



**PIIE** PETERSON INSTITUTE FOR  
INTERNATIONAL ECONOMICS

# Tariffs and the Dollar

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24 April 2025

PIIE Presentation

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# This presentation

- What to expect of the \$US dollar when the US imposes uniform tariffs?
- How does retaliation by other countries change the \$US dollar
- What if the risk of holding US assets rises?

Draws on a forthcoming PIIE working paper

# The G-Cubed Model

McKibbin W and Wilcoxon P (2013), "A Global Approach to Energy and the Environment: The G-cubed Model" Handbook of CGE Modeling, Chapter 15, North-Holland, pp 995-1068

[www.gcubed.com](http://www.gcubed.com)

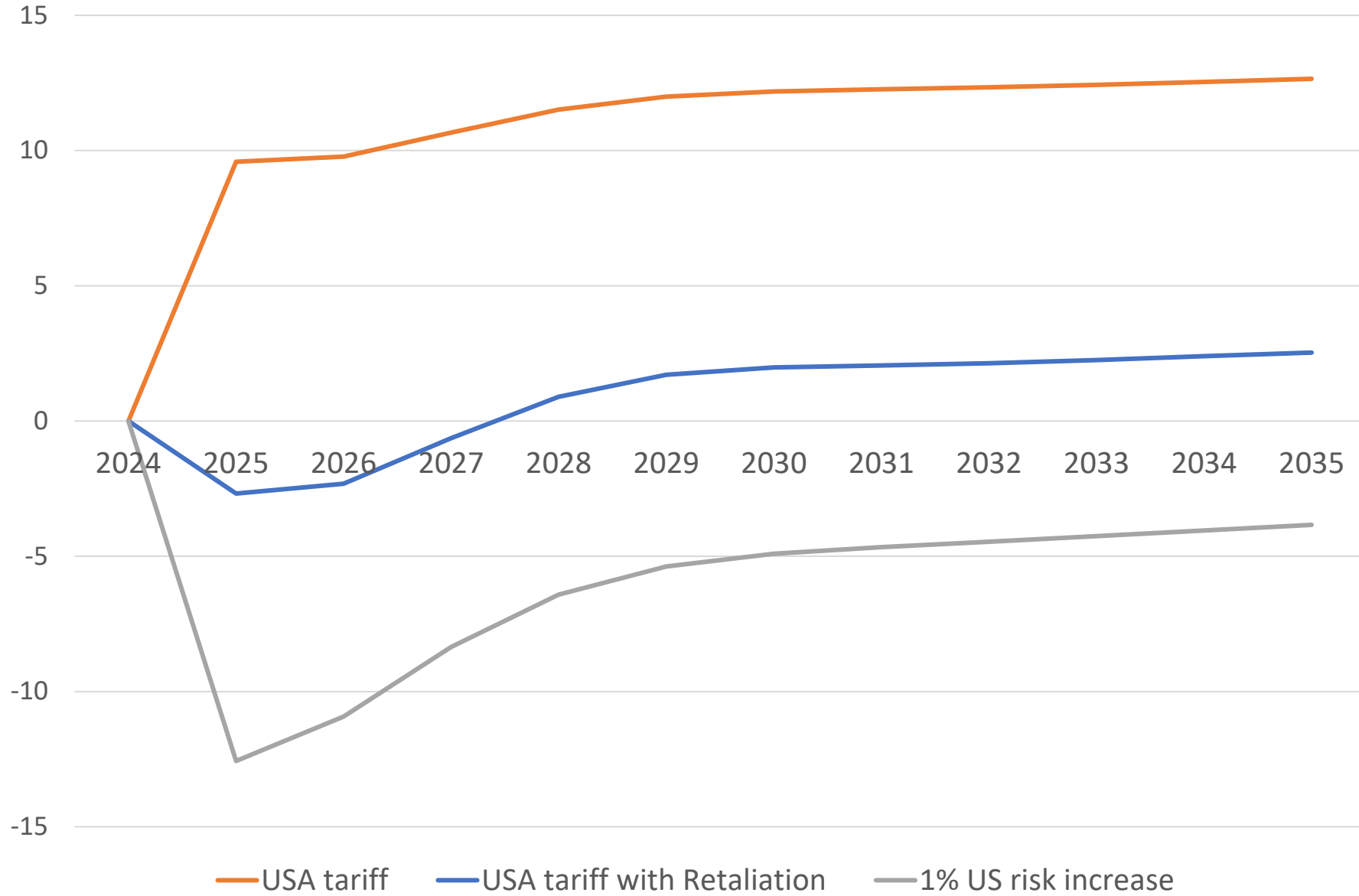
# The G-Cubed G20 Model (version 6G)

