Part I: Higher Education: For many decades, the cost of college in the United States has risen faster than the general rate of inflation.

1. Provide some evidence that my claim about rising tuition is true. Pay attention to whether your source considers the listed price (a.k.a. “sticker price”) of college or what students actually pay. For citations, I recommend the Chicago Style, although you are free to use other widely used methods such as APA or MLA

The “sticker price” of college has dramatically increased in recent years and over the last 30 years the average tuition in public and private schools has practically doubled to adjust to inflation. However, most families aren’t paying the actual “sticker price”. Students can get financial or merit aid to end up paying a lower price called the net price. “The sticker price for attending college is about 30 percent to 40 percent higher than the average net cost of attendance—the amount that students actually pay.” (Mishka Espey Associate) Net price is still higher than decades ago however the latest trend of net prices for college is moving at a flat rate. Sticker prices have increased because of reduced state funding at public universities, and institutions were forced to increase tuition as a result.

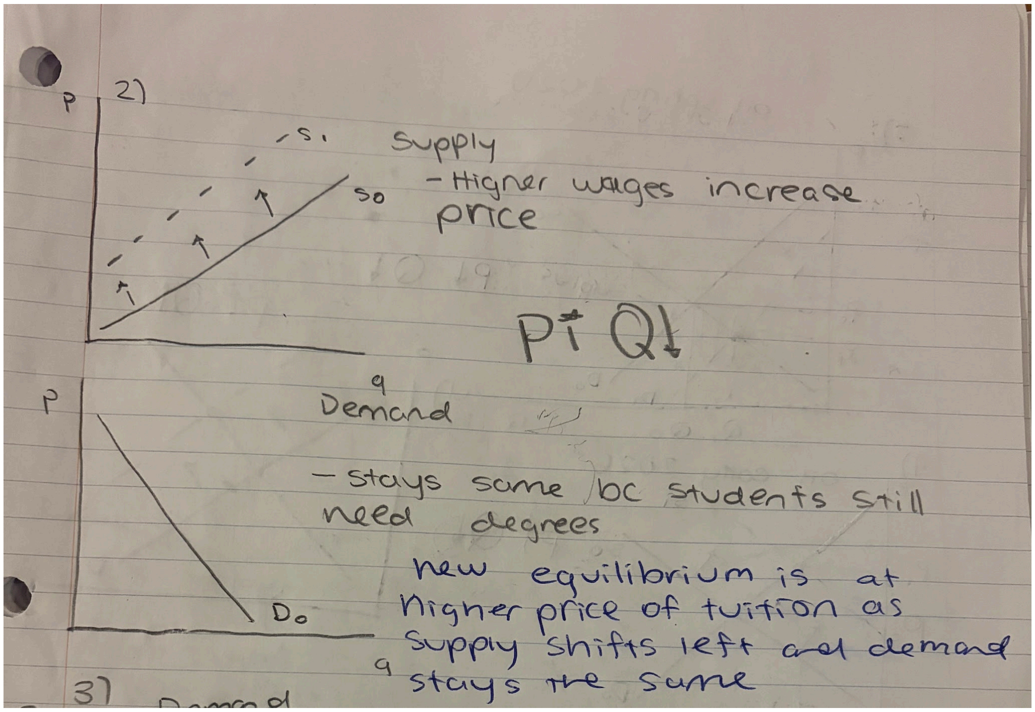
Nadworny, Elissa. “College ‘sticker Prices’ Have Risen Dramatically. Here’s Why.” *NPR*, NPR, 20 Nov.2025,www.npr.org/2025/11/20/nx-s1-5600854/college-costs-have-risen-dramatically-in-the-last-20-years-heres-why.

Director, Mishka Espey Associate, et al. “Recent Trends in the Cost of College Show the Continued Importance of Federal and State Investment.” *Center for American Progress*, 4 Nov.2024,www.americanprogress.org/article/recent-trends-in-the-cost-of-college-show-the-continued-importance-of-federal-and-state-investment/.

