

# Discussion of “Global Networks, Monetary Policy and Trade” by Şebnem Kalemli-Özcan, Can Soylu, and Muhammed A. Yildirim

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*Disclaimer: the views expressed in this presentation are my own and do not reflect those of the Bank of Canada*

# Summary

Question: What are the macro impacts of tariffs in the presence of global imbalances and production networks?

- Static trade models: flexible prices, balanced trade, rich production networks
- Dynamic NK models: nominal rigidity, trade imbalances, exchange rates
- Recent developments (NK + production networks but closed economy): Rubbo (22)

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This paper: unified framework combining **full global I-O networks** with NK dynamics

- ⇒ Capable of analyzing short-run price dynamics and long-run output effects
- ⇒ Capture tariff impacts under endogenous exchange rate and monetary policy changes

## Paper overview

Global New Keynesian model with  $N$  countries,  $J$  sectors, incomplete markets, unbalanced trade within rich global I-O network

- Analytical solutions for on-impact responses

- Flexible prices: two-country,  $J$  sectors under permanent tariff increase
- Sticky prices under three monetary policy rules and one-off tariff shocks

⇒ Dynamics depends on NKOE Leontief inverse  $\Psi^{NKOE} \equiv [(1 + \beta)\mathbf{I} + \mathbf{A}(\mathbf{I} - \mathbf{\Omega})]^{-1}$

- Quantitative model:

- Calibrated to match 2019 OECD ICIO tables; hetero price stickiness across sectors
- Analyzes 4 trade war scenarios

⇒ 2025 trade war: Significant drop in real GDP and rise in inflation for all countries

⇒ Very rich paper, impressive work!

## Comment 1: More realistic pricing and trade elasticity assumptions

(a) Dominant currency pricing (Gopinath et al 20; Amiti, itskhoki, Konings 22):

- Paper assumes Producer Currency Pricing, which implies 100% ERPT

⇒ Simple extension: consider USD pricing globally

Quantitatively, may also account for non-USD dominant currencies, e.g. Euro

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(b) Account for differences in short- vs long-run trade elasticities (Ruhl 08; Boehm et al 23):

- Paper assumes trade elasticity is fixed at short-run value throughout: 0.76

⇒ Ideally, time varying: 0.76 in short run  $\rightarrow$  4 in long run

This will facilitate comparison of your results to recent dynamic trade models

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  - Are differences driven by exchange rates and trade imbalances?

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  - Highlight role of exchange rates  $\Rightarrow$  buffer to offset some rigidity
- Compare long-run responses with existing static production network models (BF 24)
  - Are differences driven by exchange rates and trade imbalances?
- Sharpen theoretical results
  - Results of the three MP rules are proved under different simplification assumptions
  - Generalize the results to have consistent tariff, country and sector settings

## Comment 3: Spell out implications for optimal monetary policy

Compare channels with recent papers and highlight your contribution, e.g.,

- [Bergin & Corsetti \(23\)](#): Two-country NK model with intermediate inputs
  - Optimal monetary policy to a trade war is generally expansionary, but can be contractionary when share of imported inputs is high
- [Bianchi & Coulibaly \(25\)](#): Optimal monetary response to import tariffs is expansionary due to fiscal externality

Suggestions:

- Use quantitative model to evaluate welfare impacts under different MP rules
- Add PPI targeting Taylor rule to account for expansionary policy responses  
([Bergin & Corsetti 23](#); [Monacelli 25](#); [Auray, Devereux & Eyquem 25](#))

# Summary

- Frontier global NK framework ready to address many recent policy questions
- Very rich and highly relevant paper for both scholars and policy makers!

My comments:

1. More realistic pricing and trade elasticity assumptions
2. Unpack mechanisms, tighter links to literature
3. Spell out implications for optimal monetary policy