<u>Countries (19)</u>		<u>Regions (5)</u>	<u>Sectors (6)</u>	<u>Agents</u>
Argentina	Japan	Rest of the Euro zone	Energy	Households
Australia	Korea	Rest of the OECD	Mining	Firms
Brazil	Mexico	Rest of Asia	Agriculture	Government
Canada	Russia	Other oil producing countries	Durable manufacturing	
China	Saudi Arabia	Rest of the world	Non-durable manufacturing	
France	South Africa		Services	
Germany	Turkey			
Indonesia	United Kingdom			
India	United States			
Italy				

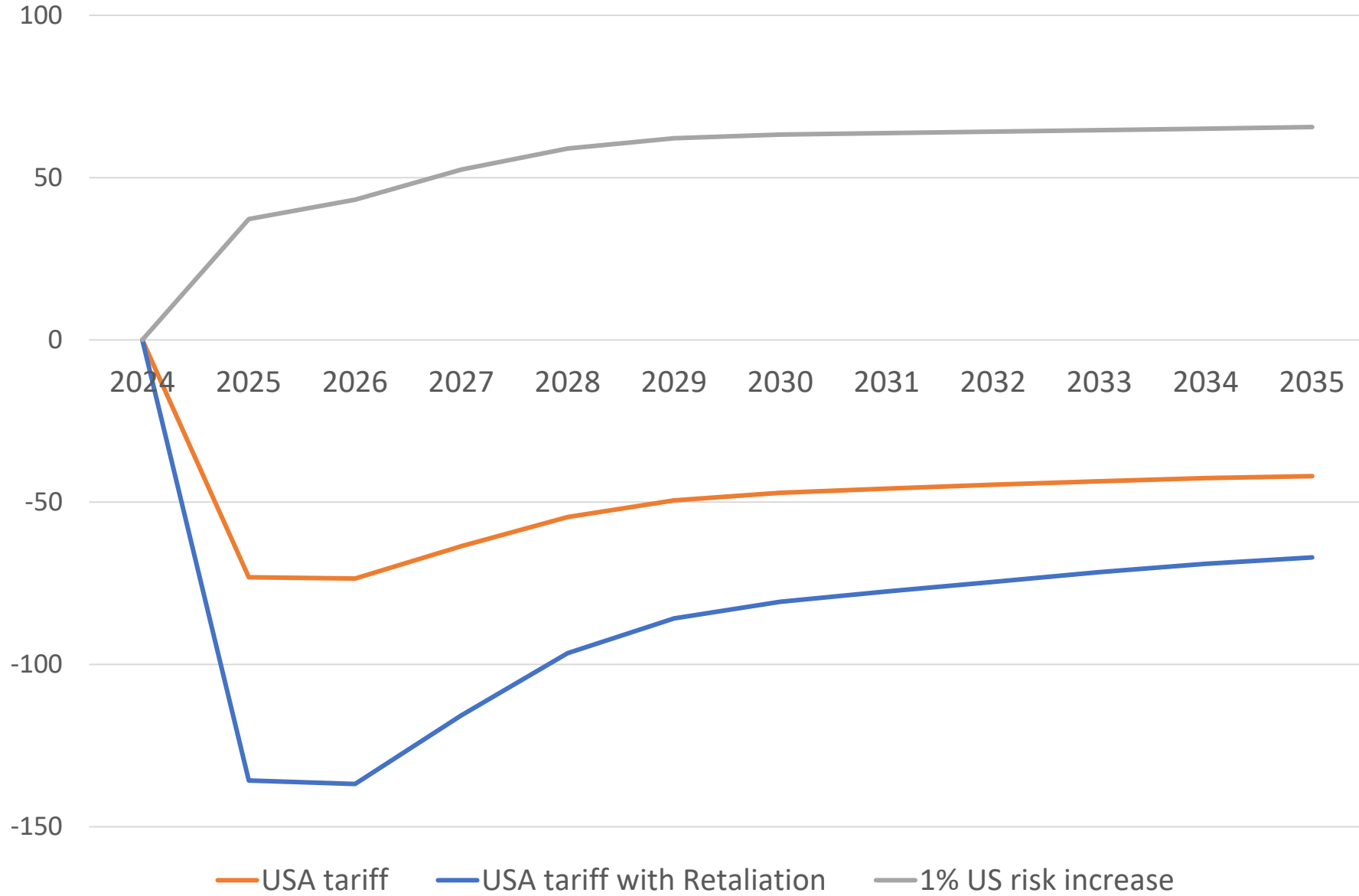
# Simulations

- Impose Liberation Day Tariffs of April 2 and assume they are expected to be permanent
- Impose Retaliation tariffs by each country equal to the change in US tariffs
- Impose a permanent rise of 100 basis points in the risk premium of holding US Assets
- Illustrative Liberation Day Tariffs without the escalation of the US-China trade war.

