

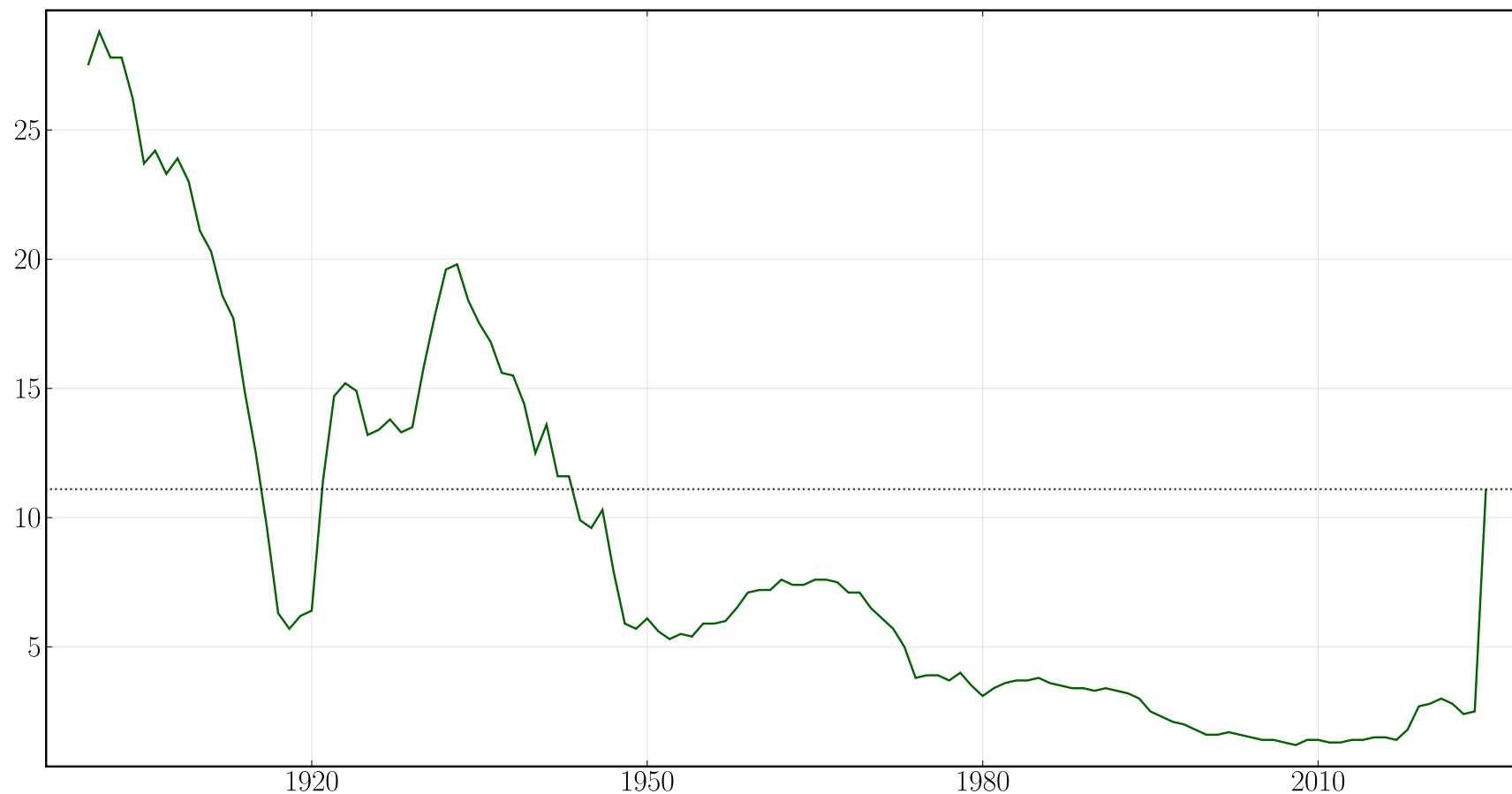
Tariffs ...