2. Economist William Baumol has argued that “cost disease” helps explain why college tuition has risen so much? What is cost disease? Provide a proper citation and, using a model of supply and demand, show how it could leaf to higher tuition.

Cost disease is how services like education and healthcare increase their employee wages over time even if the amount of work used for these services stays the same, so in turn they also have to increase the cost of these services. In manufacturing and agriculture services, new technology can help increase production so they are able to also increase these wages without increasing the cost of the manufactured goods. However, in education and healthcare innovation can’t make these sections much more productive without hurting the quality. So when wages in these industries increase without increasing productivity, the cost of these services will increase. For example, a professor at a college will be paid more over time while providing the same productivity and in turn the cost of tuition at that college will increase.

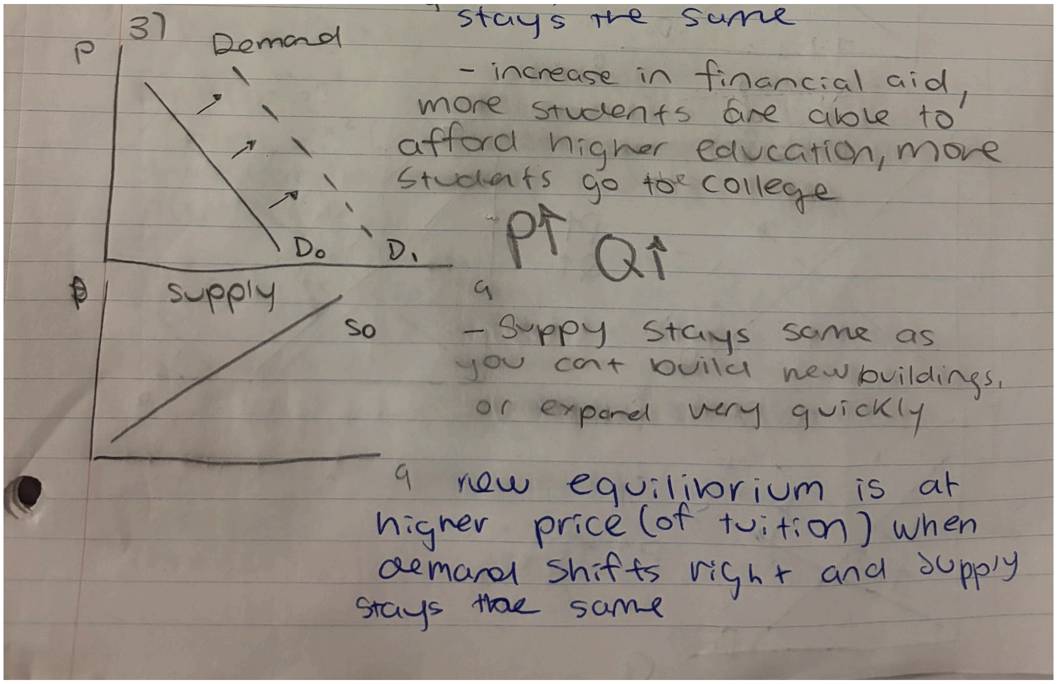
The Exaggerated Role of "cost Disease" in Soaring College Tuition | American Enterprise Institute - AEI, www.aei.org/articles/the-exaggerated-role-of-cost-disease-in-soaring-college-tuition/. Accessed 17 Sept. 2026.



3. Former U.S. Education Secretary William Bennett proposed the "Bennett Hypothesis," another explanation for rising tuition. What is the Bennett Hypothesis? Provide a proper citation. Using a model of supply and demand, show how it could lead to higher tuition

