Measuring the model uncertainty of shadow economy estimates

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Abstract We derive the measurement error of the shadow economy estimates stemming from the currency demand model uncertainty. The choice of regressors can have a material and highly country-specific impact on the estimated level of the shadow economy. In consequence, one cannot attribute the same level of uncertainty to every country across the panel. Our extension of the Currency Demand Analysis, based on the frequentist and Bayesian model averaging procedures, makes the shadow economy measurements less arbitrary and more suitable for the evaluation of economic policies. We use our results to demonstrate the average shadow economy estimates as of 2014 for 64 countries, along with the confidence intervals.

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