

Underground economic

[Literature](#), [Russian Literature](#)



Teacher 9. Lemieux (2007) lists ways to measure the underground economy. List and describe three of these methods. According to Lemieux, the underground economy can be measured in several ways. The three of these methods are;

a. Direct approaches – the direct approach in estimating the underground economy is done through the use of surveys among the participants in illegal markets. This is most done through verbal questionnaires since participants in illegal markets are likely to be worried that responding to a written questionnaire can be used against them as evidence. Or it can also be “done by extrapolating comparisons of income tax reports with tax audits” (13). This may not be reliable because participants in underground economy are less likely to tell accurate information about their illicit economic activities. For example, nobody will admit that they are in drug business or how much money they make in the illegal trade causing the method to be inaccurate due to the inaccurate information supplied by the respondents.

b. Discrepancies in official statistics – estimate of underground economy can also be done by comparing the statistics in national accounting. Ideally, total income must be equal to total final expenditures. If there is an excess of expenditures over incomes, this indicates the size the underground economy. This is based on a common sense that one cannot spend more than one earns. So the extra money that was spent is assumed to have come in the underground economy in the discrepancies in official statistics approach.

Another estimate that can be done using discrepancies in official statistics is to check labor statistics. A decline in formal employment or labor

participation indicates that the number of people in underground economy is increasing as workers are migrating from formal to informal employment.

c. Monetary approaches - the monetary approach recognizes that underground economy transacts only in cash to avoid paper trail that could detect and trace their illegal activities. The extent of the size of the underground economy can be estimated by analyzing the money supply (composed of cash and bank deposits) whether it has increased or decreased. An increase in money supply without the reported transactions or any visible economic activities indicate the existence of an underground economy. The value of the underground economy can then be extrapolated by comparing the value of money supply (cash on hand and bank deposits) to reported transactions in a given economy. The discrepancy between the value of money supply and reported transactions will give an estimate of the size of underground economy.