



Prophet Muhammad and the Market Governance of Medina: The Institutional Framework of Price Stability in Historical Perspective

Taufik Wahyu Nugroho*

Universitas Islam Negeri Syarif Hidayatullah Jakarta, Tangerang Selatan, Indonesia, 15412
Email: taufiknugroho24@mhs.uinjkt.ac.id

Wahyudhi Ramadhan

Universitas Islam Negeri Syarif Hidayatullah Jakarta, Tangerang Selatan, Indonesia, 15412
Email: wahyudhiramadhan24@mhs.uinjkt.ac.id

M. Septyan Rizky

Universitas Islam Negeri Alauddin Makassar, Gowa, Indonesia, 92113
Email: mseptyanrizky61@gmail.com

Hendra Syahputra

Universitas Islam Negeri Syarif Hidayatullah Jakarta, Tangerang Selatan, Indonesia, 15412
Email: hendrasyahputra@uinjkt.ac.id

Fahmi Syahab

Universiti Sultan Sharif Ali, Bandar Seri Begawan, Brunei Darussalam, BE1310
Email: fsyahab544@gmail.com

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Abstract

Price instability and exploitative practices such as hoarding and monopoly characterized the Medina market during the early transitional phase of Islam. Yet, Islamic economic studies tend to frame the issue of *tas'ir* normatively, thereby ignoring the historical and institutional configurations that shape price stability. This study aims to analyze the institutional framework of the Prophet Muhammad's market governance, measuring it against four main dimensions: market structure, regulation, authority, and economic ethics, in maintaining price stability without coercive intervention. This research is a qualitative-historical study based on a literature review, using an institutional analysis approach and drawing on sources such as hadith, *sīrah Nabawiyah*, and Islamic economic history literature, and analyzing them through thematic analysis and historical-contextual interpretation to systematically reconstruct market practices. The results show that price stability is formed through the integration of interrelated institutional mechanisms, including the establishment of an open market that eliminates barriers to entry and encourages competition, the enforcement of anti-monopoly and anti-hoarding regulations to suppress structural distortions, the internalization of transaction ethics based on justice, transparency, and the prohibition of *gharar* to reduce information asymmetry, and the strengthening of the legitimacy of the Prophet's moral authority as a non-coercive

compliance mechanism. These findings confirm that price stability results from institutional arrangements that simultaneously manage market behavior and structure. This research repositions price stability as a product of institutional governance and moral legitimacy within a specific historical context, rather than simply the result of administrative intervention.

Keywords: Medina; Price Stability; Institutions; Moral Authority; Islamic Economics

Abstrak

Ketidakstabilan harga dan praktik eksploitatif seperti penimbunan dan monopoli mewarnai pasar Madinah pada fase transisi awal Islam, namun kajian ekonomi Islam cenderung memosisikan persoalan *tas'ir* secara normatif sehingga mengabaikan konfigurasi historis dan institusional yang membentuk stabilitas harga. Penelitian ini bertujuan menganalisis secara terukur kerangka institusional tata kelola pasar Nabi Muhammad dengan memfokuskan pada empat dimensi utama: struktur pasar, regulasi, otoritas, dan etika ekonomi dalam menjaga stabilitas harga tanpa intervensi koersif. Penelitian ini merupakan studi kualitatif-historis berbasis kajian kepustakaan dengan pendekatan analisis institusional, menggunakan sumber hadis, *sīrah Nabawiyah*, dan literatur sejarah ekonomi Islam yang dianalisis melalui teknik analisis tematik dan interpretasi historis-kontekstual untuk merekonstruksi praktik pasar secara sistematis. Hasil penelitian menunjukkan bahwa stabilitas harga dibentuk melalui integrasi mekanisme institusional yang saling terkait, meliputi pembentukan pasar terbuka yang menghilangkan hambatan masuk dan mendorong kompetisi, penegakan regulasi anti-monopoli dan anti-penimbunan untuk menekan distorsi struktural, internalisasi etika transaksi berbasis keadilan, transparansi, dan larangan gharar guna mengurangi asimetri informasi, serta penguatan legitimasi otoritas moral Nabi sebagai mekanisme kepatuhan non-koersif. Temuan ini menegaskan bahwa stabilitas harga merupakan hasil konstruksi institusi yang mengelola perilaku dan struktur pasar secara simultan. Penelitian ini mereposisi stabilitas harga sebagai produk tata kelola institusional dan legitimasi moral dalam konteks historis tertentu, bukan semata hasil intervensi administratif.

