

THE UNDERGROUND ECONOMY

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The main purpose of this work is to study the basic aspects of the underground economy, its reasons and results, problems and the ways of solution.

The underground economy or black market is a market where all commerce is conducted without regard to taxation, law or regulations of trade. The term is also often known as the underdog, shadow economy, black economy or phantom trades.

In modern societies the underground economy covers a vast array of activities. It is smaller in countries where economic freedom is greater, and becomes larger in those areas where corruption, regulation, or legal monopolies restrict legitimate economic activity.

Goods acquired illegally take one of two price levels:

- They may be cheaper than legal market prices. This is usually the case in the underground market for stolen goods.
- They may be more expensive than legal market prices. If goods are illegal, such as some drugs, their prices can be vastly inflated over the costs of production.

Black markets can form part of border trade near the borders of neighboring jurisdictions with little or no border control if there are different tax rates, or where goods are legal on one side of the border but not on the other. This products include alcohol and tobacco. However, not all border trade is illegal.

Even when the underground market offers lower prices, most consumers still buy on the legal market when possible, because:

- They may prefer legal suppliers, as they are easier to contact and can be held accountable for faults;
- In some jurisdictions, customers may be charged with a criminal if they knowingly participate in the black economy, even as a consumer;
- They may feel in danger of being hurt while making the deal;
- They may have a moral dislike of black marketing;

But some actively prefer the underground market. For example:

- Unlicensed taxicabs. In Baltimore, it has been reported that many consumers actively prefer illegal taxis, citing that they are more available, convenient, and priced fairly.

In developed countries, some examples of underground economic activities include:

Transportation providers. Where taxicabs, buses, and other transportation providers are strictly regulated or monopolized by government, a black market typically flourishes to provide transportation to poorly served or overpriced communities.

Illegal drugs. From the late 19th and early 20th centuries, many countries began to ban the keeping or using of some recreational drugs. But many people continue to use illegal drugs, and a black market exists to supply them.

Prostitution. Prostitution is illegal or highly regulated in the most countries across the world. While prostitution exists in almost every country, studies show that it tends to flourish more in poorer countries and in areas with large numbers of unattached men, such as around military bases. In countries such as the Netherlands, where prostitution is legal but regulated, illegal prostitutes exist whose services are offered cheaper without regard for the legal requirements, for example health checks.

Weaponry. The legislatures of many countries forbid or restrict the personal ownership of weapons. The black market supplies the demands for weaponry that can not be obtained legally.

Alcohol and tobacco. It has been reported that smuggling one truckload of cigarettes from a low-tax US state to a high-tax state can lead to a profit of up to \$2 million. The low-tax states are generally the major tobacco producers, and have come under criticism for their low taxes.

There are also such examples of underground economic activities as copyrighted media, currency, fuel and others.

If an economic good is illegal but not seen by many in society as particularly harmful, such as alcohol under prohibition in the United States, the black market prospers.

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GENERAL DEFINITION OF ACCOUNTING

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Today, it is impossible to manage a business operation without accurate and timely accounting information. Managers and employees, lenders, suppliers, stockholders, and government agencies all rely on the information contained in two financial statements. These two reports — the balance sheet and the income statement — are summaries of a firm's activities during a specific time period. They represent the results of