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THE ISSUES OF INCREASING THE EFFECTIVENESS OF TEACHING COMPARATIVE ECONOMICS[*]

Jurijs Baltgailis

Transport and Telecommunication Institute, Lomonosova street 1, Riga, LV-1019, Latvia

E-mail: Baltgailis.J@tsi.lv

Abstract. In the conditions of intensive globalization processes, the problem of international comparisons of countries ' development increases. The usual methods of comparisons based on macroeconomic indicators today do not reflect the real reality, so it becomes important in the teaching of economic Sciences to give students a methodology for comparing the economic development of countries on the basis of numerous rating studies. In recent years, the development of rating comparisons has become one of the priorities of many international economic organizations. These rankings make it possible to significantly supplement and specialize international comparisons, to teach students the perfect techniques that allow them to quickly engage in international projects and research, to do business.

Keywords: teaching; comparative economics; globalization; rating; indexes; GDP.

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1. Introduction

In the educational process of preparing course and diploma papers on a comparative economy, there may be distortions in results and a misunderstanding of reality. To make the educational process more reliable, it is suggested to supplement studies in the field of comparative economics through the use of multiple rating indicators between countries with subsequent deeper analysis. If we use the estimates of several rating agencies in the field of investment sustainability and the order of ten internationally recognized ratings in various aspects of economic development when comparing the economies of different countries, we can get a reasonable picture of the advantages of some countries over others and qualify these advantages in a qualified manner.

The experience of students' performance in coursework in the field of comparative economics showed a clear correlation between all ratings. The most efficient economies occupy a leading position in most ratings. If the rating also carries a wide range of indicators, such as Doing Business, or is largely based on the results of sociological surveys, it helps to identify the problematic aspects in any economy. In addition, the study of the process of formation and calculation of ratings, allows students to become familiar with the deep economic processes and methods for their study. Studying and using rating ratings will be a good school for students to learn about economic processes and can become a good practice for the preparation of diploma papers.

The OECD's monthly publication, Main Economic Indicators (MEI), provides an overall view of short-term economic developments through presentation of an extensive range of specific short-term economic indicators within each of the following subjects: national accounts, domestic demand, production, labour market indicators, business and consumer opinions, prices, composite leading indicators, finance, manufacturing, foreign trade, construction, balance of payments. These indicators are important instruments for the formulation of economic policy at the national level and for use by international organization, such as the OECD, IMF, Eurostat and the European Central Bank (ECB). They are well known, widely collected and used extensively by countries and international organization.

In addition, the methods for their collection and compilation are usually well established and documented within each country and in statistical methodological information compiled by international organization, such as the IMF for their Special Data Dissemination Standard (SDDS). Even so, the methodologies used are not always transparent for a large number of users. In some cases, this may lead to misinterpretation of statistical data and a misunderstanding of economic phenomena, especially when making international comparisons. These shortcomings can be avoided if we do not go into statistics to use ratings, where indicators are often well-founded. This is especially important for entrepreneurs and investors who need quick solutions in a changing market situation.

Our task is to provide an understanding of the ratings that contribute to the expansion of the potential of students in the field of entrepreneurship and international methods in the field of international comparisons. Given the huge number of different ratings and indicators, we have reduced, taking into account the experience of teaching, the most convenient in the study and understanding of the ratings in a single table and reflected their advantages.

2. Methodology

Today in the world there are dozens of new ratings and indexes that have gained popularity among researchers. A number of indexes are developed by companies professionally involved *in insurance risks and advising in the field of investment and lending*. Our task is to identify ratings that can add to and expand comparative studies based on GDP. Below are brief guidelines for country comparisons on the methodology of the World Bank.

Compare countries: income levels. One can use GDP per capita in dollar terms to compare incomes across countries. However, the comparison may be somewhat misleading because consumers face different prices in various countries. One thousand U.S. dollars can buy much more in Mexico compared to the U.S. since prices in Mexico are lower. To account for the differences in prices, one should look at the GDP per capita in Purchasing Power Parity terms. In that way, one compares countries in term of real income (what can be purchased) as opposed to the dollar income.

Compare countries: level of development. The most basic comparison is between GDP per capita levels or the levels of GDP per capita in terms of Purchasing Power Parity. However, GDP can be a misleading measure as it may not capture other aspects of the quality of life such as crime, education, environmental quality, etc. The Human Development Index published by the UN is a composite measure that accounts for a broader set of development factors.

Compare countries: economic structure. One should look at the shares of Agriculture, Industry, and Services in the overall value added of the economy. Generally, lower income countries have a larger share of agriculture and the share of services expands as they develop.

Compare countries: unemployment. The unemployment rate is the standard variable used to compare countries. However, one may want to look at youth and long-term unemployment as well. Both indicators suggest deeper, longer-term problems in the labor market.

