# A COMPARISON BETWEEN MONEY AS MEDIUM OF EXCHANGE AND MONEY AS A COMMODITY

Khalid Mustafa*

**Abstract**

*This paper attempts to investigate the role of money as a medium of exchange and as a commodity. In the earlier period, money was backed by one hundred percent reserve of gold or silver. It implies money had intrinsic value and the currency backed by gold and silver helped reduce inflation, encourage the effective establishment of wealth and stabilize the domestic economy. Money, having the quality of exchanging goods and services, is fiduciary by nature. This quality of money is characterized within a nation and between nations. The problems created due to the fiduciary nature of money are nominal as well as real. In such situations, it is difficult to determine whether or not the value of money remains the same under different circumstances. Due to this reason, there is a difference between money as a medium of exchange and money as a commodity. This difference is based on its use, demand, marginal utility, size, shape, color and others.*

* Khalid Mustafa, Assistant Professor, Department of Economics, University of Karachi, Karachi, Pakistan

No economic and financial system can be established without the role of money. The role of money in the economy appeared when the world came into being. Although the shape, size and nature of money were different, yet it had an important role since the inception of the world. That is why its importance was also approved by the Quran and the Sunnah. At the initial stage, there was a pure barter economy i.e. exchanging goods for goods. However, there were three main problems in the barter system - the double coincidence problem, the portability problem and the divisibility problem. This system became obsolete because of these problems. Later, a commodity money system was introduced in which a commodity was used as a medium of exchange as well as for non-monetary purposes. Different commodities such as gold, silver, cattle, silk, fur, salt, stone and others, were used as a medium of exchange or money. Although, this system solved the problems of double coincidence and to some extent, the divisibility problem, there was yet another problem of porting i.e. transferring of goods from one place to another.

Because of the portability problem in the commodity money system, the metallic money system was introduced. In this system, gold and silver were used as a medium of exchange and people exchanged goods against these two metals quite conveniently. The price of this type of money was the same in real as well as in nominal terms. Gold and silver were used as the largest and the smallest unit of currency respectively. However, the bi-metallic system created many problems amongst nations. In different countries the proportions of gold and silver were different. For example, if in country A, one gram of gold was equivalent to sixteen grams of silver and in country B, one gram of gold was equal to fifteen grams of silver, people would buy gold from country B and sell it in country A. By doing this, they would earn one gram of silver or gold equal to one gram of silver in weight. As a result, the outflow of gold from country B to country A would distort the balance of the currency in both countries. The other problem of this system was the theft of gold and silver. To avoid this problem, people would deposit their gold and silver with goldsmiths. In return, they would be issued a document stating the quality and weight of the deposited metals in terms of gold. People, selling products and services against such documents actually approved the scheme of currency notes issued under the authority of the government- duly backed by one hundred per cent of gold or silver. Thus the document became a legal tender. The Bank of Stockholm issued the first time paper currency. This currency was completely backed by gold. When expenditure increased as compared to revenue, the backed (by the gold) currency gradually decreased, and hence at the final stage this currency became legal tender and lost its gold backing. This money is called fiduciary money (or one based on trust), which allows the exchange of goods and services between people and nations.

The breakthrough came after the birth of Keynes's thought[1], when money started being treated as a commodity above and beyond a medium of exchange. However, if money is treated as a commodity, there should be some rental fee. This rental fee reflects the interests according to Samuelson[2]. So this view of Keynes[3] raises another key question as to whether the money is simply a medium of exchange or a commodity..

[1] For further detail see Keynes, J.M. (1936), "The General Theory of Employment, Interest and Money", Macmillan, London

[2] Samuelson, Paul (1958). Economics. 4th ed. New York: McGraw Hill.

Basically, money has three important functions; namely a medium of exchange, a store of value, and a measurement for the value of a commodity. However, with this system of interests in the current financial transaction, the function of money has become that of a commodity. The function of money as a commodity is supported by many contemporary financial theories such as the theory of loanable funds which states that the supplier of loanable funds would be willing to lend money to the borrower if the borrower is willing to repay the loan in an amount exceeding the principal known as interest. By contract, the price (interest) is payable to the borrower under any circumstances (business profits or losses) by the lender because the lender plans to sell a product called money.

