

Discussion of “Pass-through Beyond the Border:
Oligopoly, Networks, and Tariffs”
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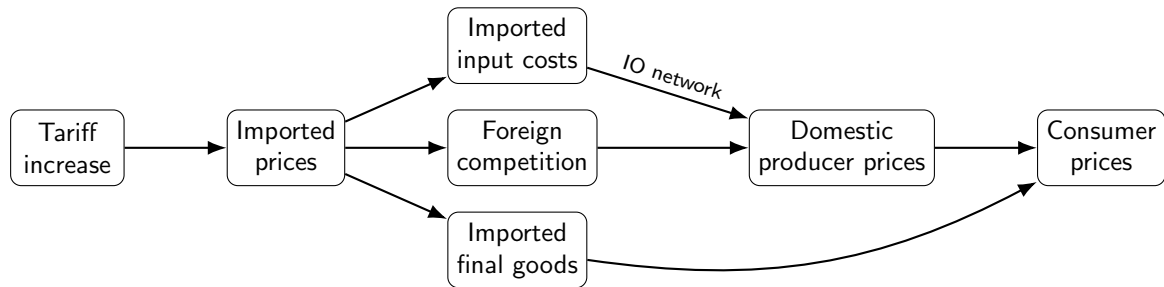
What does the paper do?

- Builds a multisector open-economy framework mapping tariff-induced border price shocks into U.S. producer and consumer prices.
- Highlights three downstream mechanisms:
 - ① imported-input costs,
 - ② propagation through domestic production networks,
 - ③ competition with imported varieties.
- Takes the same model-implied exposures to PPI and PCE data using dynamic local projections.
- Applies the framework to the 2025 U.S. tariff episode.

Headline result

January–October 2025 tariff increases imply a first-order contribution of approximately **0.91 percentage points** to headline PCE inflation, including about **0.10 pp** from the foreign-competition channel.

The key contribution: what happens beyond the border?



Producer price responses

1. First-round imported-input costs

$$\Delta \log p^{M,fr} = \Upsilon^d \Omega^* \Delta \log(1 + \tau).$$

Only direct imported-input exposure.

2. Add domestic network propagation

$$\Delta \log p^{M,net} = (I - \Upsilon^d \Omega^d)^{-1} \Upsilon^d \Omega^* \Delta \log(1 + \tau).$$

The Leontief inverse propagates the shock through domestic suppliers.

3. Add foreign competition

$$\Delta \log p^M(\bar{\rho}) = \text{network-adjusted marginal-cost channel} + \text{foreign-competition channel}.$$

Important

Competition and network propagation interact inside the model; they are not simply additive corrections to a direct-import-share calculation.

The authors use rich data that map to the components of the model to estimate the effect of tariffs on PPI and PCE.

1. Map model into Input-Output data:

Use input-output flows to connect a border shock into a predicted price change.

Tariffs vary by country, so the authors need detailed information on imports by sector and origin to link them to specific categories.

2. From Tariffs to Border Price Shock:

Two (testable) assumptions:

- Full pass-through from tariffs to import prices at the border
- Imported-input prices and competing foreign-producer prices respond equally to tariffs

IV approach

1. Instrument the realized effective tariff

$$\Delta \log(1 + \tau_{it}^{stat}) \longrightarrow \Delta \log(1 + \tau_{it}^{eff}).$$

The effective tariff reflects duties actually paid and may be affected by exemptions, incomplete clearance, and endogenous sourcing/compliance.

2. Condition on the surrounding tariff path

The local projection includes statutory tariff leads and lags. This is important because the 2025 tariff changes arrive in waves that can be serially correlated (Boehm et al. 2025).

This is an important strength

A simple regression of future prices on today's tariff change could attribute subsequent tariff changes to the initial shock. Their forward-block design is explicitly constructed to avoid this interpretation.

- This paper provides a detailed decomposition of the effects of tariffs on U.S. prices.
- It goes beyond the direct cost effect, quantifying channels that are particularly relevant for protectionist tariffs, including production networks and competition with foreign producers.
- Using rich administrative data and a careful empirical strategy, the paper estimates these different channels and quantifies their contributions to PPI and PCE.
- Overall, I think this is an important paper for understanding the price effects of the recent tariff changes.

My main comments (not necessarily to incorporate into the paper):

- ① Short- vs. long-run effects
- ② What happens when tariffs are large?
- ③ From price effects to aggregate inflation

Short-run dynamics might affect price adjustment

The model provides a flexible-price mapping from tariff shocks into equilibrium prices, while the empirical analysis studies adjustment over relatively short horizons.

- What did firms expect about the persistence of the tariff changes? Did firms anticipate tariff changes and front-load imports? (Alessandria et al. 2010, Delgado et al. 2025)
- Uncertainty increased significantly at that time, firms might want to “wait-and-see” before changing prices or imports (Arouba et al. 2026)
- Policy and market reactions abroad can affect short-run dynamics, influencing the estimates (might want to incorporate in some analysis).