Compare countries: corruption. There are two indexes that can be used. One is the Corruption Perceptions Index from Transparency International and the other is the Corruption index from the World Bank. The two institutions apply different methodologies to measure corruption and while the results are similar, they are not the same.

Compare countries: rule of law and governance. The best data to look at are the World Bank governance indicators. They can be used to compare countries in terms of the quality of the bureaucracy, the efficiency of the public administration, and more.

Compare countries: financial development. One can chart the level of private credit as percent of GDP and stock market capitalization as percent of GDP. The first measure shows the development of credit markets while the second one is a measure of stock market development.

Compare countries: economic freedom. The Heritage Foundation publishes several indexes of economic freedom in different areas of economic life: labor market, financial markets, and others. Each of them reflects the degree of government interference and the efficiency of the regulatory and legal system.

Compare countries: globalization. The Globalization Index from the KOF Institute in Switzerland provides well-known and widely used measures of economic, social, and political globalization. Each index reflects the degree of integration of a country with the rest of the world.

Compare countries: internal and external balances. The three most commonly analyzed balances are the Current Account balance, the Trade Balance which is part of the Current Account, and the fiscal balance measured as government revenues minus government spending. If a country has persistent deficits in any one of those balances exceeding 4 percent of GDP, which could suggest the need to rebalance the economy.

Compare countries: infrastructure development. One could look at a number of indicators to compare countries including the spread of mobile phones, the number of passenger cars, the length of railroads, the capacity of ports, etc.

Compare countries: energy production and use. The energy statistics are abundant making it possible to compare countries along many dimensions. Some of the most popular comparisons are the use of energy per capita, the share of green energy used, the retail petrol prices, and the energy used per unit of GDP.

Compare countries: health and education. The country comparison could be multi-dimensional looking at inputs such as health spending per capita and outcomes such as birth/death rates and disease prevalence. Similarly, one can look at the inputs to education including spending and the outputs including literacy rates and school completion rates.

3. Results of the study

The task of the research is to show shortcomings when comparing the economic potentials of countries through GDP and to identify the possibilities for rating research to expand opportunities in the learning process. The general methodology for calculating GDP is based on the reflection primarily of monetary transactions in the process of generating revenues or expenditures of the national product. GDP is the value of goods and services produce in a country during the time period of year. It is a macroeconomics index reflecting the market value of all final goods and services produced over a year's period in all branches of economy in the country, to be consumed, exported, or accumulated, irrespective of the national identity of the used agents of production. The first edition of the UN Guidelines on National Accounts Standards, compulsory for all countries, was published in 1953 and contained less than 50 pages, and the 2008 edition contains 722 pages and 400 pages of commentaries on it (Lequiller F., Blades D. 2016).

However, some countries of developed democracy have doubted whether this index indeed reflects real economy. In February 2008, French President Nicolas Sarkozy invited Nobel laureates in economics Joseph Stiglitz and Amartya Sen, as well as the eminent French economist Jean-Paul Fitoussi to set up a committee of leading economists in order to investigate if GDP was a reliable measure of economic and social progress. The committee was set up and, having worked for several years, came to the main conclusion: the use of market prices in the assessment of economic development is vicious in itself! The Nobel winners discovered suddenly that market production was not a criterion of well-being. Mixing up the two notions can bring about erroneous conclusions on the degree of people's prosperity and can result in wrong political decisions. The material life standard is more closely connected with factors of real income and consumption; production can be expanding while income can be going down, and vice versa, if one takes into account capital amortization and revenues that are repatriated from the country or come into the country in the form of investments or other types of receipts. Latvia can serve an example of the income index distortion. Latvian GDP has been growing steadily over the last five years. If you look at Eurostat data you will see that, with regard to the PPS (purchasing power parity) level, Latvia approximately equals the Czech Republic, being far ahead of Lithuania, Poland and Hungary, let alone Bulgaria and Romania. However, its GDP index makes Latvia a backbencher of the statistics: it lags behind

Czechia by 20 percentage points. To put it simply, incomes in Latvia by no means correspond to the current prices in the country, which limits drastically the consumer purchasing power of the people (Eurostat, 2019). By the way, the Sarkozy Committee immediately paid attention to the following: the current national accounts show that in some OECD countries the effective revenue of households was growing in quite a different manner than the effective GDP per capita and, as a rule, much slower. Besides, a considerable part of economic activity takes place beyond markets and is seldom reflected in national accounts. The committee has also come to some disappointing conclusions: the manufactured products could appear unwanted at market prices and, hence, distort the actual statistics. There are no methods to measure the cost of people's leisure; for some assets there are no markets where they could be tradable; there is no serious and precise account of services and goods exchange between households, like daily joint commuting to work, baby-sitting or caring for the elderly neighbour. The Nobel winners discovered suddenly that market production was not a criterion of well-being. Mixing up the two notions can bring about erroneous conclusions on the degree of people's prosperity and can result in wrong political decisions. The material life standard is more closely connected with factors of real income and consumption; production can be expanding while income can be going down, and vice versa, if one takes into account capital amortization and revenues that are repatriated from the country or come into the country in the form of investments or other types of receipts (Stiglitz Joseph E., Amartya Sen and Jean-Paul Fitoussi, 2010).

