

**Discussion of**  
**Tariffs and Retaliation: A Macroeconomic**  
**Analysis**

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# Overview

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- unilateral tariffs with and without retaliation
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- incomplete and complete markets
- different country sizes

# Findings

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## Macro effects of a 10% increase in tariffs

Tariffs	GDP	Inflation	Policy rate	Trade balance	Welfare
Unilateral	-1.6% (SR)	+0.3%	+60 bp	deteriorates	US: +1.0%
	-1.2% (LR)				ROW: -0.65%
Retaliation	-2.5% (SR)	+0.8 %	+120 bp	deteriorates	US: -1.7%
	-1.7% (LR)				ROW: -0.55%

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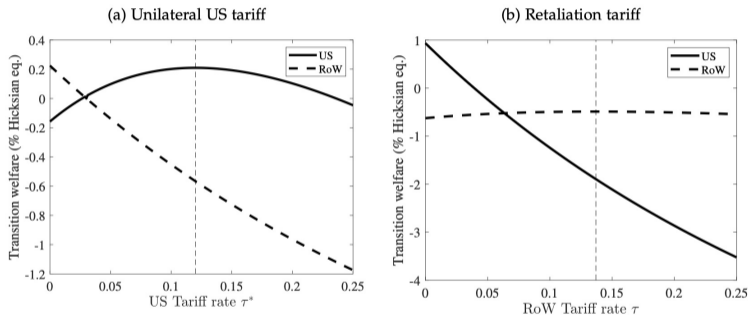
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Results are qualitatively robust across specifications including specification with alternative supply dynamics and lower trade elasticities

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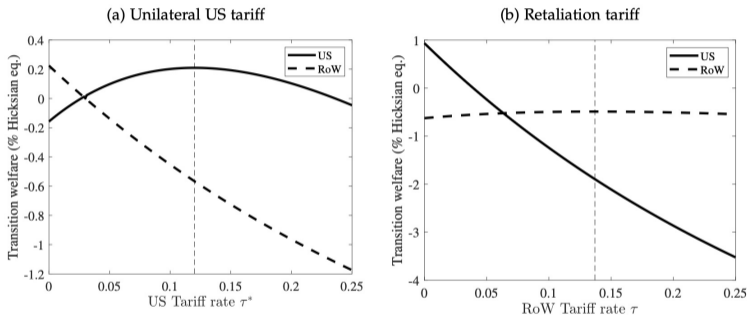
## Welfare-maximizing tariffs



- Optimal unilateral tariff  $\tau^* = 12\%$ . The US is better-off and the ROW is worse-off
- Retaliation tariff  $\tau^* = 13.2\%$ . Both the US and the ROW are worse-off

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**Very nice paper! well-crafted!**

# Model predictions vs data

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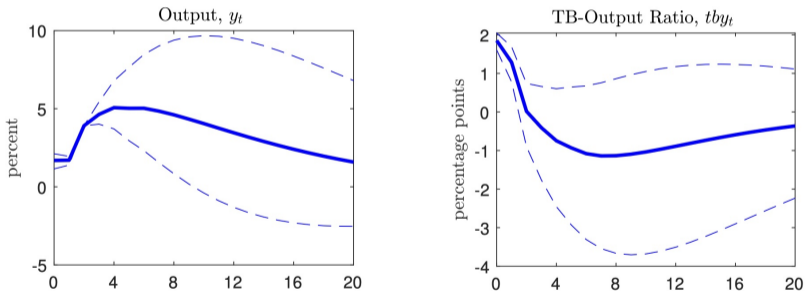


Figure: Impulse responses to a 10% increase in the transitory import tariff shock

## Monetary policy: easing or tightening?

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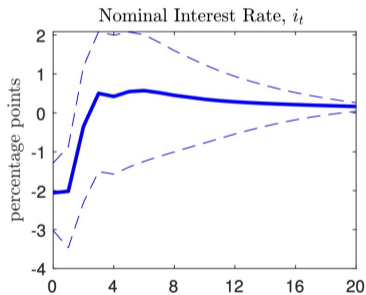


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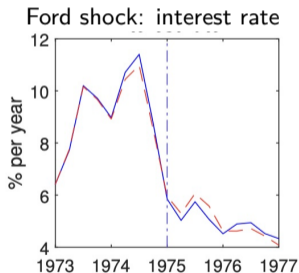
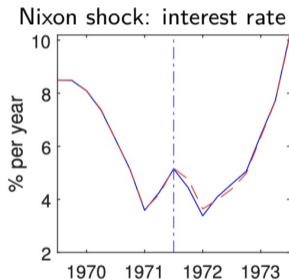


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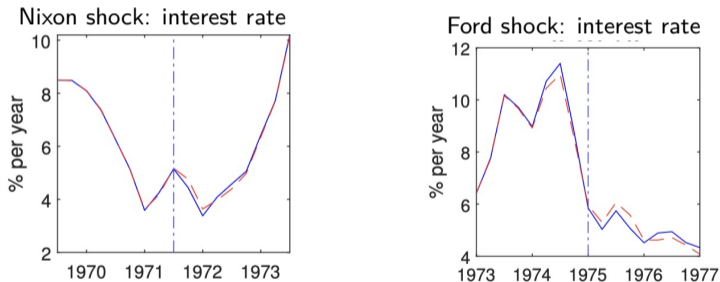


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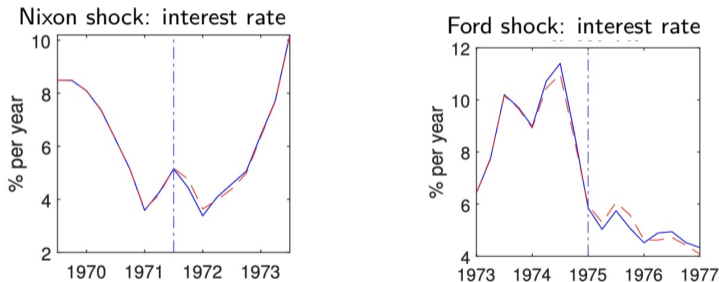


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(Itskhoki-Mukhin 2025, Aguiar-Amador-Fitzgerald)
  - If tariff appreciates the home currency then it induces a negative valuation effect for a country with gross international home-currency liabilities
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  - For a country like the U.S., with large dollar-denominated liabilities, this effect can reduce drastically optimal unilateral tariffs
  - Gross external positions could also be used as hedge against trade wars
- What are the optimal unilateral and retaliation tariffs with portfolio?

## Final Thoughts

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- **Very nice paper!** offers rigorous, elegant framework for evaluating the macro effects of unilateral and global tariffs
- Would be interesting to know how monetary policy easing in response to tariffs and gross external positions alter (or not) some of the model predictions?