Kata Kunci: Madinah; Stabilitas Harga; Institusional; Otoritas Moral; Ekonomi Islam

Introduction

Markets are socio-economic constructs shaped by the interaction of norms, authorities, and formal and informal rules that guide the behavior of economic actors (Muniesa & Callon, 2020). The institutional economics perspective asserts that price stability does not depend solely on supply-and-demand mechanisms but is determined by the quality of institutions that shape expectations, reduce uncertainty, and control opportunistic behavior (Ahmed et al., 2025). When market mechanisms operate without adequate institutional support, price volatility increases, information asymmetries widen, and commodity distribution becomes unequal (Finestone & Kingston, 2022). The historical experience of the Medina market offers an alternative model demonstrating that price stability can be achieved without coercive intervention through the formation of collective norms, the legitimacy of the Prophet Muhammad's authority, and voluntary compliance by market actors (Yaka, 2022). The limitations of contemporary studies, which tend to

view these experiences as normative narratives rather than engage in institutional analysis, leave a gap in understanding the causal mechanisms linking market governance to price stability.

Global empirical evidence shows rising price volatility in strategic commodities, underscoring the urgency of strengthening the institutional dimension of markets. The FAO Food Price Index increased from an average of 95.1 in 2019 to 143.7 in 2022, reflecting a surge of more than 50% in the past three years due to supply chain disruptions, geopolitical conflicts, and commodity speculation (FAO, 2026). The International Monetary Fund (2022) reported global inflation at 8.7%, with significant contributions from the energy and food sectors. The World Bank (2022) asserted that fiscal and monetary interventions failed to curb volatility because they ignored institutional weaknesses and opportunistic market behavior. This fact suggests that price instability is driven not only by production factors but also by institutional structures that fail to internalize norms of fairness and transparency. The failure of the technocratic approach opens space to explore alternative models that emphasize the legitimacy of authority, informal rules, and values-based compliance. The experience of the Medina market is relevant as a historical case study, offering a price-stabilization mechanism based on social institutions rather than on administrative control alone.

Previous studies have demonstrated fragmented approaches to understanding the Medina market. Fazeli (2024) emphasized the prohibition of hoarding and price manipulation as legal instruments but did not explain how these norms were collectively internalized. Humaidi (2020) reconstructed the formation of the Medina market as a symbol of economic independence, but his analysis ended with a chronological account and did not examine the mechanisms of governance. Oktaviandi and Yogi (2024) examined hisbah as a supervisory instrument. Still, they tended to generalize about the institution in an ahistorical manner, without distinguishing between the prophetic and postclassical periods. Alwi, Parmitasari, and Shariati (2021) emphasized the Prophet's exemplary moral dimension in economic activity but failed to link it to systemic outcomes such as price stability. Moya López (2023), using a new institutional economics framework, demonstrated the importance of institutions in stabilizing modern markets but did not include the Medina experience in the comparative analysis. This literature synthesis demonstrates that normative, historical, and institutional approaches remain fragmented without analytical integration. The absence of studies that systematically link the legitimacy of authority, informal rules, and market participant behavior within a single institutional framework highlights a research gap. This gap highlights the need for an analysis that positions the Medina market as a complete institutional system capable of explaining the causal relationship between governance and price stability.

This study formulates the main question: how was the institutional framework of Medina market governance constructed through the legitimacy of the Prophet Muhammad's authority, formal and informal rules, and social oversight mechanisms; and how did this configuration produce price stability without coercive intervention? The research aims to reconstruct these institutional mechanisms historically and to analyze the causal relationship among norms, authority, and market behavior. The research's basic argument asserts that price stability results from the institutionalization of norms and the legitimacy of authority, which shape collective expectations, suppress opportunistic behavior, and enhance voluntary compliance, in line with the principles of institutional economics. The theoretical contribution lies in synthesizing Islamic economic history and modern institutional theory through an analytical model that explains price stability through non-coercive institutions. Practical contributions include providing an alternative framework for market policy formulation that emphasizes strengthening the legitimacy of authority, transparency, and distributional ethics as a complement to fiscal and monetary instruments.