According to experts, one cannot count the services in an industry branch all of a lump: classes with a freshman student and with an undergraduate are services of different cost; treatment of different diseases also differs in price. The above are examples of investing in human capital assets. The Nobel laureates believe that, in order to know what is happening to economy, one should define precisely the changes in the wealth level. That is why they suggest considering income and consumption jointly with wealth. Wealth measurement should be the primary tool when measuring stability. Things that will last in the future should be represented as reserves of physical, natural, human, or social capital. Besides, computations should be focused on households, and income should also be estimated in non-market spheres.

One should admit that statistics is distanced greatly from real life allowing politicians to justify their unreasoned measures and blunders. The ratings of the most varied orientations can help to expand the picture of the real economic potential of the country and, most importantly, will show the perspective of the movement of the economy, which enables researchers to give concrete recommendations and conclusions on the effectiveness of the actions of the government of comparable countries. International ratings allow expanding the research object, overcoming the shortcomings in the GDP calculations and giving a broader picture of the real economy of the countries being compared. For example Credit Rating Agencies (forthcoming abbreviated as CRAs) fill an important gap in sharing information for both investors and for debt holders. They aim to measure the creditworthiness, in other words companies' ability to meet their debt obligations with a focus on the long-term view. Credit ratings are used for a number of different market participants such as nations, governments and companies for issuing debt (Frost, Carol Ann. 2010), but only reflect the credit risk connected to the product/firm and do not cover other risks such as market – or liquidity risk (Masciandaro, Donato. 2011). The rationality of using CRAs is to reach information economies of scale and to increase the transparency among investors or debt holders. Some of the stronger arguments behind their position in the financial markets are that the ratings are based on information CRAs get from both public and non-public data, their employees and technological framework are highly skilled and they have the right incentives to judge a firm or product without any obligations against the issuer (Tichy, Gunther. 2011).

There are around 150 credit rating agencies in the world but the market is totally dominated by three actors; Standard & Poor's, Moody's and Fitch with a combined market share over 90 percent (De Haan, Jakob and Amtenbrink, Fabian. 2011). The three big agencies (often mentioned as big three) use letters and figures for their ratings, expressed as a scale where, for example, the highest rating for Fitch and S&P is AAA, while the highest

for Moody's is Aaa. The most frequently used international rankings and indexes of students of Latvian universities in the preparation of diploma and home works are presented in Table 1.

Table1. The most frequently used international rankings and indexes of students of Latvian universities in the preparation of diploma and home works

N	Category	Features	Advantage	A source
1	Ease of Doing Business	11 indicators that do not take into account other ratings. Doing Business uses a different approach to measuring the quality of regulation. It focuses on whether an economy has in place the rules and processes that can lead to good outcomes, linked in each case to Doing Business measures of efficiency.	They leave the situation not only in the country, but also in the largest cities.	The World Bank
2	World's Most Competitive Economy	The Global Competitiveness Index (GCI) tracks the performance of close to 140 countries on 12 pillars of competitiveness	It assesses the factors and institutions identified by empirical and theoretical research as determining improvements in productivity, which in turn is the main determinant of long-term growth and an essential factor in economic growth and prosperity.	The World Economic Forum
3	Country Most Open to Trade	The Index covers 12 freedoms – from property rights to financial freedom – in 186 countries.	Reflects and compares the customs and protectionist policies of the world's largest countries.	The World Economic Forum
4	Globalisation Index	It is used in order to monitor changes in the level of globalisation of different countries over extended periods of time. The current KOF Globalisation Index is available for 185 countries and covers the period from 1970 until 2017. A distinction is drawn between de facto and de jure for the Index as a whole, as well as within the economic, social and political components.	Measures the economic, social and political dimension to globalisation. The selection of the variables that go into the KOF Globalisation Index has been reviewed and expanded. Instead of the previous 23 different variables, a total of 42 are now included.	KOF Swiss Economic Institute
5	The Big Mac index	Is a survey that is used to measure the purchasing power parity (PPP) between nations, using the price of a McDonald's Big Mac as the benchmark.	The Big Mac index suggests that, in theory, changes in exchange rates between currencies should affect the price that consumers pay for a Big Mac in a particular nation, replacing the "basket" with the popular hamburger.	*The Economist* magazine

