$P = 100\ 000 - 2Q$  and  $P = -20\ 000 + Q$ , subsidy = \$10\ 000 per student.

(a) In equilibrium Qd = Qs, Pd = Ps, so:

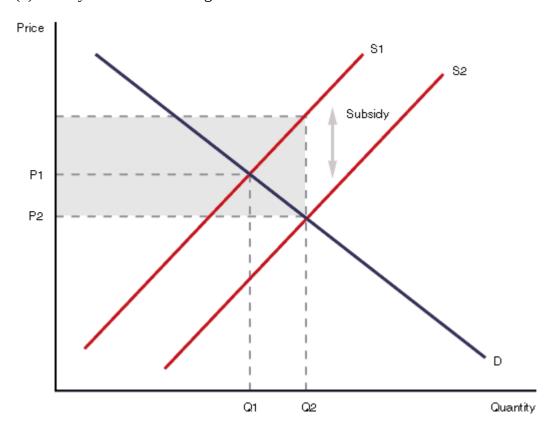
100000 - 2Q = -20000 + Q Qe = 40,000 thousands of students.

Pe = -20000 + 40000 = \$20,000

(b) With the subsidy the student will pay the same price P = \$20,000. The schools will receive 20,000 + 10,000 = \$30,000 per student.

The number of students in schools will increase, as now schools receive more money for every student.

- (c) To find the total cost to the government we need to know at least the number of students before the paying the subsidy.
- (d) Show your results in a diagram.



http://www.assignmentexpert.com/