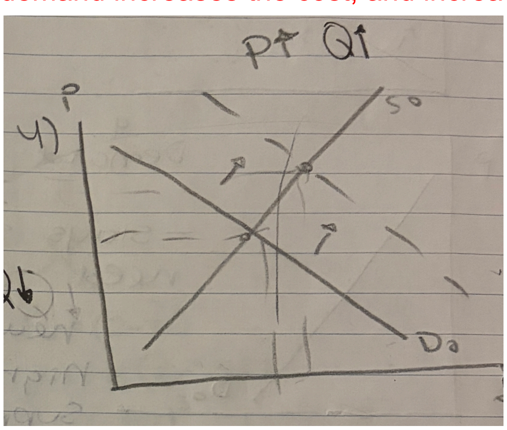
The Bennett Hypothesis states that increase in federal financial aid has allowed universities to increase their cost of tuition.There was a study in 2014 by the non-partisan National Bureau of Economic Research that showed institutions that were eligible for federal aid charged 78% higher tuition than schools not eligible for federal aid.

Pallardy, Richard. "History of Student Loans: The Bennett Hypothesis." *Saving For College*, Savingforcollege.com, 11 Mar. 2022, www.savingforcollege.com/article/history-of-student-loans-the-bennett-hypothesis.



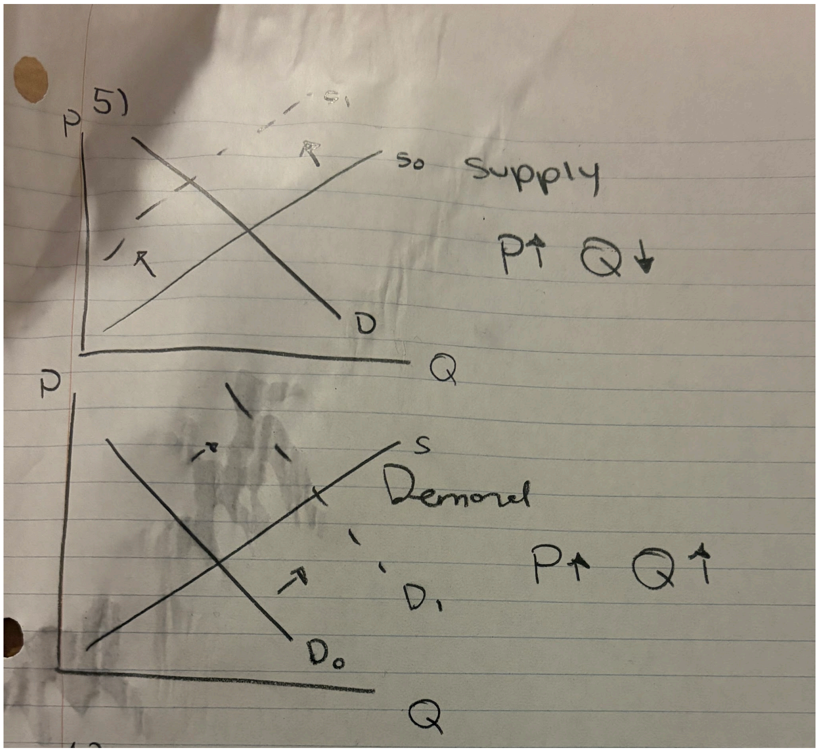
4. A study from the Federal Reserve Bank of New York estimates the changing financial return on a college education. Using the model of supply and demand from class, show an increasing return 1 to a college education could cause the cost of college to rise. Make sure to explain why supply or demand are affected.

The benefits of going to college continue to rise with the price of college increasing, in other words the return of going to college outweighs the direct costs of college. When the expected financial return of college increases, the demand for college increases as well. The increased demand increases the cost, and increases the quantity of enrollment.



5. How might you test between supply-based and demand-based explanations for why college has become so expensive? Think about what variables, besides price, would behave differently if the explanation were supply-based versus demand-based.