Erik Loualiche

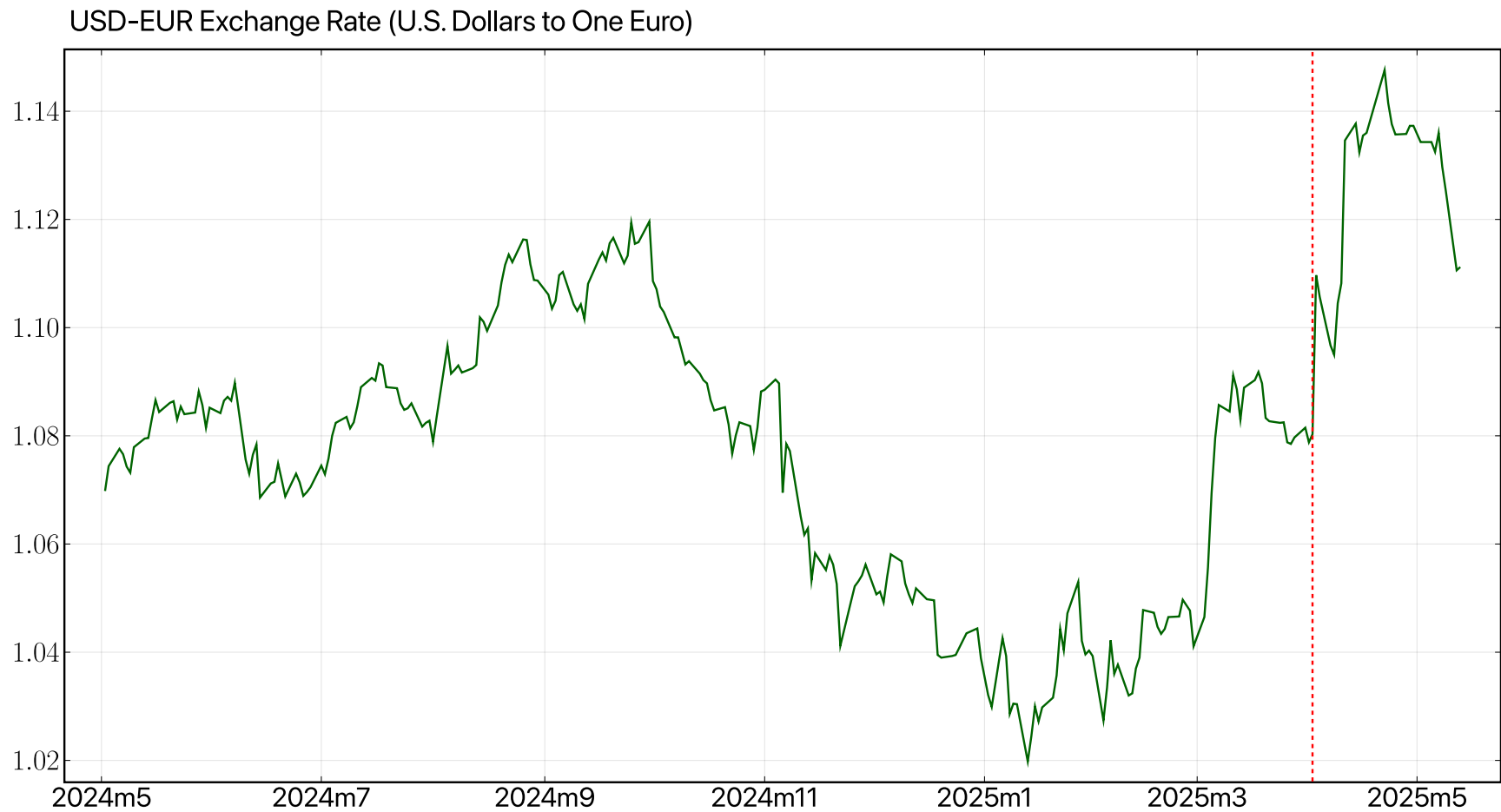
University of Minnesota, Spring 2025

Unprecedented

