



4. In the graph above, the price of melange is initially low, and Jessica maximizes utility by choosing bundle A. Then the price of melange rises, and Jessica now maximizes utility by choosing bundle B.
- On the graph, draw the hypothetical budget line representing the new relative prices, but the original purchasing power. (8 points)
 - On the same graph, show the income and substitution effects of the price change on the quantity demanded of melange. (8 points)
 - Is melange a **NORMAL** good or an **INFERIOR** good? Explain. (4 points)