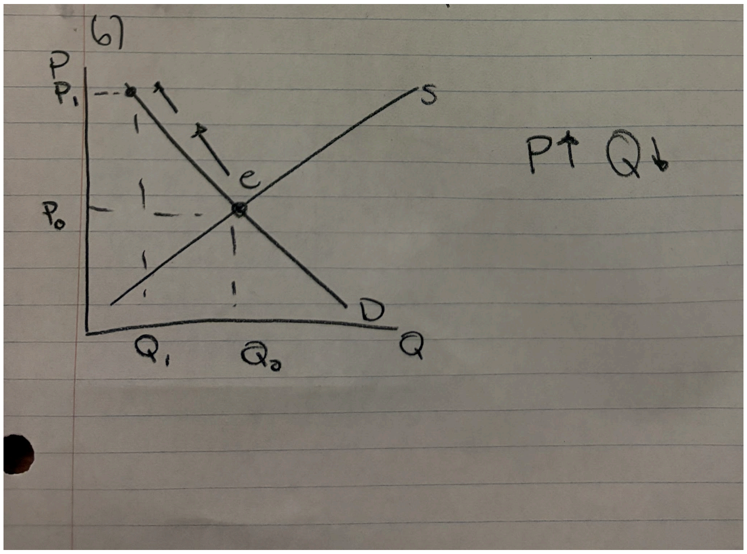
To test between supply-based and demand-based explanations for why college has become so expensive, you have to observe what happens to quantity. If the reason college has become so expensive is demand-based, then the quantity has increased, however If the reason college has become so expensive is supply-based, then the quantity has decreased. In theory, enrollments should decrease if its supply based, and enrollments should increase if it's demand based.



6. In the summer of 2025, former students filed a lawsuit against 31 prestigious U.S. colleges and universities, plus Bowdoin College, alleging that they are illegally using the Early Admissions process to drive up the price of college. Using the model of supply and demand, explain how this could be done. Provide a source on the lawsuit.

For early decisions they are forcing students to commit to paying an unknown price when they are accepted. The universities are being questioned on if they are using the Early Admissions process to violate the federal antitrust law. The schools named have made an agreement that they don't have to fight over students who are admitted early at other colleges. This practice is unjust as it increases the tuition for all students and decreases financial aid packages. Producers are forcing students to go up the demand curve (pay a higher price), making college more exclusive and making prices higher.

ago, Miles Palmer • 6 days, et al. "Sections." *Bowdoin among Schools Sued for Alleged Price Fixing in Early Decision Admissions – The Bowdoin Orient*, 5 Sept. 2025, bowdoinorient.com/2025/09/05/bowdoin-among-schools-sued-for-alleged-price-fixing-in-early-decision-admissions/



7. Provide some data on the path of crude oil prices since 2020. The best answers will adjust for inflation. Consider providing a graph or figure rather than just a description.

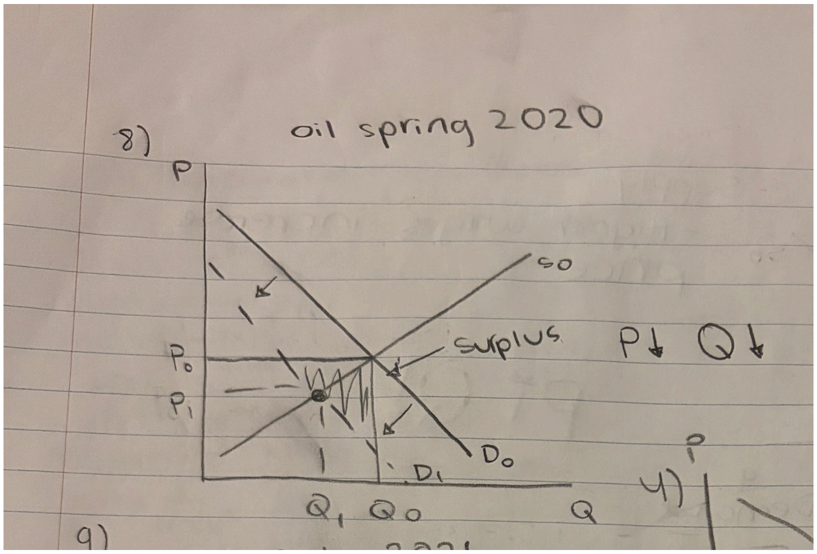
Prices reached low levels in spring of 2020 during the rise of the Covid-19 Pandemic. Prices rose dramatically in June 2022 when Russia invaded Ukraine and disrupted the supply of oil to the US. The price of oil still remains high today with the military conflict in Iran which also disrupted the supply of oil to the US.

