

## **Unlawful Activities: Microeconomic Analysis of Illegal Firms**

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*Research on corrupt and criminal activity has been of particular interest among social scientists for over three decades. This paper examines in terms of a simple micro-theoretic exercise an illegal firm's decision-making behaviour. Simple models of a profit maximizing illegal industrial firm are set up and conditions under which illegalisation of work and production occur are derived. Moreover, we explore the cases of detection of the firm at different phases of its production process and also assess the impact of deterrence, if any, on the scale of illegal activity.*

### **I Context of the Study**

In a developing and low-income country like India, where capitalist development is yet to reach its maturity, production and employment in the illegal sector of the economy occupy an important position. With the growth and spread of capitalism, the division between the legal and the illegal sectors gradually emerged. Unlike overground business, underground business runs on oral contracts and mutual trusts. Since the business is illegal in nature, and therefore risky, written contracts are not feasible. Because of the oral nature of the contracts, the underground firms are able to save a lot of transaction costs, which often become quite high in today's corporate world. An illegal economy is a secret market that is characterised by non-compliance of institutional set of rules. Examples include illegal currency transactions, drug trade, human trafficking, prostitution (where prohibited), income tax evasion, etc. The preferred medium of exchange in illegal transactions is cash, since it does not leave a footprint.

People tend to work in the underground economy for a variety of reasons. Most of these lack the skills to obtain jobs in the mainstream economy. Some choose these types of work because these pay more than mainstream jobs. A third category of workers prefer this because of the personal freedom they enjoy

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