The purpose of this study is to investigate money as a medium of exchange or a commodity. The rest of the paper is organized as follows: Section 2 describes the review of literature. The role of money in Islam is given in Section 3 followed by the difference between money as commodity and a medium of exchange in Section 4. The concluding remarks are given in Section 5.

**Review of Literature**

There is a controversy about the nature of money among the economists which deals with the problem as to whether the money is only a medium of exchange or a commodity. Aristotle[4], Hume[5], Fischer[6], Marx[7], Hayek[8], Friedman[9], Patinkin[10], Tobin[11], Gurlay and Shaw[12], Pigou[13], and Haberler[14] argue that money is a currency which is used as medium of exchange. On the contrary, Baily, Pesek and Saving[15] argue that money is a medium of exchange as well as a commodity.

Aristotle[16] treated money as a medium of exchange of no real value. However, he abhorred wealth, which is a necessary evil that man has to acquire. He feels that the interest rate is unethical to create wealth, but it is necessary for the economic system. It implies that money is a medium of exchange, drawn by interest-accumulated wealth.

Hume[17] and Fisher[18] used the concept of money and the perception of bullion through trade. They criticized the Mercantilist views which propounded the idea that the country,

---

[3] Keynes, J.M. (1936), Op.cit.
[4] Aristotle, www.utm.edu/research/icp/a/aristol httm #ppolitics (384-322)BC
[5] Hume, D. (1752), "Of the Balance of Trade" reprinted in International Finance: Selected Readings, ed.
[6] Fisher, Irving. Money Illusion. 3rd ed. New York: Vail-Ballou Press, 1929.
[7] Marx, K (1894). Das Capital V(3). http://csf.colorado.edu/mirrors/marxists.org/archive/marx/works/
[8] Hayek, F.A. (1929), "Individualism and Economic Order", The university of Chicago press L.T.D London.
[9] Friedman, M. (1973). 'The Quantity Theory of Money: A Restatement', in M. Friedman (editor), Studies in Quantity Theory, Chicago: University of Chicago Press.
[10] Patinkin, D. (1972). Studies in Monetary Economics. New York: Harper and Row.
[11] Tobin, J. (1965), "Money and Economic Growth", *Econometrica*, 33(4), pp.671-684
[12] Gurley, J. G and E.S. Shaw (1956), "Financial Intermediaries and Saving Investment Process, Journal of Finance Vol 11, pp 257-276
[13] Pigou, A. C. (1917), The Value of Money." 1917, Quarterly Journal of Economics, 32( 1), pp. 38-65.
[14] Haberler, G. (1932) Money and the Business Cycle", in Wright (ed.), Gold and Monetary Stabilization.
[15] Baily, Pesek, and Saving (1967). Money, Wealth and Economic Theory. New York: Macmillan.
[16] Aristotle, www.utm.edu/research/icp/a/aristol httm #ppolitics (384-322)BC
[17] Hume, D. (1752), "Of the Balance of Trade" reprinted in International Finance: Selected Readings, ed.

if it faced the trade deficit, should import gold to become a great and powerful nation. This mercantilist concept of money bullions was a fallacy that Hume pointed out. He argues that accumulation of gold through trade surplus or import leads to an increase in money supply and thus helps prices and wages soar that ultimately increase the cost of production of exports. Mercantilist bullions theory of money was the result of decoupling money production roots in economic activity.

Marx[19] treats money as a medium of exchange. His view on money depends on the labor theory of value. Commodities are exchanged in terms of labor theory of value contents. It implies that Marx's theory of money is the commodity theory and goods may play a significant role as a medium of exchange.

Ludwig Von Mises[20] sees money as a medium of exchange. He says that money can be categorized neither as a consumer good nor as producer goods. It is merely a means of exchange. He supports the idea of Adam Smith[21] in which Adam Smith describes money to be a medium of exchange. In his own words money is termed as a "dead stock produces nothing".

The concept of money as a commodity may be found both in the classical school of thought and the new classical school of thought. Thus, from Adam Smith[22], Hume[23] to Marx[24], Hayek[25] and Friedman[26] all seem to have considered money as a medium of exchange and not as a commodity.
The neoclassical economic theory considers money as a neutral entity that facilitates economic transactions and the quantity of which can influence the price level. This implies that supply of money is considered exogenous in the sense that government, specifically the Central Bank, fully controls the amount of money provided to the economy according to the targeted objectives.

