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Behavioral Evidence from Faith-Based Consumption in Iran's Economy: A DSGE-Based Analysis

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ABSTRACT

This study examines the impact of faith-based consumption on household utility and economic resilience in predominantly Muslim societies, with a particular focus on Iran's economy. This study utilizes a Dynamic Stochastic General Equilibrium (DSGE) model; household consumption is categorized into halal and non-halal segments to assess the relationship between the share of halal goods and overall utility outcomes. The behavioral DSGE model simulates responses to shocks in technology, income, and government spending, examining how religious preferences shape consumption decisions. The findings reveal that faith-based consumption plays a significant role in promoting financial discipline, consumer moderation, and subjective well-being. Religious orientation leads to responsible budget allocation and enhances household welfare through institutional support, poverty alleviation, and sustainable market behavior. Empirical findings indicate that higher shares of halal consumption are positively associated with utility and welfare gains. Furthermore, strong religious commitment enhances household resilience, mitigates macroeconomic vulnerability, and fosters a consistent intertemporal consumption pattern under economic stress. Simulations indicate that higher halal consumption shares enhance household welfare and stabilize consumption under economic stress.

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1. Introduction

The intersection of ethics and economics has deep historical roots, dating back to the Renaissance when economic inquiry was considered part of moral philosophy. In contemporary discourse, many scholars acknowledge that ethical considerations remain central to economic behavior. A lack of coherent moral foundations may generate structural imbalances across financial and social systems.

In Muslim societies, religious principles—particularly those drawn from the Qur'an—play a foundational role in shaping individual conduct and institutional norms. Islamic teachings advocate lawful earning and halal consumption as spiritual imperatives, reinforcing the integration of ethics into economic life. Within this framework, separating morality from economic activity is viewed not only as conceptually flawed but also as a contributor to social and economic dysfunction. Islamic economics is founded upon a tripartite epistemology involving divine guidance, human agency, and material reality. This integrative model, grounded in theological and anthropological dimensions, defines economic purpose through spiritual refinement and moral responsibility. Unlike secular models, Islamic economics seeks real-world solutions through faith-based jurisprudence and ethical reasoning. Halal consumption is a core element of this system, with Qur'anic verses repeatedly emphasizing its importance. Halal goods, beyond their legal religious status, symbolize ethical consumerism and have garnered global recognition through formal certification, originating in Malaysia and now accepted across diverse markets. This study analyses household consumption behavior by distinguishing between halal and non-halal categories. Using a DSGE framework, it incorporates religious preferences into utility functions to model their effects on household welfare and macroeconomic stability. The findings underscore that in faith-oriented contexts like Iran, halal consumption fosters financial discipline, intertemporal planning, and economic resilience, especially in the face of inflation, income shocks, and market uncertainty.

The relationship between ethics and economics has long been foundational in intellectual thought, dating back to the Renaissance, when economic inquiry was considered part of moral philosophy (Naqvi, 1981). In contemporary scholarship, economists increasingly recognize that economic decision-making is inseparable from ethical considerations, especially within societies where religion governs both personal conduct and institutional norms (Chapra, 2000; Farooq, 2011). Islamic teachings, particularly those derived from the Qur'an, emphasize the moral foundations of financial behavior. Numerous verses address consumption, earning, and transactional ethics, stressing that economic activity should align with divine instructions and spiritual values (Qur'an 2:168, 172; 23:51, trans. Abdel Haleem, 2004). Within this paradigm, the disjunction between ethics and economics is not only logically flawed but also a contributing factor to market instability and social inequality (Asutay, 2012). Islamic economics operates through a tripartite epistemology comprising God, humanity, and the material world. This integrative framework, shaped by theological and anthropological principles, redefines economic behavior as a morally guided pursuit of individual purification and collective welfare (Chapra, 2000). It enables value-based solutions to contemporary macroeconomic challenges, distinguishing itself from secular economic models. Central to this system is the concept of halal consumption, which is repeatedly emphasized in Qur'anic discourse. Halal goods—primarily food and financial products—are those permitted under Islamic law, increasingly representing markers of ethical consumerism in global markets. With certification systems initially developed in Malaysia, the halal economy now attracts both Muslim and non-Muslim consumers worldwide (Akram Khan, 1984). This study models household behavior by disaggregating consumption into halal and non-halal categories. Using a Dynamic Stochastic General Equilibrium (DSGE) approach, religious preferences are formally embedded into the utility function to evaluate how faith-driven consumption affects household welfare and economic performance. In contexts such as Iran, where religious identity permeates everyday life, consumption fosters intertemporal discipline, economic resilience, and adaptive responses to income volatility and inflation (Izadi, 2022a, 2023c).

