

Abstract

An easy and popular method for measuring the size of the underground economy is to use macro data such as money demand or electricity demand to infer what the legitimate economy needs, and then to attribute the remaining consumption to the underground economy. Such inferences rely on the stability of parameters of the money demand and electricity demand equations, or at very least on knowledge of how these parameters are changing. We argue that the pace of change of these parameters is too variable in transition economies for the above methods of estimating the size of the underground economy to be applicable. We make our point by using Czech Republic and other transition country data from the financial and electricity sectors.