



Comparing Trade Models:

Interpreting Tariffs
Across Frameworks

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Context

Recent Tariffs and Economic Debate

Key Idea: Different models highlight different effects of the same policy.

In recent years, the United States has implemented significant tariff increases across a wide range of imports, often followed by retaliatory measures from trading partners. These policies have raised government revenue and increased domestic prices, particularly for imported goods.

Empirical research finds that tariffs are largely passed through to consumers, meaning households bear much of the cost through higher prices and reduced purchasing power.

At the same time, tariffs can shift employment and production across sectors, creating gains for some industries while imposing broader economic costs, including reductions in real income.

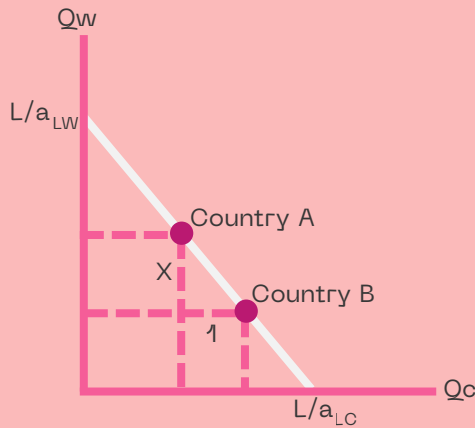
Despite widespread agreement that tariffs affect prices, trade, and income, economists often disagree on how to interpret these effects. Much of this disagreement stems from the different theoretical models used to analyze trade policy.



How do different trade
models interpret the
same tariff shock
differently?

Core Question

This project compares the Ricardian, Heckscher–Ohlin, and Specific Factors models to evaluate how theoretical frameworks shape economic interpretation.



Ricardian Model

Core Assumptions

- Countries differ in productivity (tech)
- Labor is the main factor of production
- Trade is driven by comparative advantage

What the Model Focuses On

- Efficiency and specialization
- Gains from trade
- Aggregate outcomes (not individuals)

Predicted Effect of a Tariff

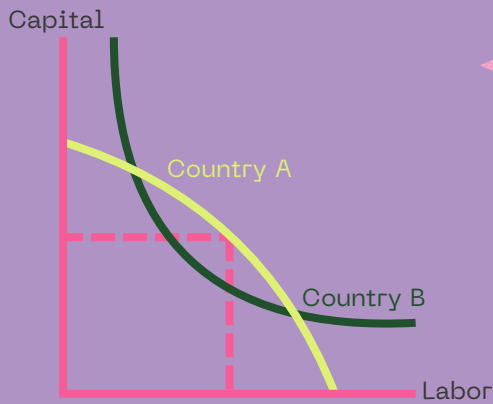
- Reduces specialization
- Distorts comparative advantage
- Decreases overall efficiency

Who Gains/Who Loses

- Gains: Some domestic producers (short-term)
- Loses: Consumers (higher prices) & Economy overall (lower efficiency)

What the Model Ignores

- Income distribution
- Factor differences
- Short-Run Adjustment



Heckscher–Ohlin

Core Assumptions

- Countries differ in factor endowments (e.g., labor vs capital)
- Goods require factors in different intensities
- Factors are mobile within countries but not across countries

What the Model Focuses On

- How trade affects income distribution across factors
- Relationship between goods prices and wages
- Long-run adjustment

Predicted Effect of a Tariff

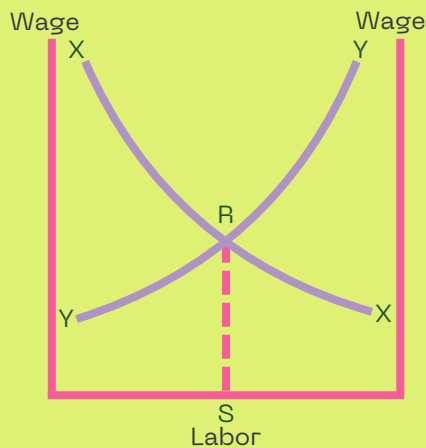
- Changes relative prices of goods
- Alters returns to different factors

Who Gains/Who Loses

- Gains: Factor used intensively in protected industries (e.g., capital or skilled labor)
- Loses: Other factors (e.g., unskilled labor, or the opposite factor group)

What the Model Ignores

- Imperfect substitution across goods
- Industry-level frictions
- Real-world complexity of labor markets



Specific Factors

Core Assumptions

- Some factors are industry-specific in the short run
- Labor is partially mobile, capital is not
- Adjustment across sectors is slow

What the Model Focuses On

- Short-run income distribution
- Industry-level impacts
- Political incentives for protection

Predicted Effect of a Tariff

- Expands protected (import-competing) industries
- Raises returns in those sectors
- Shifts labor across industries

Who Gains/Who Loses

- Gains: Owners of capital in protected industries & Workers tied to those industries
- Loses: Workers in other sectors & Consumers (higher prices)

What the Model Ignores

- Long-run adjustment (eventual mobility)
- Economy-wide efficiency
- Global trade structure

Model Comparison

MODEL	FOCUS	TARIFF EFFECT	WINNERS	LOSERS	WHAT IT MISSES
Ricardian	Productivity and Efficiency	Reduces Specialization	Some Domestic Producers (Short Run)	Consumers + economy overall	Distribution
Heckscher-Ohlin	Factor Endowments	Changes Relative Factor Returns	Factor used intensively in protected good	Other Factor Group	Frictions + Imperfect Substitution
Specific Factors	Short-Run Industries	Shifts Resources Toward Protected Sector	Protected industry owners/workers	Export Sectors + Consumers	Long-Run Adjustment

What This Means for Policy

Economic disagreement over tariffs is often driven by model choice rather than differences in data.

Ricardian Perspective

Tariffs reduce efficiency by distorting comparative advantage and limiting specialization.

Policy Implication:

Avoid tariffs to maximize total output and economic efficiency.

Heckscher–Ohlin Perspective

Tariffs change relative prices and redistribute income across factors such as labor and capital.

Policy Implication:

Support or oppose tariffs depending on which factor groups are prioritized.

Specific Factors Perspective

Tariffs create clear short-run winners and losers by shifting resources toward protected industries.

Policy Implication:

Tariffs are politically attractive because they benefit visible groups, even if they reduce overall efficiency.

Every 🍷 model 🏠 offers
a ➡ different
interpretation 🌟 of
trade. 📖 Understanding
assumptions 🍷 reveals
the 🍷 bigger 🛠 picture.