

### Abstract

We study influences of a tariff policy on welfare in two country model with heterogeneous firms a la Melitz and Ottaviano (2008). We show that the optimal import tariff that maximizes the welfare level of that country is strictly positive. We also consider effects of import tariff on joint welfare. We find that policy intervention is desirable when it improves direct consumer surplus in that country. In this case, the effective tariff that maximizes joint welfare level is below the optimal tariff.