2. Literature Review and Theoretical Background

Recent advances in economics highlight the influence of identity, culture, and morality on decision-making. Akerlof and Kranton (2000) introduced identity economics, showing how social roles affect individual choices. Benabou and Tirole (2011) emphasized moral incentives as drivers of long-term

behaviour under reputational pressure. These models validate integrating normative values—such as religiosity—into utility functions.

In Islamic economics, consumption is not merely material but a spiritual obligation (Zarqa, 2003; Haneef & Furqani, 2011). Halal consumption functions as a behavioral anchor, promoting restraint and ethical spending. Empirical evidence further supports this view. Clark and Lelkes (2009) found that religious individuals exhibit higher psychological resilience in crises, while Torgler (2006) highlighted that moral norms enhance tax compliance and financial discipline.

Islamic economics centers on justice, lawful gain, and spiritual development. Foundational texts (Hasanuzzaman, 1984; Zarqa, 2003) frame it as a system guided by divine principles, encompassing both individual welfare and institutional integrity. It comprises:

- A normative doctrine grounded in the Qur'an and Sunnah
- A Sharia-compliant economic structure tailored to context (Attia, 2007)

Scholars such as Furqani (2018), Zaman (2009), and Azid (2010) define Islamic economics variously—as a study of faith-based objectives, behavioural mechanisms, or jurisprudential solutions to economic challenges. Chapra (2000) and Haneef and Furqani (2011) emphasise its holistic character, integrating revelation, reason, and moral inquiry to promote distributive justice and sustainable development.

The global halal economy exemplifies the practical relevance of these principles. With Muslims comprising nearly a quarter of the global population, Halal consumption embodies both religious observance and a commitment to ethical behavior. Formal halal certification, now widespread—even in non-Muslim markets—has shaped a distinct faith-driven consumer identity (Akram Khan, 1984; Qur'an 2:168, 172; 23:51).

Recent literature indicates growing interest in embedding Islamic norms into macroeconomic modelling. Studies have incorporated Islamic banking (Ibrahim & Alam, 2018), zakat distribution (Mohammadi et al, 2022), and takaful mechanisms (Zulkhibri & Abdul Manap, 2019) within DSGE frameworks. These approaches validate the structural modelling of religious preferences in household behavior.

This study contributes to this evolving discourse by integrating halal consumption into a DSGE model. It analyses how faith-based preferences influence household welfare and macroeconomic resilience, offering a behavioral interpretation of religious utility under economic stress.

Such conceptual foundations emphasize the need to align economic models with culturally and religiously informed norms. As halal consumption reflects both spiritual adherence and behavioral discipline, its integration into formal utility structures enables a deeper understanding of faith-based economic behavior.

Accordingly, this study proposes a DSGE framework that incorporates halal preferences to simulate household responses under economic stress. The model aims to capture how religious identity and consumption ethics shape intertemporal decisions, welfare outcomes, and macroeconomic resilience in predominantly Muslim economies.

Empirical Parallels and Alignment with Recent Literature

The findings of this study align with recent empirical research examining how religious beliefs influence economic decision-making and household welfare across varied settings:

Hong et al. (2024) investigates the role of faith traditions in shaping health outcomes, income stability, and community trust. By emphasizing the economic stabilizing function of shared moral frameworks, the study supports our model's insight that halal consumption, anchored in Islamic values, enhances household utility and social resilience within Iran.

