ABSTRACT

Gross Domestic Product (GDP) is the most credible calculations of national income. GDP represents the whole economic activities that occur in a region. In fact, GDP has a weakness that is escaped from underground economy activities. That weakness could affect the economic activities. Several previous studies showed a research gaps, there were differences in showing the influence of the underground economy on national income.

This study aims to estimate the size of underground economy activities and also analyze the influence of underground economy, investment, government foreign debt and exchange rate on national income. This study used secondary data in 2010 quarter 1 to 2017 quarter 4 obtained from Bank of Indonesia, the Central Statistics Agency and the Ministry of Finance. The currency demand approach method is used to estimate the underground economy, while the error correction model method is used to analyze the national income.

The result of the estimate shows that activity of underground economy is about 23,36 percent of GDP on average. Influence of underground economy toward national income shows insignificant result. Investment and exchange rates have a positive and significant influence on national income in the short and long term. Meanwhile, foreign debt has a positive and significant effect on national income only in the long run.

Keywords : national income, GDP, underground economy, investment, government foreign debt, exchange rate, error correction model.