Method

This study uses a qualitative approach based on historical institutionalism, explicitly operationalized, to examine the relationship between religious norms and market mechanisms in the context of Medina, integrating the study of hadith and institutional economics through a thematic coding-based institutional mapping framework. Primary data sources include hadith from the *Kutub al-Sittah* and the *sīrah* literature, as well as works of early jurists selected for their authority and thematic relevance. At the same time, secondary data come from Scopus/WoS-indexed journal articles within the last 10 years and global institutional reports relevant to price stability. Data collection was carried out systematically through digital database searches (*Maktabah ash-Shāmilah*, Scopus, JSTOR), keyword determination, and open and axial coding processes to group conceptual units. Data analysis was conducted through three structured stages: historical contextual analysis based on process tracing to reconstruct socio-economic conditions; institutional analysis using indicators of formal and informal rules, actors, and oversight mechanisms; and comparative synthesis with modern price stability theory. Validity was maintained through source triangulation and cross-referencing, while recognizing potential limitations, including selection bias and historical interpretation.

Results and Discussion

Medina Market Structure Pre-Intervention of the Prophet Muhammad

The market structure of Medina before the Prophet Muhammad's intervention was shaped by a complex interplay between the Ḥijāz trade network and the economic dominance of certain communities controlling strategic sectors.

According to Patricia Crone (2004), the integration of the Sham-Yemen route not only demonstrated geographic connectivity but also shaped distribution configurations that enabled the concentration of logistical control among well-capitalized actors. Sources such as Ibn Ishāq (1978) require critical reading due to their temporal distance and narrative tendencies: therefore, their interpretations should be calibrated against modern historical economic studies to mitigate historiographical bias. Ethnic and clan segmentation operated as mechanisms of economic exclusion, limiting access to price information and market infrastructure. These conditions created a concentrated market structure approaching oligopoly, characterized by limited control over supply and distribution. Structural indicators are evident in warehouse ownership, access to trade routes, and the ability to regulate cross-regional commodity flows, which, in turn asymmetrically influenced price formation (Hidayat, Mawardi, & Prasetya, 2022).

Debt-based credit relations formed a mechanism of domination that reinforced structural inequalities among market actors. According to Abdullah Saeed (1996), the practice of *ribā al-Jāhiliyyah* not only functions as a normative prohibition but also reflects a historical pattern of financial relationships that generate long-term dependency. The hadith narrated by Abū Dāwud (1993) regarding this practice is interpreted as an empirical indication, taking into account its context of narration and its prescriptive function, thereby extending the analysis beyond the moral dimension. The deferred payment scheme produces a lock-in effect that limits the economic mobility of small producers, creating dependence on creditors who also act as distributors (Bussoli et al., 2023). Al-Wāqidī's (1966) analysis of date palm farmers' dependency requires critical reading given its reliability issues, but remains valuable as an indicator of general patterns when verified with secondary literature. This structure reveals a mechanism for surplus extraction through debt relations that reproduces systemic economic domination rather than simply individual interactions between creditors and debtors.

Control of commodity storage capacity is a primary instrument for managing market supply and fostering covert collusion among traders. Hoarding represents not only an individual act but also a collective strategy that allows for implicit coordination to limit supply (Chen et al., 2020). The hadith narrated by al-Tirmidhī (1975) on *ihtikār* is analyzed as a reflection of social reality that subsequently became normative, rather than merely an ethical prescription lacking an empirical basis. Large-scale warehouse ownership creates barriers to entry for new actors, thereby reinforcing market concentration and facilitating rent-seeking behavior (Bauner & Wang, 2019). Selective supply restrictions generate price distortions through these mechanisms, increasing the volatility of staple food prices (Brander, Bernauer, & Huss, 2023). Historical economic analysis shows that control over stocks allows dominant actors to determine the timing of commodity release, so that

prices no longer reflect real production conditions but rather distribution strategies controlled by a limited group (Shobur et al., 2025).

