120 points. Please write answers in ink. Use pencil to draw graphs. Allocate your time efficiently. Merry Christmas.

1. Price Discrimination
   a. Copy centers usually give substantial discounts to customers with large orders. Do you think they are price discriminating? Why or why not?

   b. Illustrate and explain the profit maximizing solution for a price searcher that charges one price to all customers. Next, illustrate and explain how a price searcher can simultaneously do all three of the following: raise buyers’ gains, raise seller’s gains, and reduce the deadweight loss by engaging in price discrimination.

2. A price searcher produces widgets at a constant marginal cost of $10 apiece. One day it discovers a new production process that lowers its marginal cost to $9 per widget. Use a graph to show how much its seller’s gains will increase if it adopts the new production process.

   a. President Bush imposed a 30% tariff on imported steel 21 months ago. Who benefited from this action? Who was harmed? Can the public-interest theory of regulation explain the steel tariff?

   b. After reading the article do you believe that President Bush’s decision to remove the tariff was motivated to help consumers of steel or to protect American businesses that export goods to other countries? Explain.

   a. What factors might cause OPEC to fail in its efforts to keep oil prices from falling? Would any of these factors be special to OPEC, or are these factors that all cartels must deal with? Explain.

   b. According to the article, OPEC produces about one-third of the world’s oil. If OPEC succeeds in maintaining high prices through production cuts, will this help or hurt oil producers in non-OPEC countries? Explain.