Keynes[27] uses the concept of money as a commodity. The idea is supportive to the bullion theory of money of the mercantilist school of thought. He says that there must be a value for money assessment, as a product. He interprets commodity money as the way it is held. This concept is reflected in the speculative demand for money in Keynes'[28] opinion. Therefore, utilization of money for transaction purposes involves the use of money for immediate needs for alternative sources. It implies that money does not act as a commodity. The nature of the commodity money is reflected in the speculative demand

---

[18] Fisher, Irving. Money Illusion. 3rd ed. New York: Vail-Ballou Press, 1929.
[19] Marx, K. (1884), 'Ökonomisch-philosophische Manuskripte aus dem Jahre" (Economic and Political Manuscripts of 1844).
[20] Ludwig Von Mises, 1922[1936] Socialism, an Economic and Sociological Analysis, M. Kahane translator. Liberty Press, 1981.
[21] Smith, A (1776), An Inquiry into the Nature and Causes of The Wealth of Nations, Random House, Inc
[22] Ibid
[23] Hume, D. (1752), "Of the Balance of Trade" reprinted in International Finance: Selected Readings, ed.
[24] Marx, K. (1884), Op.cit.
[25] Hayek, F.A. (1929), Op.cit.
[26] Friedman, M. (1973). Op.cit.
[27] Keynes, J.M. (1936), "The General Theory of Employment, Interest and Money, Macmillan, London.
[28] Ibid

for money functions, which is the main theme of Keynes on the holding of money. According to Keynes, money is in a particular psychology, which is characterized by uncertainty and haste.

Money is not merely a medium of exchange that facilitates transactions but also a store of value that can be held for future transactions, in response to economic uncertainty and future expectations. According to Moore[29], Itoh and Lapavitsas[30], Lapavitsas and Saad Fihlo[31], and Mollo[32], money is based on credit and is created endogenously. They maintain that the origin of money is the economic activity itself. In response to investment, money is created as credit, which determines the creation of reserves by the Central Bank in a different formulation ensuring continuous money supply.

These approaches suggest that money is not only the pure commodity but it also transforms itself into a quasi-commodity through its "properties" (and monitoring functions thereof). Since the development of credit money, the capitalist economy has become the main form of money, which reduces the importance of fiat money, the creation of bank overdrafts and other forms of deposits issued by commercial banks that ultimately determine the creation of the Reserve Bank.

**The Role of Money in Islam**

The Islamic Economic system addresses the economic problems by the cooperation, intersections of market agents, economic institutions and ideas in the light of Islamic Shariah. In other words, this system discusses the issues that improve the economic benefit or minimize the economic cost of society according to the teaching of the Quran and Sunnah. In the light of this system, the role of money must be reflected in the real sector activities and consequently it should generate the economic activity. This economic activity reflects the configuration of money in the system.

At the inception of Islam, there was extensive use of gold and silver as money or a medium of exchange. At that time, Dinar (made of gold) and Dirham (made of silver) were used. The coin was minted with pure gold and silver. The Holy Prophet (peace be upon him) also approved the use of gold and silver as money. He permitted the use of the Roman and Persian Gold and Silver coins. These metallic coins then became inextricably linked to Islam as a system of currency. Although this system has been approved by the Holy Prophet (peace be upon him), it reamins subject to the Hudood of Allah i.e. the punishment for the thief who steals money exceeding a quarter Dinar's worth, and payment of Zakah (poor due) if it exceeds minimum Nisab. However, at that time the role

[29] Moore, B. J. (1988). Horizontalists and Verticalists. The macroeconomics of credit money, Cambridge: Cambridge University Press.

[30] Itoh, M. & Lapavitsas, C. 1999. Political Economy of Money and Finance, London: Macmillan.

[31] Lapavitsas, C. and Saad-Fihlo, A.( 2000). 'The Supply of Credit Money and Capital Accumulation: A Critical View of Post-Keynesian Analysis', in Zarembka, P. (ed.),

[32] Mollo, M. L. R. 1999. 'The Endogeneity of Money. Post-Keynesian and Marxian Concepts Compared', in Zarembka, P. (ed.) 1999. Research in Political Economy Volume 17. Economic Theory of Capitalism and its Crises, New York: Jai Press, pp. 3-26.

of gold and silver as money was limited. The wages were paid in terms of commodities. The Zakah was also paid in terms of goods. Even the Bayt ul-Maal financed the poor and needy by way of commodities. Hence, very limited transactions were performed using coins.