Price speculation arises directly from information asymmetry and the failure of market signaling mechanisms. The practice of *Najash*, as narrated by Muslim (1955), demonstrates the manipulation of demand by creating the illusion of competition that obscures the equilibrium price. This phenomenon can be explained through the framework of information asymmetry, which posits that some actors possess superior information, enabling them to shape price expectations (Lee, 2021) strategically. Distorted price signals result in a cycle of unstable expectations, as market participants respond to manipulated information (Perino, 2024). Timur Kuran's (2018) analysis of institutional failure is relevant to explaining the absence of corrective mechanisms for opportunistic behavior, allowing the rationality of individual elites to result in collective losses. Speculation is not simply a short-term, opportunistic act. Still, rather than being part of the market structure that enables price formation based on manipulative expectations, deepens uncertainty, and undermines confidence in exchange mechanisms.

Inequality in commodity distribution represents a network structure that functions as an economic control system based on social relations and access to information. The practice of *talaqqī rukbān*, as narrated by al-Bukhārī (1993), involves extracting information rents, as urban merchants profit from producers' ignorance of actual market prices. Intermediaries function not simply as distribution facilitators but also as actors who create significant price differences between producers and end consumers (Gehrig & Ritzberger, 2022). This structure can be understood from a transaction-cost perspective, which suggests that limited access to transportation and information increases dependence on specific distribution networks. Barriers to market entry are not only financial but also institutional, through patronage relationships that lock in access to distribution. This condition creates a market dualism between production areas and distribution centers, leading to prices determined through asymmetric negotiations that benefit intermediaries and exacerbate regional price disparities (Huang, Xie, & Xu, 2024).

The interaction between disguised monopolies, speculation, and unequal distribution forms a structural configuration that generates systemic price instability. Prices no longer serve as indicators of the balance between supply and demand but rather as variables shaped by dominant actors' strategies to control supply and information. The integration of these factors reveals a clear causal chain: distribution control creates information asymmetry, which enables speculation, and speculation is reinforced by hoarding capacity. The resulting price instability is structural, not temporary cyclical fluctuations, and is driven by continuously reproducing mechanisms. Institutional economic analysis confirms that the absence of formal regulation can lead to systemic market failure (Castellano, 2024). This situation demonstrates that food price volatility is not simply the result of natural

factors, but rather the complex interaction of economic power, network control, and distribution strategies.

Institutionalization of a Free Market from Monopoly as a Foundation for Price Stability

The institutionalization of the Medina market demonstrated a fundamental shift from a space of exchange to a regulatory framework that shapes economic incentives and behavior. Market design did not stop at normative principles but worked through concrete mechanisms such as opening unrestricted access, prohibiting exclusive ownership of premises, and eliminating transaction fees (Hidayat et al., 2022). This configuration reduced market concentration by increasing the number of actors, so that market power was no longer concentrated in the hands of well-capitalized groups. Within the new institutional economy, these regulations functioned as “rules of the game,” shifting the incentive structure of actors toward open competition (Lareau et al., 2016). The reduction in entry barriers generated competitive pressure through price-cutting strategies, systematically eroding dominant actors’ ability to maintain high markups. This process shifted the distribution of economic power toward a more horizontal structure and created a more contestable market, leading to price stability driven by the decline in monopoly power.

The market design, free of fees and without permanent ownership rights to stalls, led to significant reductions in transaction costs, particularly in access, initial negotiation, and enforcement costs for location rights. These cost reductions accelerate the entry of new players and increase transaction frequency, thereby increasing aggregate supply volume. Within the framework of competitive market theory, an increase in the number of sellers increases supply elasticity because producers can respond quickly to price changes in the absence of structural barriers (Cullen & Farronato, 2021). This elasticity serves as a counterbalance to upward price pressures, as any opportunity for abnormal profits is immediately met by new competitors’ entry (Brown, Neumann, & Riepin, 2025). The resulting causal chain operates systematically: removing entry barriers increases the number of players, which in turn increases supply capacity, and elastic supply capacity suppresses extreme price fluctuations. This mechanism demonstrates that price stability is not the result of administrative intervention but rather of competitive interactions facilitated by institutional design.

