

SIZE AND IMPLICATION OF UNDERGROUND ECONOMY IN ROMANIA - A MIMIC APPROACH

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ABSTRACT: Since the economic crisis affected the real economy in Romania, the official GDP declined by almost 5 percent in 2009 compared with 2008, 1.3 percent in 2010 against the previous year and unemployment increased too. In 2011 a moderate growth of the GDP is expected but unemployment will further increase. Against this background the extent of the underground economy in Romania and its development over time are once again the subject of intense debate, as many people will attempt to make up for loss of income in the official economy through greater participation in the underground economy.

The objective of this paper is to estimate the size of the underground economy in Romania by using the Multiple Indicators Multiple Causes (MIMIC) method. The MIMIC approach is based on the idea that the underground economy is not a directly observable measure, but it is possible to approximate it using quantitatively measurable causes of working in the underground economy and using indicators in which underground economic activities are reflected. In addition, the paper aims at clarifying to what extent the variables explain the size of the underground economy in Romania.

Key words: underground economy, Multiple Indicators Multiple Causes (MIMIC), latent variable, structural equation model

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