**Problem 7 -** **The total operating revenues of a public transportation authority are $100 million while its total operating costs are $120 million. The price of a ride is $1, and the price elasticity of demand for public transportation has been estimated to be -0.4. By law, the public transportation authority must take steps to eliminate its operating deficit. (*a*) What pricing policy should the transportation authority adopt? Why? (*b)* What price per ride must the public transportation authority charge to eliminate the deficit if it cannot reduce costs?**

***7(a) is asking: should the transportation authority increase or decrease the price per ride based upon the price elasticity of demand. 7(b) TR = P\*Q: Suggestion: increase the price of a ride to be $1.50.***