The opposition to price fixing reflects a deep understanding of the distortions that arise when prices are decoupled from fundamental market conditions. Price interventions in a competitive market structure can create excess demand or excess supply, resulting in allocative inefficiency and deadweight loss (Baltaduonis, Jaraitė, & Kažukauskas, 2025). The Prophet Muhammad’s policies positioned prices as the result of a decentralized price discovery process, rather than as variables controlled by authorities. These decisions were effective because they were supported by a

market structure free from barriers to entry and monopolies, allowing supply and demand mechanisms to function optimally. When prices rose due to supply shortages, this signal encouraged other producers to enter the market and increase production. This response lowered prices back to equilibrium without coercive intervention (Yasar, Martin, & Kiessling, 2020). The causal relationship between market structure and price dynamics is clear: the effectiveness of the price mechanism depends heavily on the level of competition established by market institutions.

The impersonal character of the Medina market emerged from the elimination of patronage relations and the dominance of certain groups over economic access. Open access without discrimination created an exchange system based on common rules, rather than personal relationships or tribal affiliations. This reduced reliance on closed social networks and enabled the formation of more inclusive exchange mechanisms (Andringa et al., 2024). A direct implication of this structure was increased transparency, as no single actor could control the flow of information in isolation. Within the framework of an information economy, a more equitable distribution of information reduces asymmetries between large and small actors, thus limiting opportunities for information rents. This reduced asymmetry increased the efficiency of the price discovery process, as prices reflected the actual supply and demand conditions (Pagnozzi, Piccolo, & Reisinger, 2021). Price stability was achieved by reducing the scope for information manipulation and speculation, which often drive volatility in closed markets.

The prohibition of monopolies was structurally internalized through a market design that eliminated the primary prerequisites for the formation of monopoly power: supply controls and barriers to entry. In an open market, any attempt to hoard goods to raise prices faces the immediate risk of competitors entering with similar goods at lower prices. This threat of entry reduces the expected profit from a monopolistic strategy, making hoarding economically irrational (Huynh, 2023). Analysis within an industrial organization framework shows that market structures with a high degree of contestability tend to yield pricing behavior close to that of perfect competition, even when the number of participants is relatively small (Azevedo & Gottlieb, 2017). Market discipline mechanisms operate through potential pressure rather than direct supervision. The resulting price stability is dynamic: prices can fluctuate with supply and demand but do not experience extreme deviations due to market power.

Strengthening an inclusive market structure has implications for income distribution and for the stability of aggregate demand. Open access allows small traders to participate actively, preventing income sources from being concentrated in a limited group. A more equitable income distribution broadens the consumer base and creates more stable demand. Within a demand analysis framework, consumption stability reduces sharp fluctuations that can trigger price volatility

(Mohammed & Almojel, 2025). This mechanism does not operate through fiscal intervention or subsidies, but rather by restructuring economic opportunities to enhance capacity for participation. The balance between elastic supply and stable demand results in prices that tend to be moderate and less prone to extreme fluctuations (Brown et al., 2025). The relationship between income distribution and price stability suggests that market institutional design has systemic effects that extend beyond its allocation function to include indirect economic stabilization.

The interaction between formal market rules and the behavior of economic actors creates an efficient decentralized coordination mechanism. An open-market structure, relatively symmetric information, and the absence of entry barriers create an environment in which prices serve as the primary signal for decision-making. Any changes in market conditions are immediately reflected in prices, which then guide producers' and consumers' responses. This process creates a rapid and iterative cycle of adjustment, preventing long-term imbalances. From an institutional economics perspective, the effectiveness of this mechanism depends on the consistency of rules and the credibility of institutions. When rules are widely followed, enforcement costs are low, and coordination can occur without intensive intervention by authorities. The resulting price stability is not the result of direct control, but rather the product of a system capable of correcting itself through the interaction of market players (Gray & Shadbegian, 2021).

