining several products or services into one package at a special value price for instance, fast-food restaurants often offer "*meal packages*" that are cheaper than buying items separately (Sulastri, 2022). Finally, captive product pricing is implemented by selling the main product at a low price while marking up the price of accessories or consumables, such as selling printers at a low price but pricing the ink cartridges high to increase profit margins.

The pricing policy in Indonesia is a combination of free market mechanisms and government intervention, aimed at maintaining economic stability, protecting consumers, and ensuring the affordability of essential goods. In this context, Ibn Khaldun's thoughts on supply and demand remain highly relevant. Ibn Khaldun believed that prices are naturally formed through the interaction between the availability of goods and the level of societal demand for those goods (*Muqaddimah*). This principle aligns with the free-market system applied to most commodities in Indonesia, where prices fluctuate according to the dynamics of market demand and supply (Bank Indonesia, 2023).

However, under certain conditions, the Indonesian government intervenes in pricing by setting a Maximum Retail Price (HET), Reference Sales Price (HAP), or by providing subsidies, such as for rice, cooking oil, fuel, and LPG (National Food Agency, 2023). These interventions are implemented to maintain people's purchasing power—especially among vulnerable groups—and to stabilize prices amidst uncontrolled market fluctuations. Ibn Khaldun supported such policies as long as they aim to prevent social harm, but he also warned that excessive intervention could hinder productivity and disrupt the natural market balance (Chapra, 2000). In the *Muqaddimah*, he wrote that if the state excessively interferes in trade, economic activity may weaken, and overall welfare may decline.

For example, the government's setting of the rice price ceiling (HET) aims to stabilize consumer-level prices while preserving farmers' profit margins. However, if such pricing policy is not accompanied by guarantees of adequate supply and efficient distribution, it can result in shortages and the emergence of black markets (Bapanas.go.id, 2023). Ibn Khaldun explained that prices naturally rise when demand is high but supply is limited, and intervention that does not address the supply side will only worsen the situation (*Muqaddimah*, trans.). Therefore, it is essential for the government to consider supply-side factors in every pricing policy to prevent market imbalances.

Similarly, the fuel subsidy policy in Indonesia, though intended to assist low-income communities, has at times created a heavy fiscal burden for the state. In this regard, Ibn Khaldun emphasized the state's role in ensuring justice, but he also criticized state interventions that destroy incentives for producers and economic actors (Mannan, 1984). In the modern context, mistargeted subsidies can lead to economic inefficiencies and prolonged price distortions, ultimately hampering innovation and investment in the energy sector. This underscores the need for government intervention to be accompanied by comprehensive analyses of its long-term effects on productivity and the distribution of the national economy.

Ibn Khaldun's ideas can also help explain seasonal price fluctuations, such as food inflation during Ramadan or Eid. He noted that when demand surges while supply remains the same or is disrupted, price increases are a natural outcome (*Muqaddimah*). Therefore, rather than imposing fixed prices unilaterally, a more effective approach is to ensure smooth distribution and increased stock ahead of such peak seasons. In this regard, government policies that anticipate high-demand seasons with market operations and strengthened logistical reserves reflect the spirit of Ibn Khaldun’s thinking—striving for market balance through systematic and rational efforts rather than merely enforcing prices (OECD, 2015).

Conclusion

The pricing policy in Indonesia reflects a combination of free market mechanisms and selective government intervention. This approach aims to maintain economic stability, protect consumers, and ensure the affordability of essential goods, particularly for vulnerable groups. Ibn Khaldun’s thoughts on the interaction between supply and demand remain highly relevant in this context, especially in explaining how prices are naturally formed in the market. However, he also warned that excessive government intervention without considering supply-side balance can lead to market distortions and weaken economic productivity.

Examples of such policies include the setting of Price Ceilings (HET), fuel subsidies, and seasonal inflation control through market operations. These policies reflect the government's effort to uphold justice and stability. However, their effectiveness largely depends on supply availability, efficient distribution, and the accuracy of targeting. Therefore, Ibn Khaldun’s philosophy can serve as a foundation for formulating price policies that are fair, rational, and sustainable amid modern economic dynamics.

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