“Crude Oilprice - Chart - Historical Data - News.” *Crude Oil - Price - Chart - Historical Data - News*, tradingeconomics.com/commodity/crude-oil. Accessed 17 Sept. 2026.

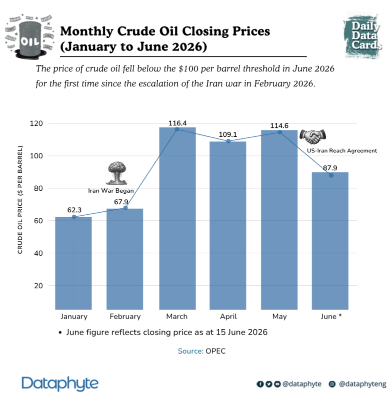
8. Why did crude oil prices fall to such low levels in the spring of 2020? Your answer should use the model of supply and demand developed in class and you should be explicit about whether supply or demand were the main driver of lower prices?

Crude oil prices fell to low levels in the spring of 2020 because when the pandemic started in March of 2020, it forced many businesses, and people to stay at home. This decreased the demand for fuel as people couldn’t drive to work or school or operate businesses. However, even though there was a decrease in demand for fuel, suppliers continued to supply the same amount of oil. This creates a surplus of oil when suppliers produce the same amount of oil while people demand less oil. The surplus of oil led to a dramatic decrease in the price of oil.

What Happened to Oil Prices in 2020, www.investopedia.com/articles/investing/100615/will-oil-prices-go-2017.asp. Accessed 17 Sept. 2026.

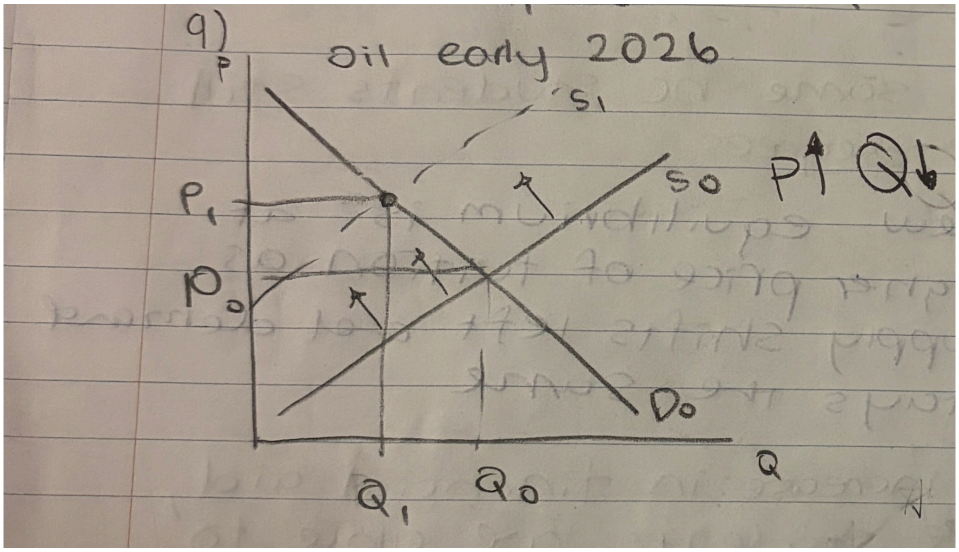


9. Why did crude oil prices rise so much in early 2026? Your answer should use the model of supply and demand developed in class and you should be explicit about whether supply or demand were the main driver of higher prices? .