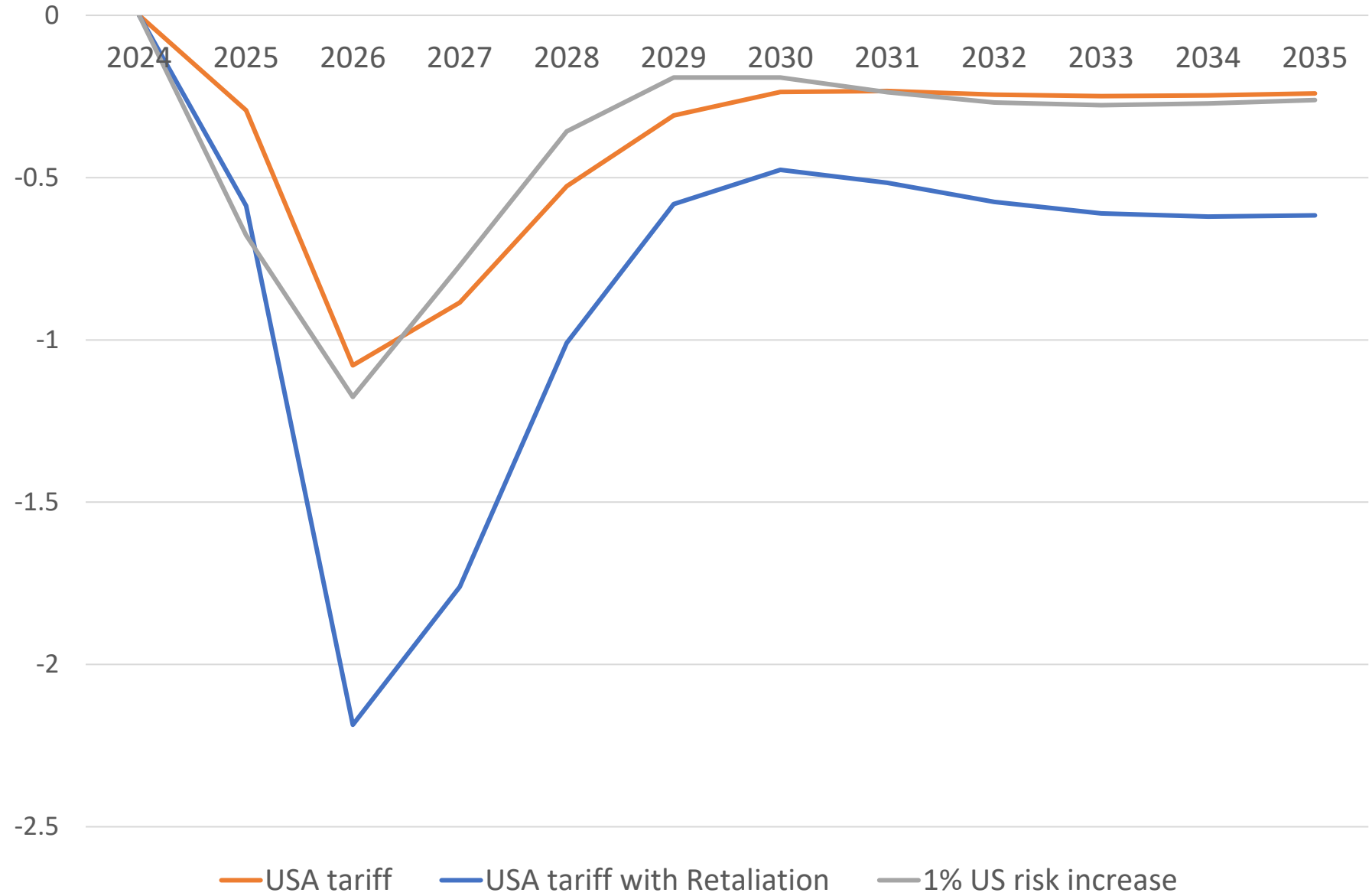
# Percent deviation in \$US effective exchange rate



# Basis point deviation in US 10 year Bond Rate



# Percent deviation in US real GDP relative to Baseline



# Financial Implications of Liberation Day Tariff Scenarios in 2025

Variables	US tariffs	tariffs plus retaliation	tariffs plus retaliation plus Risk
Change in US trade weighted exchange rate (%)	9.6%	-2.7%	-15.2%
Change in Ten year Bond Rate (basis points)	-73	-136	-98
Cumulative Change in GDP (\$bil 2025) 2025-28	-\$810	-\$1,614	-\$2,476

[www.gcubed.com](http://www.gcubed.com)