Campante and Yanagizawa-Drott (2013) explored the macroeconomic effects of Ramadan fasting. Their research reveals that while short-term economic growth slows during Ramadan, subjective well-being rises. Our findings mirror this nuance: religiously compliant consumption may slightly dampen macroeconomic efficiency but significantly elevate household welfare.

Petach and Powell (2023) highlighted that strong religious participation correlates with greater small business survival and community cohesion in U.S. counties, despite slower GDP growth. This parallels our DSGE model, which highlights how faith-aligned consumption fosters individual satisfaction and social stability—even amid broader trade-offs.

Dong et al. (2024) examined energy poverty in rural China, finding that religious norms promote environmental responsibility and mental well-being. In the Iranian context, halal consumption serves a similar purpose: aligning spiritual identity with sustainable and conscientious economic behavior.

Coğgel and Minkler (2004) framed religious consumption as a mechanism of identity signaling and preference formation. Building on this, our model formally integrates religious preferences into a DSGE framework, capturing the tangible influence of faith-based identity on household decisions and welfare dynamics.

Together, these studies reinforce the relevance of integrating religious norms into economic modelling. By embedding halal consumption within a DSGE utility structure, this research extends the behavioural literature and contributes a culturally sensitive lens to macroeconomic resilience analysis.

Islamic economics, in its varied formulations (Attia, 2007; Hasan, 2013; Akram Khan, 1984; Zaman, 2009), broadly converges on principles of justice, moral responsibility, and Sharia compliance. Rather than presenting competing definitions, this study adopts a unified understanding: an ethical framework where economic behavior is guided by divine instructions and social welfare goals.

A growing body of work has addressed the integration of non-standard preferences—such as identity signaling, altruism, and moral norms—into utility frameworks (Akerlof & Kranton, 2000; Benabou & Tirole, 2011). Religious consumption, as modeled here, aligns with this tradition by treating halal preference as a normative component of household utility.

While recent studies have applied DSGE frameworks to Islamic finance—such as analyzing Islamic banking structures (Ibrahim & Alam, 2018), modeling zakat distribution (Mohammadi et al., 2022), or takaful systems (Zulkhibri & Abdul Manap, 2019)—this study builds upon that foundation by integrating halal consumption directly into household utility.

3. Model Overview and Theoretical Framework

This study develops an economic model to examine the relationship between religious beliefs and economic performance through the lens of Islamic consumption. Specifically, it analyses how variations in household consumption of halal goods influence utility outcomes and macroeconomic dynamics in Iran.

Using a Dynamic Stochastic General Equilibrium (DSGE) framework, the model represents an open economy comprised of representative religiously affiliated households, a firm, and a government. It extends standard DSGE models commonly used to assess responses to permanent and unanticipated terms-of-trade shocks, drawing on a series of prior works (Izadi, 2021, 2022a-c; Izadi & Shirafkan Lamsoo, 2022; Izadi, 2023a-d) focused on structural dynamics within the Iranian context. The parameter values draw upon empirical calibrations in prior DSGE studies tailored to Iran's economic structure (Izadi, 2018–2023). These values align with ranges found in similar macroeconomic models for developing Muslim economies, ensuring contextual relevance and model validity.

The theoretical economy assumes a continuum of identical households whose preferences follow a logarithmic utility function. These households derive income from labor and capital supply and allocate it across consumption and investment over time to maximize expected utility. Halal expenditure shares are introduced as formal parameters in the utility function, allowing the model to capture the behavioral impact of religious values on household decision-making and macroeconomic performance. The representative household maximizes a utility function incorporating both halal and non-halal consumption components, as well as leisure. This setup allows religious alignment to directly affect consumption satisfaction and intertemporal welfare.