The role of gold and silver has also been mentioned as money or as a symbol of wealth in the Quran and Hadith. The riches are stored and held. As the Quran says:

> "Those who hoard gold and silver and spend it not in the way of Allah, give them the tiding of painful punishment"[33].

In this verse gold and silver are mentioned as assets and the obligation of Zakah for precious metals in particular is stressed. The Quran described silver as medium of exchange at other places:

> "So send one of you (Ashab-e-Kahf) with this silver coin of yours to the city, and let him see what food is purest there and bring you a supply thereof"[34].

The Quran uses *wariq* which means silver coins or darahim (pl. of one dirham) which was used as a medium of exchange. The significance of gold and silver as a medium of exchange is also narrated elsewhere the Holy Quran

> "And they sold him (Prophet Yousuf) for a low price, a number of silver coins; and they attached no value to him"[35].

From the above verses quoted from the Quran, it is clear that the use of the two precious metals (bimetallism) as money was common in the society for thousands of years even before the birth of the Prophet Muhammad (peace be upon him).

At the time of the Prophet (peace be upon him), gold coins (dinars), which came from the Romans and silver coins (dirhams), which came from the Persians were regarded as currency. In the contemporary era, paper money (fiat money) has become a means of payment in all countries of the world. The choice of gold and silver as a form of money means that cash in Islam is based on real wealth, which cannot be manufactured in the times of crisis. Paper money could be used as an evidence to increase the portability of money. However, each currency paper unit is strictly linked to gold and silver and can be exchanged for one or both of them on demand at any time. As a result, it reduces the problem of inflation.

Another reason of using gold and silver is that the markets will not be disturbed by a sudden influx of worthless paper money. Instead, there will be stability and free convertibility of foreign currencies if all countries base their currency on the gold standard, creating a healthy atmosphere for international trade through trust.

---

[33] The Glorious Quran (9:34)
[34] Ibid (19:18)
[35] Ibid (12:20)

According to Imam Al-Ghazzali[36], the creation of the Dinar and Dirham (money) is one of the blessings of Allah. These are stones that have no intrinsic utility, but they satisfy human need. Goods are different in size, shape, taste, nature and measurement unit. That is why during the exchange of the product itself, the product cannot conveniently determine the quantity of goods in terms of other commodities. Due to this reason, money provides equal opportunity to everyone to exchange goods. Hence it proves to be a strong medium of exchange.

Al-Ghazzali[37] defined money as medium of exchange which means that money has no intrinsic value. He visualizes money as a mirror that does not have its own color, but it can certainly reflect all kinds of colors. According to Al-Ghazzali[38] money was used as a standard price of goods or things and had no intrinsic value Ibn Taimiyah[39] and Ibn Khaldun[40] recognize money as a medium of exchange in addition to a unit of account and a store of value. Money as gold and silver, was considered as ‘treasure and property’ or “wealth”[41]. Al-Ghazzali, Ibn Taimiyah and Ibn al-Qayyim[42] all emphasize the stability of money.

In an Islamic economy, money is public property which plays a significant role in the economy. That is why the hoarding of money in Islam is prohibited because it creates instability in the value of money which affects the economy of a society as a whole. According to Al-Ghazzali's[43] basic reason for the prohibition of hoarding money, the act of hoarding would eliminate the inherent function of money. According to economic theories, the amount of money in circulation and the amount of goods available at the same time are closely related. If the amount of money supply does not match the amount of goods available, there will be either inflation or deflation in the economy.

Contemporary Muslim economists recognize the functions of money as a medium of exchange, store of value and unit of account.[44] However, some Muslim economists like Mahmud Abu-Saud and Muhammed Nejatullah Siddiqi suggest that money should only perform the role of medium of exchange in an Islamic economic system.[45,46] They point

---

[36] al-Ghazali, *The Book of Knowledge* (*Kitab al-`Ilm* of *Ihya` `Ulum al-Din*) ed. and trans., Nabih Amin Faris (Lahore; Sh. Muhammad Ashraf, 1962)

[37] Ibid

[38] Ibid

[39] Islahi, Abdul Azim (1988), Economic Concepts of Ibn Taimiyah, Islamic Economics Series 12, The Islamic Foundation, Leicester, U.K.