Transaction Ethics Regulation as a Non-Coercive Mechanism for Price Control

The ethical transaction regulations instituted by the Prophet Muhammad represent a historical response to pre-Islamic Arab market structures characterized by information asymmetry, speculative practices, and weak mechanisms for verifying the quality of goods. This transformation was not realized through coercive instruments, but rather through the establishment of operational norms governing exchange based on information transparency. The hadith narrated by Muslim (1955), "Whoever deceives is not one of us," serves as a normative foundation that directly intervenes in market behavior by reducing incentives for fraud. The causal mechanism operates by reducing information asymmetry, thereby increasing the legibility of quality and prices and stabilizing actors' expectations. This analysis aligns with Avner Greif's (2006) framework of trust-based institutions that operate through collective expectations rather than formal sanctions. Thus, ethical norms operate as institutional devices that link individual behavioral changes to price stability by establishing rational expectations grounded in verifiable information.

The internalization of honesty as a transactional norm fosters trust, which serves as social capital and helps reduce information costs. A hadith narrated by Muslim (1955) concerning the Prophet Muhammad's practice of directly inspecting merchandise and reprimanding merchants who concealed defects demonstrates the concrete operationalization of this norm. Honesty is not merely a moral value but rather a distributed reputation system formed through repeated interactions among

market participants. This reputation creates long-term incentives that shift participants' preferences from opportunistic profit to transaction sustainability. This framework can be explained by Akerlof's (1970) "market for lemons" model, which suggests that transparency about quality prevents market failures caused by asymmetric information. As trust increases, the need for uncertainty-based markups decreases, allowing prices to reflect the true conditions of supply and demand. Price stability arises from a reduction in the risk premium previously attached to information uncertainty, not from administrative intervention (Merdikawati, Lin, & Yeh, 2024).

The prohibition of *gharar* strengthens price stability by eliminating contractual uncertainty that could distort market expectations. According to Wahbah al-Zuhayli (2003), *gharar* is divided into two: significant *gharar fāḥish* and tolerated *gharar yasīr*. Regulation, therefore, focuses on eliminating forms of uncertainty that affect the validity of exchange. Examples of practices such as *bay' al-Ḥaṣāh* (buying and selling by throwing pebbles) and *bay' al-Mulāmasah* (buying and selling by touching goods) demonstrate how the ambiguity of the transaction's object creates room for speculation, thereby increasing price volatility (El-Gamal, 2006). The elimination of these transaction forms binds exchange to verifiable parameters, making price expectations more predictable. This analysis aligns with the Knightian concept of uncertainty, which distinguishes measurable risk from immeasurable uncertainty (Sunstein, 2025). Eliminating *gharar* shifts the market structure toward quantifiable risk, thereby reducing risk premiums and decreasing price fluctuations. This mechanism suggests that ethical regulation operates through epistemic restrictions on permissible contract types, rather than through direct price controls.

The prohibition of *tadlīs* targets information distortion that disrupts the price-formation process by manipulating quality or concealing defects. A hadith narrated by Muslim (1955) that prohibits concealing defects emphasizes the obligation of transparency as a prerequisite for the validity of a transaction. This norm is internalized through reputation mechanisms and social sanctions, including market exclusion for violators. Loss of reputation reduces the opportunity for long-term transactions, so economic rationality encourages compliance without formal intervention. This analysis can be explained by Spence's signaling theory, which posits that information disclosure serves as a signal of credibility that influences buyer decisions. When accurate information dominates the market, price discovery proceeds without perceptual distortion, so prices reflect actual conditions (Xiang & Liu, 2024). The relationship between information integrity and market efficiency is also confirmed by Joseph Stiglitz (2022), although this is used as an analytical parallel across contexts, rather than direct historical evidence.

Transaction transparency reinforces alignment of expectations by making the offered weights, qualities, and prices transparent. The Prophet Muhammad's

practices, which exemplified this openness, established behavioral standards that were widely adopted by market participants (Rahman, 1999). Transparency reduces cognitive uncertainty, ensuring that pricing decisions are not driven by speculative assumptions but by widely available information. This mechanism narrows the opportunities for manipulative arbitrage that typically arise from information disparities. Consequently, prices move within a more stable range because participants have a relatively uniform reference (Jiang, Sudhir, & Zou, 2021). Normative evidence is also strengthened by the principle of fairness of scales, which rejects the practice of reducing measures, making quantitative quality a verifiable variable (Kathir, 2004).