6	World's Best IP Protection	Report presents trends and changes in levels of physical and intellectual property protection in 129 countries.	One of the main measurements of the index is intellectual property rights protection, or IPR. The IPR score is based on a survey of experts who work in or with the country at hand. Scores are placed on a 10 point scale.	The World Economic Forum
7	The International Tax Competitiveness Index	Businesses will look for countries with lower tax rates on investment in order to maximize their after-tax rate of return. If a country's tax rate is too high, it will drive investment elsewhere, leading to slower economic growth.	The International Tax Competitiveness Index (ITCI) seeks to measure the extent to which a country's tax system adheres to two important aspects of tax policy: competitiveness and neutrality.	Organisation for Economic Co-operation and Development (OECD).
8	Country with Least Corruption Perception	The index covers perceptions of public sector corruption in 168 countries.	Top performers share key characteristics: high levels of press freedom; access to budget information so the public knows where money comes from and how it is spent; high levels of integrity among people in power; and judiciaries that don't differentiate between rich and poor, and that are truly independent from other parts of government.	Transparency International
9	GINI index	Data are based on primary household survey data obtained from government statistical agencies and World Bank country departments	The Gini coefficient measures the inequality among values of a frequency distribution (for example, levels of income). The coefficient ranges from 0 (or 0%) to 1 (or 100%), with 0 representing perfect equality and 1 representing perfect inequality.	The World Bank
10	The Global Human Capital Index	Index ranks 130 countries on how well they are developing their human capital on a scale from 0 (worst) to 100 (best) across four thematic dimensions and five distinct age groups to capture the full human capital potential profile of a country.	The Global Human Capital Report proposes a new benchmark for leaders to build the workforces of the future.	The World Economic Forum

There are interesting examples of corporate indexes. Coface a world leader in credit insurance, provides a comprehensive line of credit insurance to protect companies against potential non-payment by their customers which can be spread accross nearly 200 countries. It's the most agile global credit insurance partner in the industry. Updated quarterly, the Coface Country Risk Assessment map (Cofase map. 2019) a overview across 160 countries around the world. The Coface country risk assessment aims at evaluating the average credit risk of companies in a given country. The evaluation is based on economic, financial and political data. But it also takes into account Coface experience on the country, under two dimensions: Coface's payment experience on the companies of the country and also its assessment of the business climate.

The Better Life Index (OESD Index. 2019) is designed to let you visualize and compare some of the key factors – like education, housing, environment, and so on – that contribute to well-being in OECD countries. It's an interactive tool that allows you to see how countries perform according to the importance *you* give to each of 11 topics that make for a better life.

The OECD has been keenly involved in the debate on measuring well-being. Based on this experience, these 11 topics reflect what the OECD has identified as essential to well-being in terms of *material living conditions* (housing, income, jobs) and *quality of life* (community, education, environment, governance, health, life satisfaction, safety and work-life balance). Each topic is built on one to four specific indicators: For example, the Jobs topic is based on four separate measures: the employment rate, personal earnings, the long-term unemployment rate and job security. For each indicator you can also compare results for men and women, and see how much your social and economic status affects results. In the future, indicators describing sustainability of well-being over time will complement these indicators reflecting current material living conditions and quality of life.

4. Conclusion

 In our opinion, it is necessary to switch from analyzing the GDP of countries to analyzing all available ratings and indexes, which will allow us to get a more accurate picture, as well as to receive students' qualitative knowledge and to learn delicate analysis of the international economy processes while studying the mechanism of rating and index formation. And the main, rating research in different spheres of the economy provides additional information about the level of, for example, corruption or investment opportunities of a country, that does not reflect GDP. The country comparison tool can be used to create interactive charts using over 100 indicators.

Accounting for GDP statistics includes working with large databases made up of primary statistics of different quality and time coverage! But it is unlikely that economists will abandon the GDP figures provided by the World Bank, so the preparation of a real picture of the achievements of any country today is not possible, without clarification with the help of numerous and proven ratings and indexes.

The variables are drawn from major international organizations are updated regularly. One can compare countries over time using the line charts or the rankings of various countries by selecting a specific year.

The comparison charts as well as the source data can be downloaded for free after registering. The most productive use of rating indicators in teaching courses Fundamentals of Risk Management and The Global Economy and International Business Environment, where students are well motivated to study the basics of entrepreneurship.

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Jurijs BALTGAILIS, Dr.oec, is a docent of the Institute of transport and communication in Riga. He teaches at a number of universities in Latvia, has extensive practical experience, led a number of banks in Latvia, Lithuania and Azerbaijan, is a partner in an audit firm. Research interests: international comparisons, tax planning, risk management, globalization and socialization.
ORCID ID: orcid.org/0000-0003-0892-1122

Aknowledgements

Register for an ORCID ID:
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