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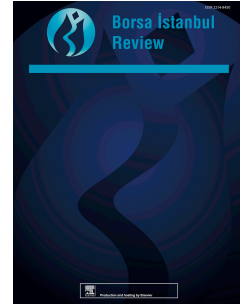
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ABSTRACT:

This paper presents an approach for assessing the contribution of Islamic finance in an economic system by modeling a composite index in order to analyze the risk of crises caused by financial openness and its impact on growth and volatility of business cycles. Through a sample of 14 industrialized countries in the world, of which 8 countries are considered as leaders of Islamic finance, this study aims to establish a comparative analysis between the economic performances of the two sets of countries. The considered period ranges from 1980 to 2013 covering the most important crises experienced by the selected countries.

Overall, the results showed a relatively similar performance between economies where Islamic finance prevails, and other conventional economic systems. Moreover, when considering some specific components of the financial stress index, countries that adopt the principles of Islamic finance are strongly positioned to avoid various situations of crisis and economic downturns.

KEYWORDS: Business cycles – Growth – Volatility – Islamic Finance

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