

**THE FACTORS INFLUENCING HIDDEN ECONOMY INVOLVEMENT
IN LIBYA**

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56

**A thesis submitted to the Graduate School in partial Fulfillment of the
requirements for the degree Master of Science in Accounting (International
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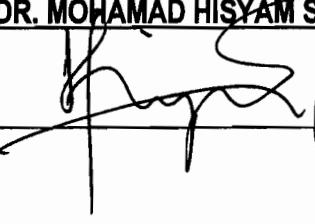
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ABSTRACT

This paper aims to examine the influence of the demographic and attitudinal variables (tax rate and social burden, Islamic values, working experience, penalty, fairness of the government, age, gender, education, occupation, income level, and marital status) on hidden economy involvement in Libya. The questionnaire was developed and distributed in order to collect the data for the purpose of this study. From the correlation and regression analysis, it is found that tax rate and social burden, penalty and Islamic values variables are positively related to hidden economy involvement. For the demographic factors, the variable of occupation has a relationship with hidden economy involvement.

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ABBREVIATIONS

GDP = Gross Domestic Product

OECD = Organization for Economic Co-operation and Development

HE = Hidden Economy Involvement.

TR = Tax Rate and Social Burden.

EX = Working Experience.

P = Penalty.

IV = Islamic Values.

FG = Fairness of the Government.

1.0 CHAPTER ONE

1.1 Introduction

This chapter introduces the background of this research. As an introductory, this research investigates the involvement in the hidden economy activities in Libya. Various definitions and taxonomies of the concept of hidden economy, proposed by several researchers, are highlighted. It also stresses the importance of knowing the factors that have an influence towards hidden economy activities.

1.2 Research Background

Any economic activity that does not appear in the statistics of the national income and gross domestic product (GDP) is considered to be part of the hidden economy (Craigwell & Maurin, 2005). Many people think that hidden economy is an illegal activity; however, this opinion is not necessarily right. Although it might be true that all illegal activities lie within the hidden economy but there are many legal ones (Carolina & Pan, 2007). This research considers hidden economy as an illegal activity due to its negative impact to the economic growth.

The growth of hidden economy creates a problem to the governments and policy makers around the world (O'Neill, 1983). This phenomenon is contributed by several identifiable reasons such as the increase of tax burdens and social security contributions, the increase of rigidity in economic regulations. As stated by Greenidge, Holder, and Mayers (2005), the problems of hidden economy are always a manifestation of the refusal of practitioners in the field to evade the application of rules which include taxes especially in the labour markets. They further argued that hidden economy is the unethical practice that has eroded and deprived the economy

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