[40] Ibn Khaldun (1989), The Muqaddimah: An Introduction to History, (translated by Franz Rosenthal), Princeton University Press, Princeton, N.J.

[41] Ibid

[42] Ibn Qayyim al-Jawziyyah. IClam al-Muwaqqic¥n. Vol. 1. Beirut: Dar al-Jeel, n.d. Ibn Qayyim al-Jawziyyah. IClam al-Muwaqqic¥n. Vol. 1. Beirut: Dar al-Jeel, n.d.

[43] al-Ghazali, *The Book of Knowledge* (*Kitab al-`Ilm* of *Ihya` `Ulum al-Din*) ed. and trans., Nabih Amin Faris (Lahore; Sh. Muhammad Ashraf, 1962)

[44] Arif, Mohammad, ed. (1982) *Monetary and Fiscal Economics of Islam*. Jeddah, Saudi Arabia: International Centre for Research on Islamic Economics, King Abdulaziz University.

[45] Abu Saud, Mahmud (1980), Money, Interest and Qirad, in Khurshid Ahmad (Editor), Studies in Islamic Economics, International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah and Islamic Foundation, U.K.,59-84.

out that money is subject to mandatory Zakah payments if anyone wants to hoard money. Moreover, they also argue for the function of money as store of value, which is not linked to movements in the interest rates in an Islamic economic system; rather, it eliminates the speculative demand for money and brings stability to the economy. Abu Saud and Chapra also outline that a unit of account, as a function, is subject to stability of the value of money. [47] M. Fahim Khan explains transactions in four different foreign exchange markets (spot, forward, futures, and swaps) from an Islamic perspective, concluding that the conventional forward, futures and swaps contradict Islamic principles.[48] Tahir discusses the features of the exchange rate in a fiat money context. [49] He argues that fiat money can be traded in the forward market on principles of bai' muajjal (price-deferred sale) and bai' salam (object-deferred sale). He then discusses how these modes of transactions can be used for international trade to avoid riba (interest).

**Difference between Money as a Commodity and as a Medium of Exchange**

There is no consensus among economists on the nature of money. They do not see eye to eye as to whether the money is a part of the wealth of nations (goods) or just a debt incurred (a medium of exchange) from the user. Aristotle, Hume, Fisher, Marx, Hayek, Friedman, Patinkin, Tobin, Gurlay and Shaw, Pigou, and Haberler argue that money is a currency used as a medium of exchange. While others including Martin Baily, Pesek and Thomas Saving, deny the status of money as a commodity. We want to analyze whether the money is a commodity or medium of exchange. Muslim economists and jurists agree that money is a medium of exchange and is not for sale. In my view, money also acts as a medium of exchange. In support of my view, I would like to cite the following reasons which differentiate between commodities and money:

1 – A commodity provides utility directly, whereas money does not. Money is useful if used to buy a commodity. For example, a huge amount of money, say one billion rupees will be of no help to the owner if he is at a place where nothing to purchase is available. This huge amount of money will be of no avail in this particular context. In other words, the nature of money is to provide ease of exchange of goods in a market where people interact. While a commodity, even in the absence of interaction of the people provides utility by its nature, e.g. bread and water eliminate the human desire wherever it is used. It suggests that a product has an intrinsic value and can be used directly without exchanging information for another thing. Money, on the other hand, has no intrinsic utility. It only proves to be useful if it is used to purchase certain goods or services.

---

[46] Siddiqi, Muhammed Nejatullah (1982), Islamic Approach to Money, Banking, and Monetary Policy - A Review, in Mohammad Ariff (Editor) Monetary and Fiscal Economics of Islam, International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, 25-38.

[47] Chapra, M. U. (1982), Money and Banking in an Islamic Economy, in Mohammad Ariff (Editor) Monetary and Fiscal Economics of Islam, International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, 145-76.

[48] Khan, M. Fahim, (1412H/1991), .Comparative Economics of Some Islamic Financing Techniques, Islamic Research and Training Institute, Islamic Development Bank, Jeddah.

