

We would like to thank the reviewer for his/her apt and constructive criticisms. We agree without exception with all of the criticisms made and revised our paper along the lines suggested. This would definitely add value to our paper.

I have a couple of comments that I'm hoping will go in the direction of strengthening this end-to-end (modern) applied economics approach utilized by the authors, and thus making their empirical results somewhat more credible.

The concept of economies of scale relates to the characteristics of the technology that reflects in the total average cost function. While they are quite right that diseconomies of scale are most likely to affect capital relatively more than labor, the authors' argument that the informal economy should be seen as less capital intensive has to be moderated, in particular, because their observations are not directly on capital, but on energy, a complement production factor. The other authors' argument of the informal sector being capital intensive is also to be moderated. Labor costs are clearly lower in the informal sector than in the formal one, but can't we think of advantages of using more capital in the informal sector relative to the formal sector such as possibly lower costs related to maintenance and equipment warranty?

Response: We now address this issue in the revised draft. (See the long footnote in section 4)

The policy implications discussion is strikingly asymmetric for reasons the reader does not quite understand. Indeed, the authors indicate both in the introduction and the conclusion that when fighting the informal economy policy makers should take into account the negative relationship they find between its size and energy intensity, but do not say much about how. In contrast, they discuss in much more details the implications of their results for energy policy.

Response: In the revised draft we now give some recommendations on the missing issue.

I found a few typos.

Page 3, line 9: Delete the word "that"

Page 3, line 12: Delete the words "the they argue that"

Page 4, line 9 : Delete "with" (or replace it with "against" ?) (see also page 20, line 11)

Page 6, line 10 : ", and revenue-raising activities."

Page 10, line 22 : "The coefficient attached to the lagged..."

Page 16 : The title of Figure 1 is too far from the plot.

Page 18 : Delete space between lines 6 and 7.

Page 19, line 4 : "the informal sector..."

Page 19, line 14 : Need a coma the citation.

Page 21, line 10 : Replace "yield" with "indicate."

Page 21, line 15 : "for future research. "

Response: All the typos are corrected in the revised draft.