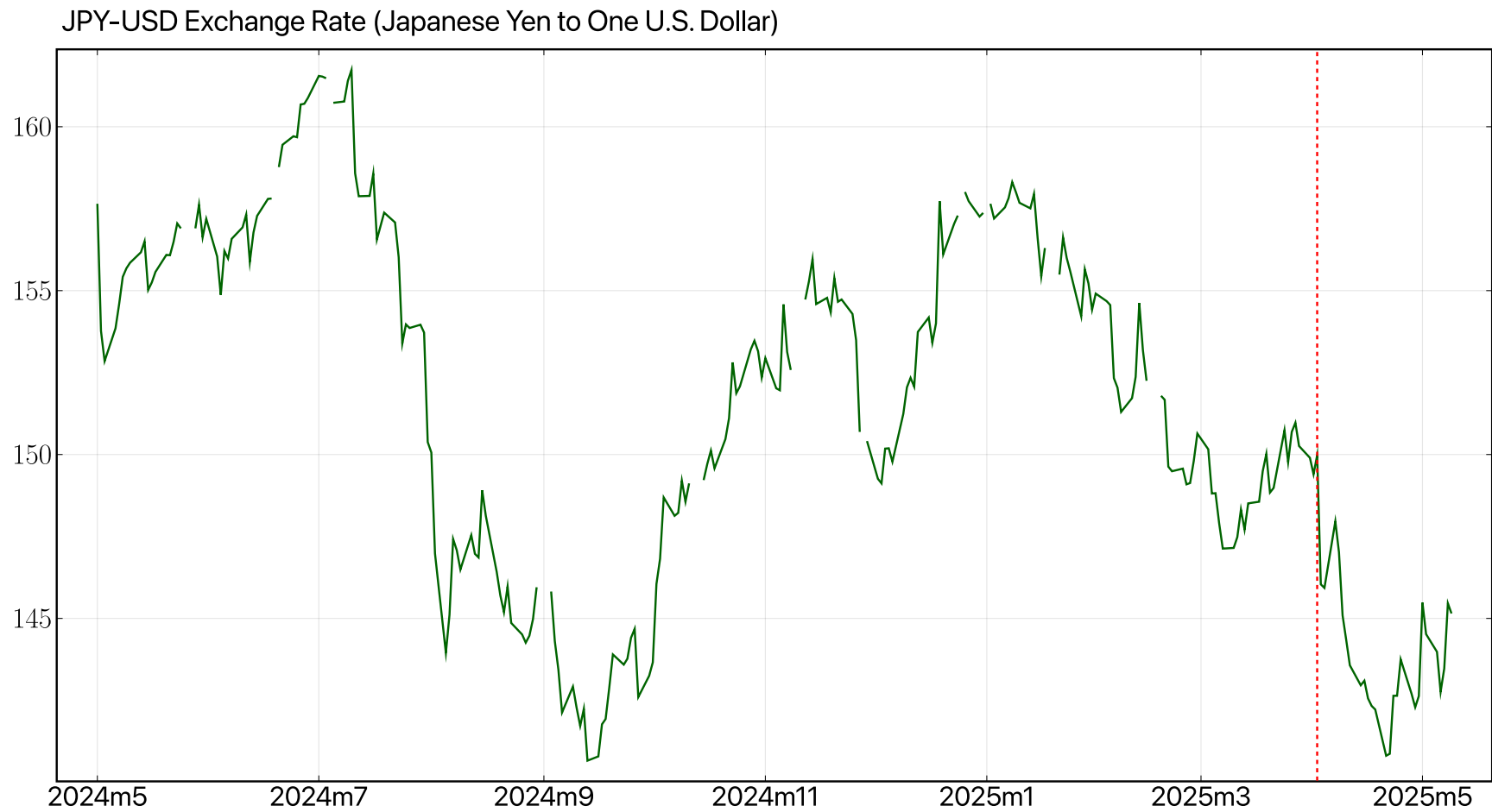
Average Tariff Rate on All Imports (2025 is estimated; source: Tax Foundation)