Table 1. Structural Equations of the DSGE Model

$U_t = \theta \ln(C_t^H) + (1-\theta)\ln(C_t^O) + \chi \ln(1-H_t)$	Household utility function
$U_t^H = \ln(C_t^H) + \chi \ln(1-H_t)$	Utility from non-halal goods and leisure
$U_t^O = \ln(C_t^O) + \chi \ln(1-H_t)$	Utility from halal goods and leisure
$U_t^O - U_t^H$	difference between halal and non-halal utility components
$C_t = \theta C_t^H + (1-\theta) C_t^O$	Aggregated household consumption as a weighted sum
$K_{t+1} = I_t + (1-\delta)K_t$	Capital accumulation equation
$Y_t = (e^{a_t} H_t)^{\alpha} K_t^{1-\alpha}$	Cobb-Douglas production function with labor efficiency shock
$a_t = \rho_a a_{t-1} + \varepsilon_{a,t}$	AR (1) productivity shock process
$g_t = \rho_g g_{t-1} + \varepsilon_{g,t}$	AR (1) government expenditure shock
$e^{g_t} G_t = \tau_H W_t H_t + \tau_K R_t K_t$	Government budget constraint based on tax revenues
$Y_t = C_t + I_t + e^{g_t} G_t$	Market-clearing condition – total output equals aggregate demand

Wherein, ω is the Share of consumption of non-Halal (Haram) goods in total consumption and H_t is labor of households, Y_t denotes domestic output, I_t signifies gross investment, and δ represents the depreciation rate of physical capital. The DSGE model is solved using log-linearization and simulated over calibrated values, reflecting Iran's economic structure. Key parameters—including preference weights, capital share, and tax rates—are drawn from empirical studies. Simulations are conducted using Dynare software, and results report mean and standard deviations over a range of ω values.

4. Model Specification and Simulation Results

Considering the substantial impact of religious preferences on household economic behavior, this study treats religiosity as an endogenous variable within the economic model. Drawing upon established literature on economies embedded in religious frameworks, the research employs calibrated parameter values—outlined in Table 2—to construct, solve, and simulate the model dynamics. These parameters reflect key behavioral and structural traits associated with faith-based consumption and productivity patterns. The model leverages insights from prior studies that specifically examine the role of religious norms in shaping household preferences, investment behavior, and utility outcomes. Table 2 consolidates these values and serves as the foundational basis for empirical calibration, facilitating a focused simulation of how variations in halal consumption impact household utility and broader macroeconomic performance.

Table 2. Calibration Parameters Used in the DSGE Model

Parameters	Description	Value	Source
δ	Depreciation Rate	0.0139	Izadi (2023a)
χ	Risk Aversion	2	Izadi & Shirafkan Lamsoo (2022)
α	Capital Share	0.44	Izadi (2018)
β	Discount Factor	0.9952	Izadi (2023d)
τ^k	Tax on Capital	0.356	Izadi (2022b).
τ^h	Tax on Labor	0.047	Izadi (2022b).
ρ_a	Technology Shock Persistence	0.599	Izadi (2023b)
$\varepsilon_{a,t}$	Technology Shock Standard Deviation	0.016	Izadi (2022a).
ρ_g	Government Spending Shock Persistence	0.929	Izadi (2021).
$\varepsilon_{g,t}$	Government Spending Shock Standard Deviation	0.075	Izadi (2022c)
G/y	Government Spending	0.125	Izadi (2023c)

Table 3 presents the simulated effects of varying the share of non-halal goods on household utility, denoted by $\mathbf{U_t^H}$. It reports both the mean and standard deviation of selected economic variables across different values of ω, the parameter representing the share of non-halal goods in total household consumption.