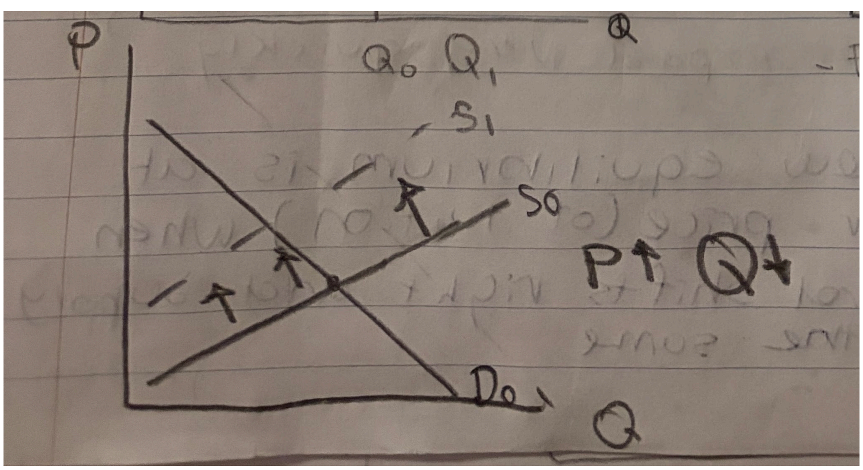
In February 2026 the United States and Israel initiated an attack against Iran. This military conflict in the middle east provoked the closure of the Strait of Hormuz which is a shipping point of global oil supplies. Attacks on infrastructure in the middle east contributed to the restricted supply of oil to the US. The limited supply of oil drove up the price and decreased the quantity of crude oil while the demand stays the same.

Crude Oil and Petroleum Product Prices Increased Sharply in the First Quarter of 2026 - U.S. Energy Information Administration (EIA), www.eia.gov/todayinenergy/detail.php?id=67424. Accessed 17 Sept. 2026.



10. Now consider the market for gasoline, which is connected to, but distinct from the market for crude oil. Using a model of supply and demand, show why gasoline prices rose in early-mid 2026.

Since the supply of crude oil to the US has decreased this has not only affected the price of crude oil, but has also affected the price of gasoline. This is because crude oil is an input of gasoline and you need crude oil to make gasoline. So the supply of gasoline will act in tandem with the supply of crude oil. With supply of gasoline low, prices increase and quantity decreases.



11. The global economy experienced severe crude oil price spikes around both 1973 and 1979. What caused these and how did they affect the U.S. economy?

In 1973, the Yom Kippur War decreased the oil supplied to countries supporting Israel from Arab nations. The decrease in supply of oil to the US spiked the price of oil in the US. In 1979, the Iranian Revolution disturbed Iranian oil exports to the US. Again, the decrease in supply led to a spike in the price of oil. These crude oil emergencies led to high inflation and high gasoline prices in the US oil is a production input. They caused a change in economic policies for the US as people were forced to think of energy sustainability.

"Oil Embargo and Energy Crises of 1973 and 1979: History: Research Starters: Ebscohost." *EBSCO*, www.ebsco.com/research-starters/history/oil-embargo-and-energy-crises-1973-and-1979. Accessed 17 Sept. 2026.

12. Based on your answer to #11, why are higher crude oil prices often detrimental to the U.S. political party that is currently in power?

Since crude oil is a production input for goods, higher crude oil prices means the cost of living is higher, inflation is high, prices for products like gasoline increase. The US government has to increase the cost of living when supply of crude oil is limited. People will usually blame the political party that is currently in power for why the cost of living is high even when they can't control the global economy (like the cost of crude oil).

Here's Why Republicans Are Worrying about High Gas Prices Ahead of the Midterms - Politico, www.politico.com/news/2026/06/25/republicans-high-gas-prices-midterms-00974308. Accessed 18 Sept. 2026.

13. In class, we made several assumptions about the households and firms in our model of supply and demand. Which market, higher education or crude oil, better fits these assumptions and why?

The market for crude oil fits our model of supply and demand better than higher education. One of our assumptions is that firms are profit maximizers. However, markets of higher education aren't always trying to maximize their profits, they have other goals like providing a valuable education. However, firms in the crude oil market are profit maximisers and their main goal is to achieve the highest possible profit.