Transaction ethics shape market participants' time horizons by orienting them toward recurring relationships that strengthen the stability of expectations. Continuous trading interactions among friends and across cross-regional merchant networks demonstrate repeated transactions that create cooperative incentives (Al Shuwaier, 2023). In repeated game theory, rational actors tend to avoid opportunistic strategies because reputational losses affect long-term profits. This orientation reduces the tendency toward extreme speculation, which can trigger price fluctuations (Zhao, Liu, & Wang, 2022). The integration of ethical norms into rational calculation, as explained by Amartya Sen (2002), broadens the definition of rationality to include considerations of the sustainability of relationships. Historical evidence on the sustainability of friendly trade practices confirms that ethical norms serve as a coordinating mechanism, stabilizing economic interactions without coercive regulation (Suwandi, 2017).

The overall ethical regulation of transactions demonstrates that price stability is achieved through the interaction of reducing information asymmetry, building trust, and aligning collective expectations. Each norm—honesty, prohibition of *gharar*, prohibition of *tadlis*, and transparency—helps reduce the uncertainty that typically causes price volatility. These mechanisms operate through changes in actor preferences driven by reputational incentives and transaction sustainability, rather than external pressures. This model demonstrates that price stability can be achieved without administrative intervention, provided that information integrity is maintained and actors' expectations are aligned through collectively internalized norms.

The Moral Authority of the Prophet Muhammad and the Legitimacy of Market Governance

The Prophet Muhammad's moral authority served as a source of institutional legitimacy, guiding the governance of the Medina market through historically proven, non-coercive mechanisms. Ethical credibility was established pre-prophethood through his reputation as *al-Amīn*, generating collective recognition that later transformed into public normative authority. Al-Tirmidhī's (1975) account of his rejection of price-fixing (*tas'ir*) demonstrates the Prophet's rejection of

coercive intervention amid price fluctuations, asserting that price mechanisms reflect real conditions as long as they do not cause moral distortion. According to al-Kankūhī (1993), this stance reflects a form of authority that directs without coercing, reinforcing the certainty of market participants' behavior through exemplary behavior. The integration of personal integrity and regulatory functions fostered compliance grounded in internal legitimacy rather than external pressure, thereby promoting sustainable economic stability.

The institutional approach depicts the Medina market as a network of social relations maintained by collective norms and effective social oversight. Informal institutions operate through shared expectations that limit opportunistic behavior, as evidenced by practices that prohibit fraud, manipulation of product quality, and weight distortion (Al-Qaraḍāwī, 1980). This mechanism is reinforced by interactions among traders who know one another, enabling reputation to serve as a more effective control mechanism than formal law. Social sanctions in the form of a loss of trust have direct economic consequences, prompting market participants to adjust their actions to maintain credibility. These horizontal oversight practices replace the need for structural interventions and reduce enforcement costs (Riehm et al., 2022). Consistent collective norms generate trust-based market discipline, creating transparent transaction conditions. This directly suppresses opportunities for price manipulation and maintains stability through community-based internal mechanisms (Nordhagen et al., 2023).

The internalization of values occurs through a continuous process that connects economic rationality with ethical commitment. Market participants' compliance arises not solely from moral norms but also from rational calculations of long-term benefits, such as sustainable trading relationships and the protection reputation. Honesty in conveying product quality and transparent of information reduces the risk of disputes, thereby increasing transaction efficiency (Atefi et al., 2020). The collective rational perspective explains that adherence to norms yields strategic advantages, as actors who maintain integrity gain greater trust and broader transaction opportunities (Xi, Baymuminova, Zhang, & Xu, 2022). The concept of economic blessing can be understood as the expectation of long-term utility that combines material and social dimensions. The integration of ethical values and rationality results in moderate behavior that avoids exploitation, thereby suppressing price fluctuations driven by opportunistic practices. This pattern demonstrates that market stability is a rational outcome of value internalization, rather than a mere moral ideal.