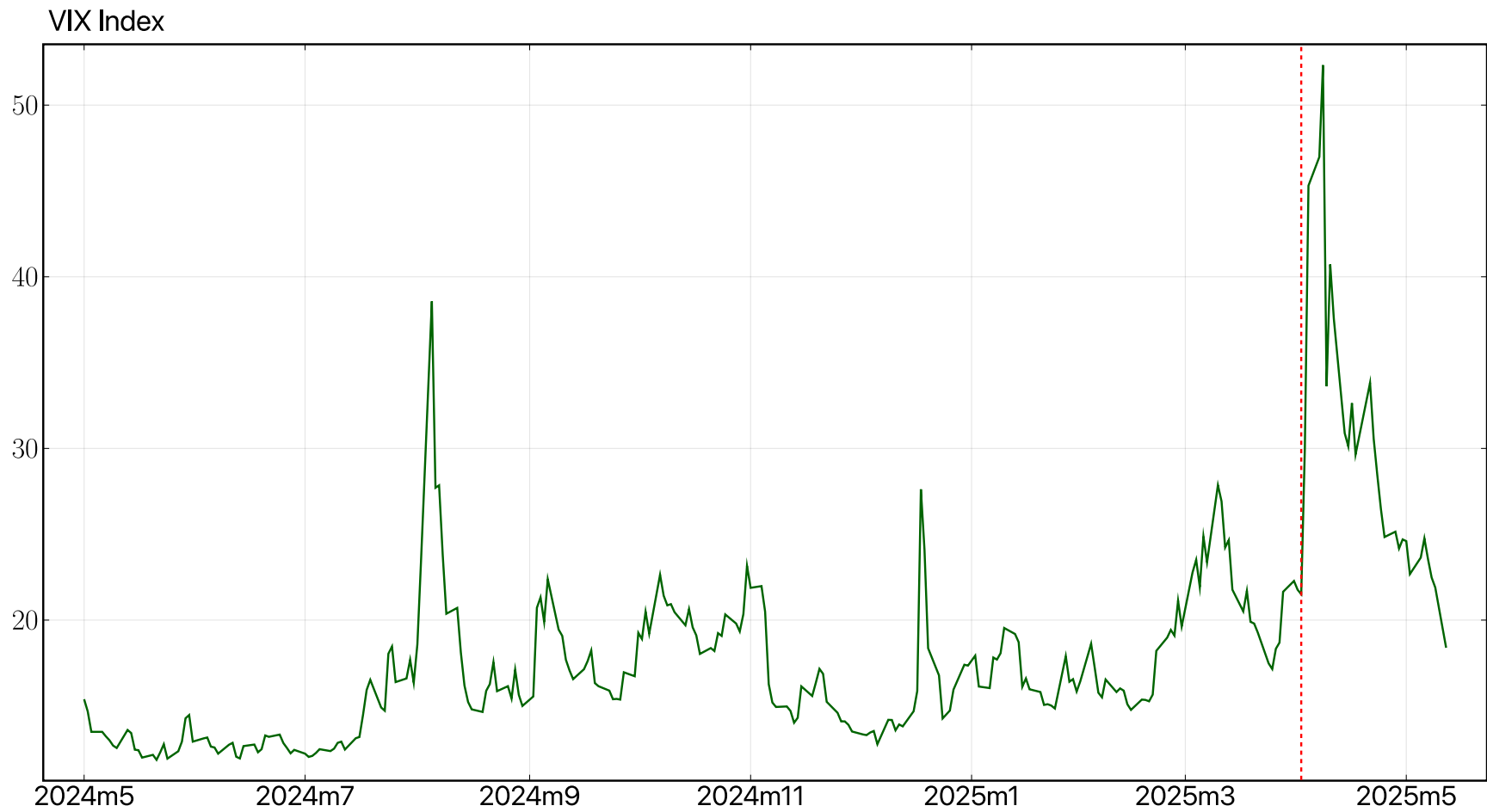
Exchange Rates and Volatility



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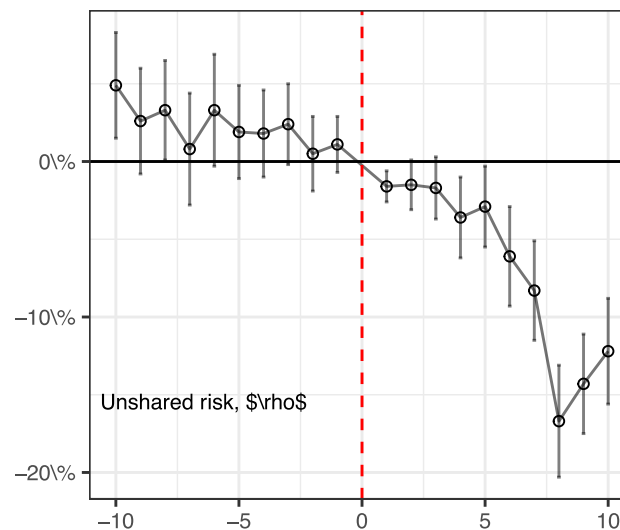
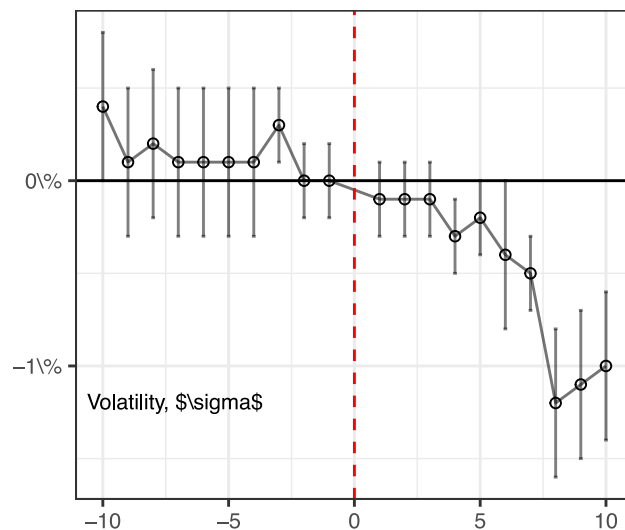
Trade matters for Exchange Rate Volatility

