

Income under-reporting and the shadow economy in Cyprus: Evidence from household survey data

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Abstract

Income under-reporting estimates based on households data as well as the size of the shadow economy are of interest to academics as well as policy makers. For that purpose, various methods have been developed using micro/survey data as well as aggregate/macro data. This study applies the micro (indirect) method proposed by Pissarides and Weber (1989) on two household-level databases and estimates income under-reporting on Cyprus in the wake of the Global Financial Crisis and before its peak on the domestic economy in 2012/13. We use data from both the Household Budget Survey (HBS) as well as the Household Finance and Consumption Survey (HFCS), given that both of these surveys were conducted in the same year in Cyprus and provide similar yet complementary information on households. Our updated analysis for 2009 shows that income under-reporting has remained stable at least since 2002/3 when the study of Pashardes and Polycarpou (2008) estimated it to be in the range of 38% to 44%.