Medina's market economic coordination rested on shared beliefs about fairness and honesty, built through social interaction and repeated normative practices. The prohibition on hoarding (*ihtikār*) and the rejection of market manipulation reinforced the expectation that prices should reflect real conditions rather than speculation. This collective belief reduced uncertainty because market

participants shared a common behavioral standard. Transparency of information regarding the quality and availability of goods reduced information asymmetry, resulting in more efficient price formation (Goldstein & Yang, 2019). This mechanism demonstrates the character of self-enforcing institutions that operate without intensive formal oversight. The Prophet's consistent stance against exploitation strengthened trust in the system, enabling market participants to adapt their economic strategies to community norms. Price stability emerged as a direct consequence of trust-based coordination, not the result of administrative manipulation, reflecting the effectiveness of social institutions in maintaining market equilibrium.

The reproduction of norms occurred through habituation, which became ingrained in everyday economic practices, producing stable collective discipline. Habits of honest weighing, transparency in the quality of goods, and transparency in prices formed repetitive, internalized behavioral patterns. These habits established expected standards of behavior, making deviations easily identifiable and immediately subject to social sanctions. Shame and honor serve as control mechanisms that reinforce compliance without the need for formal punishment (Bates & LaBrecque, 2020). Consistent customs generate institutional efficiency by reducing the need for external oversight and suppressing potential conflicts. Price stability is closely linked to these customs, as accurate information and honest behavior ensure prices reflect real values. Market institutions function adaptively because norms are not only adhered to but also continuously reproduced through collective practice.

The institutional legitimacy of the Medina market demonstrates the convergence of moral authority, social norms, and economic rationality, thereby forming an effective governance system that relies on no coercive instruments. The Prophet's authority served as a normative anchor that maintained value consistency, while informal institutions ensured the implementation of those values through social oversight and reputation mechanisms. This integration led to a stable market structure because all actors had incentives to comply with the norms. Trust-based coordination strengthened transaction efficiency while maintaining distributive justice. This model demonstrates that legitimacy stems not only from formal power but also from the alignment of values and economic practices. This analysis demonstrates that price stability is the product of a complex interaction between moral and institutional dimensions, not the result of a single intervention.

Conclusion

The transformation of Medina's commercial system demonstrates an institutional structure that integrates ethical norms, open-market design, and non-coercive monitoring practices through social mechanisms. Key findings demonstrate a causal link among the moral legitimacy of authority, the internalization of honesty norms, and the strengthening of market actors' reputations, thereby encouraging

voluntary compliance, reducing information asymmetry, and maintaining price stability through responsive adaptation to supply fluctuations without administrative price intervention. These indications are supported by a critical reading of classical narrative sources through thematic triangulation and an institutional economics framework, so that claims of stability are not normative but rather conceptual-analytical. The theoretical contribution lies in expanding the discourse in institutional economics by drawing on early historical evidence of the effectiveness of legitimacy-based regulation. At the same time, the practical implications point to the need to strengthen contemporary market governance, particularly in the informal sector and traditional markets, through transparency, accountability, and enhanced community-based trust. Limitations include potential source transmission bias, the lack of quantitative price data, and limited empirical verification across sources. Further research agendas are directed toward cross-city comparisons in early Islam, the application of network analysis to map relationships among market actors, and the development of agent-based modeling to test the dynamics of long-term price stability.

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Author Contribution Statement

TN contributed to the formulation of the research concept, the development of the analytical framework, the writing of the main manuscript, and the coordination of the revision process and publication correspondence. WR contributed to the collection and review of literature sources, the development of the theoretical foundation, and the editing of the manuscript's substance. SR contributed to data analysis and strengthened the academic argumentation in the research discussion. HS contributed to data verification, adjustment of the research methodology, and review of the manuscript's consistency. FS contributed to language editing, formatting the manuscript according to publication guidelines, and the final check of the entire article's content.

Conflict of Interest

The author declares that this manuscript was prepared and published without any conflict of interest whatsoever, whether personal, professional, institutional, or financial, that could have influenced the research process, analysis, data interpretation, or preparation of the manuscript. All content, arguments, and conclusions in this article were compiled independently based on the author's academic research without intervention from third parties with specific interests.

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was not used to generate scientific substance, develop arguments, conduct analysis, formulate concepts, present data interpretations, or draw research conclusions. All research results, findings, ideas, analyses, opinions, and conclusions in this manuscript are entirely the result of the author's thoughts, studies, and academic responsibility. The author has also independently reviewed and verified the entire contents of the manuscript before publication.

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