International Trade and the Risk in Bilateral Exchange Rates (Journal of Financial Economics)

Trade deals lead to lower exchange rate volatility:

We find that volatility (...) shrinks in response to a growth in bilateral trade (...)

Volatility falls by 1 to 2 percentage points over five years.



Exorbitant Privilege No More

Why is the Dollar the hegemon reserve currency

- Trust (Stability)
 - *Treasury as safe asset, Taxation power*
- Coordination on the medium of exchange
 - *generalized dollar invoicing*
- Deep capital markets
 - 25t of treasury outstanding
- Rule of law

Benefits

- Treasury borrows short and lend long
 - *World Banker*
- Earns a large convenience yield
 - *Cheap mortgages!*

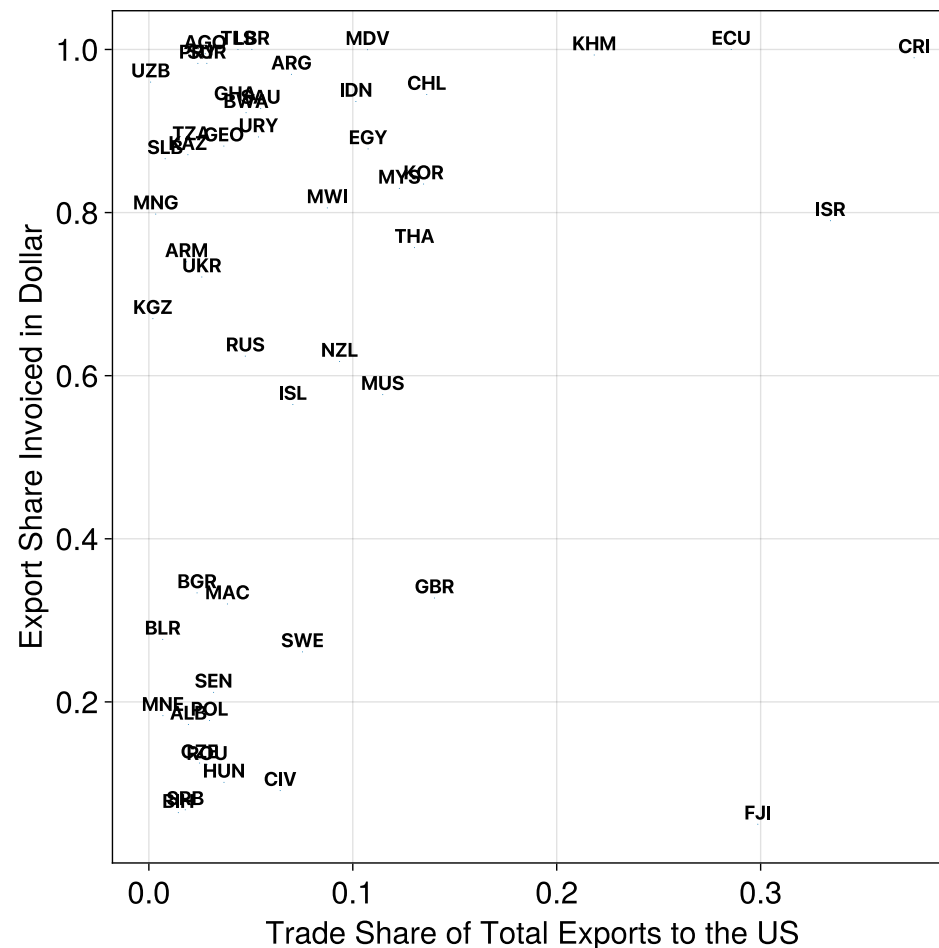
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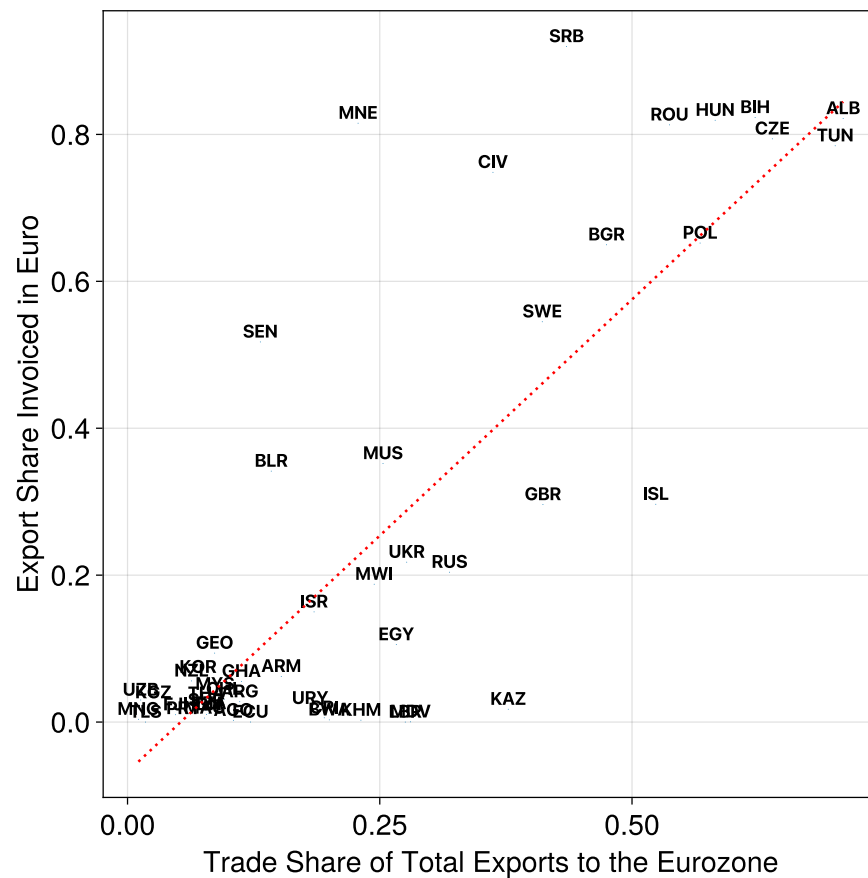
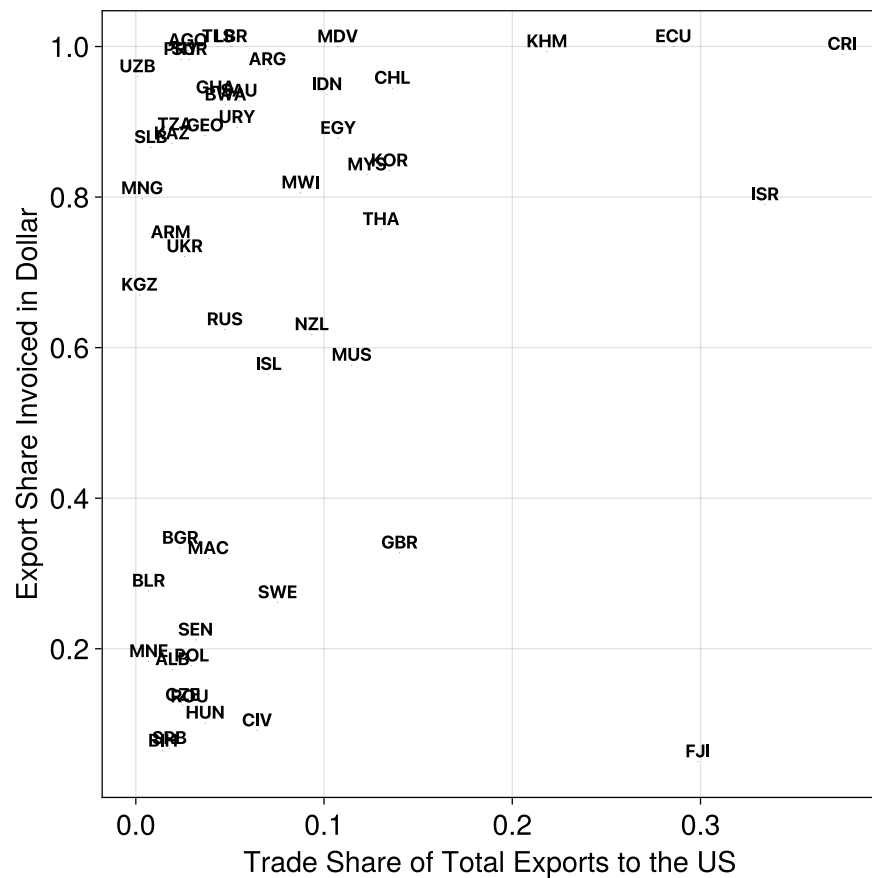
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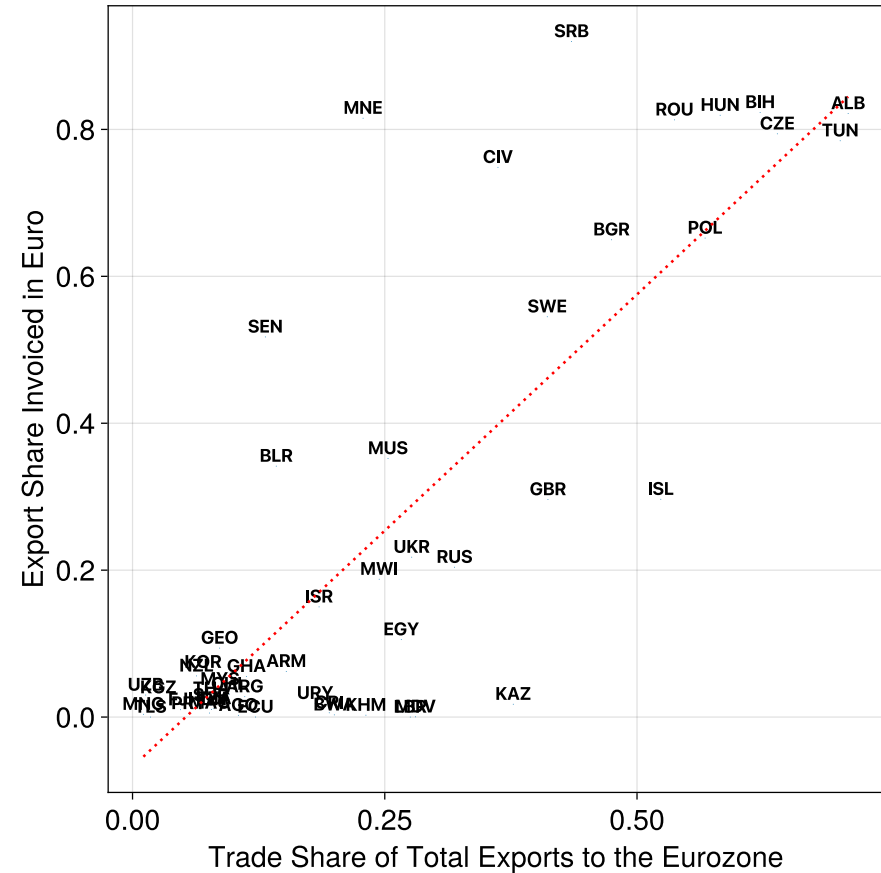
Europe and the Euro as a Reserve Currency



Europe and the Euro as a Reserve Currency

An opportunity for Europe

- Stability:
 - ?
- Coordination on the medium of exchange:
 - Some invoicing
- Deep capital markets:
 - lack of coordination
- Rule of law
 - Too much or too little regulation



The Draghi Report

A call for a voluntarist view of European competitiveness

Stability:

- towards a common safe asset
- better focus on policy among 27 members

Coordination

- Build a Capital Market Unions
- Foster more diverse capital markets: VC, corporates, etc.
- Big enough (15t of gov. debt outstanding)

Rule of law

- Lack of cost-benefit analysis on regulations
- Redundancies between national and european regulations

Thank you!