[49] Tahir, S. (1994) Prospects for International Transactions without Riba. In Elimination of Riba from the Economy. Islamabad: Institute of Policy Studies.

2 – A commodity is subject to depreciation, which affects productivity. The cost of depreciation is known as the maintenance cost. That is, because of the book value and the market value of goods. Money is not subject to depreciation, i.e. the face value of the currency does not change over time. On the contrary, the value of goods decreases over time; however, there is no book value of money.

3 - The value of goods is determined by market forces, whereas the value of currency is (face value) determined by the Government. A commodity may be old-fashioned and outdated, but its market value can either be high or low. Hence, it is proved that the value of money remains unchanged.

4 - The size, shape, color and quality of a commodity remains unstable. Old and new products are both used simultaneously. The price of goods depends on the above characteristics. These characteristics of money are not changeable. They can only be changed if the government intends to do so. The government recognizes these characteristics of money. It is possible that the size, shape, color and quality of money undergo a change, but the denomination remains the same. That is why all units of money in the same denomination are hundred percent equal to one another.

5 - In an exchange of commodities, the transactions of sale and purchase have an effect on an identified and specific commodity. For instance, if a person decides to purchase a commodity after inspecting it and the seller agrees to sell it to him, the former deserves to receive the same commodity. The latter cannot compel him to take delivery of another commodity, even if it is of the same type or quality. Money on the other hand is indistinguishable in a transaction. For example, if a person borrows money but does not return the same money, it is called a loan. This means that the borrower will not repay the same note with the same number; even in the same denomination of the currency note. Recovery can be made in altogether different units.

6 – A commodity is based on marketing and sales, whereas money is generated by economic activity such as the provision of services, purchase and sale of bonds, investment in the goods market and borrowing and lending of the funds. Money does not buy. Rather, it creates.

7 - The law of diminishing marginal utility applies to commodities. It implies that the successive use of commodities reduces the marginal utility or value of a commodity in the eye of the consumer. However, the law of diminishing marginal utility does not apply to money. It indicates that the marginal utility of money increases by acquiring more.

8-In case of a high inflation rate in the economy, people do not keep money in hand, because the value of money decreases with the passage of time. It simply means that investment in commodities generates more profit, or the purchase of durable goods yields better profit. In case of a commodity people want to keep it in hand in the same situation. The reason is that the price of a commodity increases during a high inflation period.

9-Money provides utility when held. This means that the holding of money offers utility. A commodity provides utility when it is spent. It means that the holding of money and spending of goods provide utility.

10-Money has no carrying cost: People can carry it easily without paying a transfer cost from one place to another. On the other hand, goods incur a carrying cost and it is difficult to carry them from one place to another without paying transportation costs.
11-Usually a commodity has a substitute. Both the commodity and its substitute complement each other. Due to the availability of substitute goods, one cannot establish a monopoly easily. If a product is scarce, it is also possible to produce similar goods with same characteristics. On the contrary, money does not have a substitute or a complement.

12-Hoarding a commodity can help increase profit margins while hoarding of money reduces its value.

13-A commodity has a direct demand whereas money has a derived demand. It implies that if we desire goods and services, we need money. For example, goods and services have been in demand since the very inception of the world. Money came in when convenience in the exchange of goods and services was sought.

**Concluding remarks**

Money is a fiduciary, having the quality of exchange of goods and services. Nevertheless, for fiduciary money it is difficult to determine whether or not its nominal or real value is the same. Because money has a nominal value and has no intrinsic value, there is a difference between money as a medium of exchange and money as a commodity. This difference is based on its use, application, utility size, marginal utility etc. Islam also encourages the use of money provided that this money is one hundred percent backed by gold or silver. This means that money has intrinsic value. The currency which is backed by gold and silver one hundred percent will reduce inflation; encourage the creation of real wealth and a stable domestic economy. Based on these basic differences, Islam distinguishes between money and commodities making it clear that money (of the same denomination) should not held to be traded in the absence of commodities. Its use is restricted to its basic purpose i.e. to act as a medium of exchange and as a measure of value. If, for exceptional reasons, money has to be exchanged for money (for example, one may need new notes/bills to give out to children on the Eid festival), the payment on both sides should be equal. If the amounts exchanged are different, it is effectively a trade of money and any excessive amount paid by either party is Riba.