100 points. Allocate your time efficiently.

1. The market for pizza is characterized by a downward-sloping demand curve and an upward-sloping supply curve.

   a. Draw the competitive market equilibrium, label the market-clearing price, quantity exchanged, buyers’ gains, and sellers’ gains. Is there a deadweight loss? Explain.
   
   b. Suppose that the government forces each pizzeria to pay a $1 tax on the sale of each pizza. Illustrate the effect of this tax on the pizza market, being sure to label the price paid by buyers, the price received by sellers, the quantity of pizzas exchanged, the buyers’ gains and sellers’ gains, government revenue, and the deadweight loss. (Hint: It’s probably easier to use a separate graph for part b.)

2. Each of the events below has an impact on the market for orange juice. For each event, indicate which curve is affected (supply or demand for orange juice), the direction it is shifted, and the resulting impact on the market clearing price and quantity for orange juice.

   a. An increase in the price of apple juice.
   b. A hurricane in Florida that damages a significant number of oranges and orange trees.
   c. An report by doctors that that pregnant women should increase their intake of foods that are rich in folic acid—such as orange juice and green, leafy vegetables
   d. A technological advance in the mechanical picking of oranges that reduces the number of people hired to pick oranges.

3. Suppose that Dook College discovers just a few weeks before school is to start that about 100 students who said they were coming to Dook have changed their minds and are going to enroll in other colleges and universities. Dook will have a high vacancy rate in the dorms, and many classes with many empty chairs. Although the tuition at Dook is $10,000 per year, Dook administrators calculate that if the 100 students on its waiting list each pay $8,000 tuition, it will break even for the school year. Should Dook give $2,000 scholarships to the students on the waiting list? Should Dook consider even bigger scholarship offers? Explain.

4. Please read the attached article "Rising Supply of Doctors May be Bad Medicine for Health Costs," Wall Street Journal, 8 May 1991. Does the evidence presented in the article contradict the law of demand, or is it possible that rising physician fees can be consistent with a rising supply of doctors? Explain.