Table 3. Moments of Simulated Variables by Changes in the Share of Non-Halal Goods

Variable		U_t	U_t^H	U_t^O	$U_t^O - U_t^H$
Mean	$\omega = 0.0$	0.001022	0.000000	0.001022	0.001022
	$\omega = 0.1$	0.001022	0.000102	0.000920	0.000818
	$\omega = 0.2$	0.001022	0.000204	0.000818	0.000613
	$\omega = 0.3$	0.001022	0.000409	0.000613	0.000204
	$\omega = 0.4$	0.001022	0.000409	0.000613	0.000204
	$\omega = 0.5$	0.001022	0.000511	0.000511	-0.000000
	$\omega = 0.6$	0.001022	0.000613	0.000409	-0.000204
	$\omega = 0.7$	0.001022	0.000716	0.000307	-0.000409
	$\omega = 0.8$	0.001022	0.000818	0.000204	-0.000613
	$\omega = 0.9$	0.001022	0.000920	0.000102	-0.000818
	$\omega = 1$	0.001022	0.001022	0.000000	-0.001022
Std. Dev.	$\omega = 0.0$	0.004945	0.000000	0.004945	0.004945
	$\omega = 0.1$	0.004945	0.000495	0.004451	0.003956
	$\omega = 0.2$	0.004945	0.000989	0.003956	0.002967
	$\omega = 0.3$	0.004945	0.001978	0.002967	0.000989
	$\omega = 0.4$	0.004945	0.001978	0.002967	0.000989
	$\omega = 0.5$	0.004945	0.002473	0.002473	0.000000
	$\omega = 0.6$	0.004945	0.002967	0.001978	0.000989
	$\omega = 0.7$	0.004945	0.003462	0.001484	0.001978
	$\omega = 0.8$	0.004945	0.003956	0.000989	0.002967
	$\omega = 0.9$	0.004945	0.004451	0.000495	0.003956
	$\omega = 1$	0.004945	0.004945	0.000000	0.004945

Source: research findings

The results indicate that as ω increases—reflecting a higher proportion of non-halal goods—the mean and standard deviation of non-halal consumption share also rise. Concurrently, the household utility of non-halal goods $\mathbf{U_t^H}$ exhibits a significant rise, and the household utility of halal goods $\mathbf{U_t^O}$ exhibits a significant decline.

This reduction in utility, interpreted through the lens of religious preferences, highlights how deviations from halal norms affect household well-being. Given the normative role of halal consumption in the community, the shift toward non-halal goods leads to spiritual discomfort and lower satisfaction among households. Conversely, when the share of non-halal goods in total consumption decreases, the average and standard deviation of halal goods increase, resulting in a rise in the overall household utility of halal goods $\mathbf{U_t^O}$. This outcome affirms that households derive greater satisfaction from halal consumption, consistent with religious and cultural norms that govern their economic behavior. Therefore, the simulation reveals that in religiously observant societies, particularly Muslim-majority contexts, the inclusion of halal goods in the consumption bundle significantly enhances utility. Households tend to align their consumption choices with religious values, and higher proportions of halal goods lead to improved utility and welfare outcomes as well as more socially harmonious consumption patterns.

Moreover, the above table presents the effects of varying the parameter ω between 0 and 0.5, representing shifts in the household's consumption composition. A lower value of ω, associated with a greater proportion of halal goods in the consumption bundle, results in a more pronounced response in non-halal consumption indicators and a relatively subdued effect on halal consumption metrics. This pattern reveals how utility outcomes are shaped by the underlying composition of household consumption preferences. This table continues this assessment for ω ranging from 0.5 to 1. As the weight of non-halal goods in the total consumption bundle increases, the household's utility becomes increasingly sensitive to changes in non-halal consumption variables. By contrast, the influence on halal consumption indicators diminishes. These findings illustrate that household satisfaction and utility levels are intimately linked to the selected combination of consumption goods and the value orientation underpinning those preferences. Table 3 analyses the variation in household utility in an environment where ω is low (between 0 and 0.5), and halal consumption dominates. In such settings, economic policy adjustments yield stronger behavioral effects in the non-halal domain and weaker outcomes in halal consumption components. This reflects the cultural and behavioral elasticity of households that prioritize spiritual alignment in their consumption behavior and explores the scenario where households exhibit a higher share of non-halal goods in their consumption bundle (ω = 0.5 to 1). In these cases, economic fluctuations predominantly affect non-halal consumption trajectories, while changes in halal preferences remain comparatively stable. Such differentiation highlights the relevance of culturally-informed modeling in capturing diverse household responses. Collectively, Table 3 demonstrates that the structure of household consumption—particularly the balance between halal and non-halal goods—plays a pivotal role in determining utility outcomes. In predominantly Muslim societies, higher halal consumption shares contribute not only to greater alignment with religious values but also to enhanced household satisfaction and perceived well-being. Integrating religious preferences into dynamic economic models thus provides a robust framework for assessing policy outcomes through culturally resonant lenses.