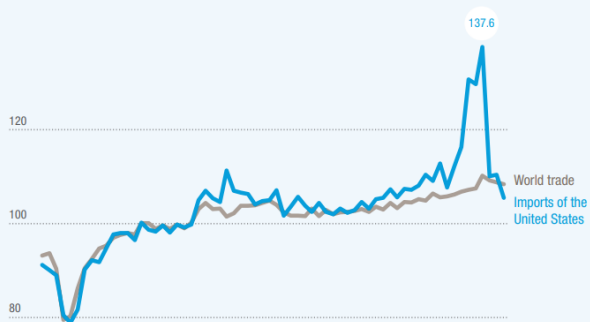
Import movements around Liberation Day



Figure 6

Tariff anticipation triggered a short-lived boost in world trade in early 2025

Merchandise trade flows in real terms, January 2020–August 2025
(Average 2021=100)



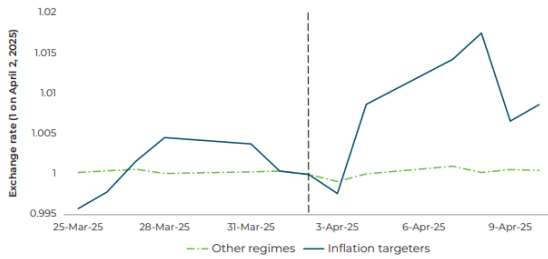
Source: World Trade Monitor database of the CPB Netherlands Bureau for Economic Policy Analysis.
Note: Trade flows are seasonally adjusted.

Uncertainty around Liberation Day



Exchange rate dynamics

FIGURE 5.5 • Flexible Exchange Rates and Global Shocks



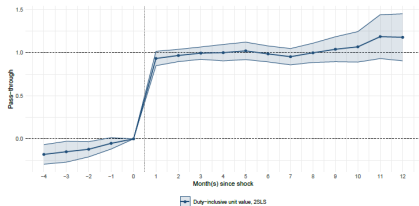
Discussion

How important could these types of short-run dynamics be in this particular setting? I do not think they necessarily need to be incorporated into the model, but discussing them would help interpret the empirical dynamics.

A question about border pass-through: selection

The border-price evidence is striking:

Figure 2: Border Pass-through of Tariffs into Import Unit Values, 2025



But the number of observations falls substantially with the horizon: from 3.0 million at $h = 1$ to 1.9 million at $h = 12$ (very transparently discussed).

Potential selection

What if tariffs cause the most responsive imports to disappear from the sample?

The extensive margin may contain information too

Suppose border-price pass-through depends on the elasticity of substitution $PT_i = PT(\sigma_i)$:

- Lower substitutability: potentially more likely to remain traded; price remains observable
- Higher substitutability: potentially more likely to exit; price may become unobserved

If σ_i affects both the probability of continued trade and pass-through, the observed price response increasingly reflects **surviving varieties**:

$$E[PT(\sigma_i) \mid q_{i,t+h} > 0] \neq E[PT(\sigma_i)].$$

- This may be particularly relevant for large tariff changes.
- The balanced-panel exercise shows robustness among continuously traded varieties, but does not solve the selection issue.
- Border pass-through is quickly close to one, so quantitatively this may not be a major concern.

From tariff incidence to aggregate inflation

The paper provides a very informative mapping:

Tariffs $\rightarrow$ border prices $\rightarrow$ producer prices $\rightarrow$ consumer prices.

My main question is about the next step:

How we should use these findings to understand the effect of tariffs on aggregate inflation?

A one-time permanent tariff increase can generate a one-time increase in the price level and therefore temporarily higher measured inflation during the transition.

But the aggregate inflation response may also depend on

aggregate demand, wages, exchange rates, expectations, monetary policy.

The “intercept” problem

A stylized version of the empirical design is

$$\Delta p_{it} = \underbrace{\lambda_t}_{\text{Agg demand, wages, FX, policy}} + \beta \text{Exposure}_{it} + \varepsilon_{it}.$$

Time fixed effects absorb λ_t .

This is good for cross-sectional identification

The design cleanly asks whether more exposed categories move more.

But it matters for aggregation

Aggregating the estimated exposure channel need not recover the total causal effect of tariffs on aggregate inflation if tariffs also generate a common component.

How should we interpret the estimates?

The paper itself is careful to describe the aggregate exercise as **first-order partial equilibrium** and the cumulated exercise as a **permanent-dose** estimand.

I would therefore distinguish:

Contribution of tariff-induced relative-price/cost channels

from the stronger statement

Total causal effect of the tariff episode on aggregate inflation

Main question

How much of the second object can we learn from the first without explicitly modeling expectations, aggregate demand, and monetary policy?

Final thoughts

- The paper makes an important contribution by organizing and measuring several channels of tariff transmission that are often studied separately.
- Decomposition is especially useful in the context of this tariff policy: direct imported inputs, network propagation, and foreign competition imply meaningfully different notions of exposure.
- The empirical strategy is thoughtful about both endogenous realized tariffs and the serial correlation of tariff waves.
- The findings are highly relevant for assessing how tariffs transmit into domestic prices.

This is an important framework, and its findings are key inputs for any analysis of how tariffs affect prices and propagate through the aggregate economy.