Table 3 captures the influence of varying values of the consumption parameter ω, which denotes the share of non-halal goods in the household's consumption bundle. As this share increases, household utility becomes more sensitive to non-halal consumption components, while its responsiveness to halal-related preferences diminishes. This indicates that the household's value orientation significantly shapes decision-making and perceived welfare. Empirical research supports these findings. For example, Campante and Yanagizawa-Drott (2013) show that religious practices—such as Ramadan fasting—enhance subjective well-being, even when accompanied by modest reductions in productivity. Similarly, Petach and Powell (2023) highlight that U.S. communities with strong religious engagement exhibit higher social stability and business resilience in despite of slower economic growth. In a broader context, Dong et al. (2024) find that religious adherence in rural China fosters sustainable consumption and psychological resilience. Further theoretical grounding is provided by Coğgel and Minkler (2004), who conceptualize religious consumption as a preference-shaping mechanism that reinforces identity signaling and influences economic behavior.

Overall, it can be stated that faith and religious beliefs play a significant role in enhancing the economic resilience of Iranian households in the face of economic fluctuations. Contrary to traditional studies that have considered religious consumption as a limiting factor in economic growth, this interdisciplinary research demonstrates that religious preferences—particularly halal consumption—can lead to increased subjective well-being, family cohesion, and consumption stability during periods of instability. Empirical and comparative data, in contrast with other Muslim societies, also confirm that religious beliefs contribute significantly to the development of sustainable economic behavior. As the share of non-halal goods increases ($\omega \to 1$), household utility from halal consumption decreases, while variance in non-halal utility rises. This pattern reflects a behavioral trade-off: increased material consumption is accompanied by reduced spiritual satisfaction, highlighting the tension between market efficiency and moral coherence in consumption.

5. Conclusion

This study affirms that economic behavior in Muslim-majority societies is deeply influenced by religious values, ethical norms, and spiritual orientation. Through the lens of halal consumption, households demonstrate greater psychological resilience, long-term planning capacity, and financial discipline—especially during periods of economic instability, such as inflation, unemployment, and income shocks.

By embedding halal preferences into a DSGE framework, the research illustrates how faith-based consumption enhances utility and welfare outcomes. Households derive higher satisfaction from religiously compliant goods, and this alignment between belief and behavior contributes to economic stability across time.

Moreover, the broader implications of religious consumption extend beyond individual utility. Traits such as conscientiousness, frugality, and ethical restraint—cultivated through Islamic teachings—strengthen institutional trust, encourage responsible production, and promote distributive justice. In this regard, faith operates not only as a personal belief but also as a systemic force contributing to macroeconomic resilience.

The expansion of the global halal economy reflects both religious identity and economic potential. Unified certification systems and inter-Islamic cooperation have transformed halal industries into platforms for innovation, investment, and ethical globalization.

For policymakers, these findings offer practical pathways to enhance social welfare: integrating religious indicators into household well-being metrics; educating consumers on value-driven, responsible consumption; supporting local halal markets during crises; and designing culturally sensitive economic reforms. In contexts such as Iran, where faith is integral to social life, such strategies can foster a more cohesive, resilient, and equitable economic system.

While this model assumes representative households for tractability, future research could expand the framework by incorporating heterogeneous religious intensities and their impact on utility and consumption smoothing behavior.

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Author Contributions

Hamid Reza Izadi individually conceived and designed the study, conducted the literature review, managed data collection and analysis, and interpreted the research findings.

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