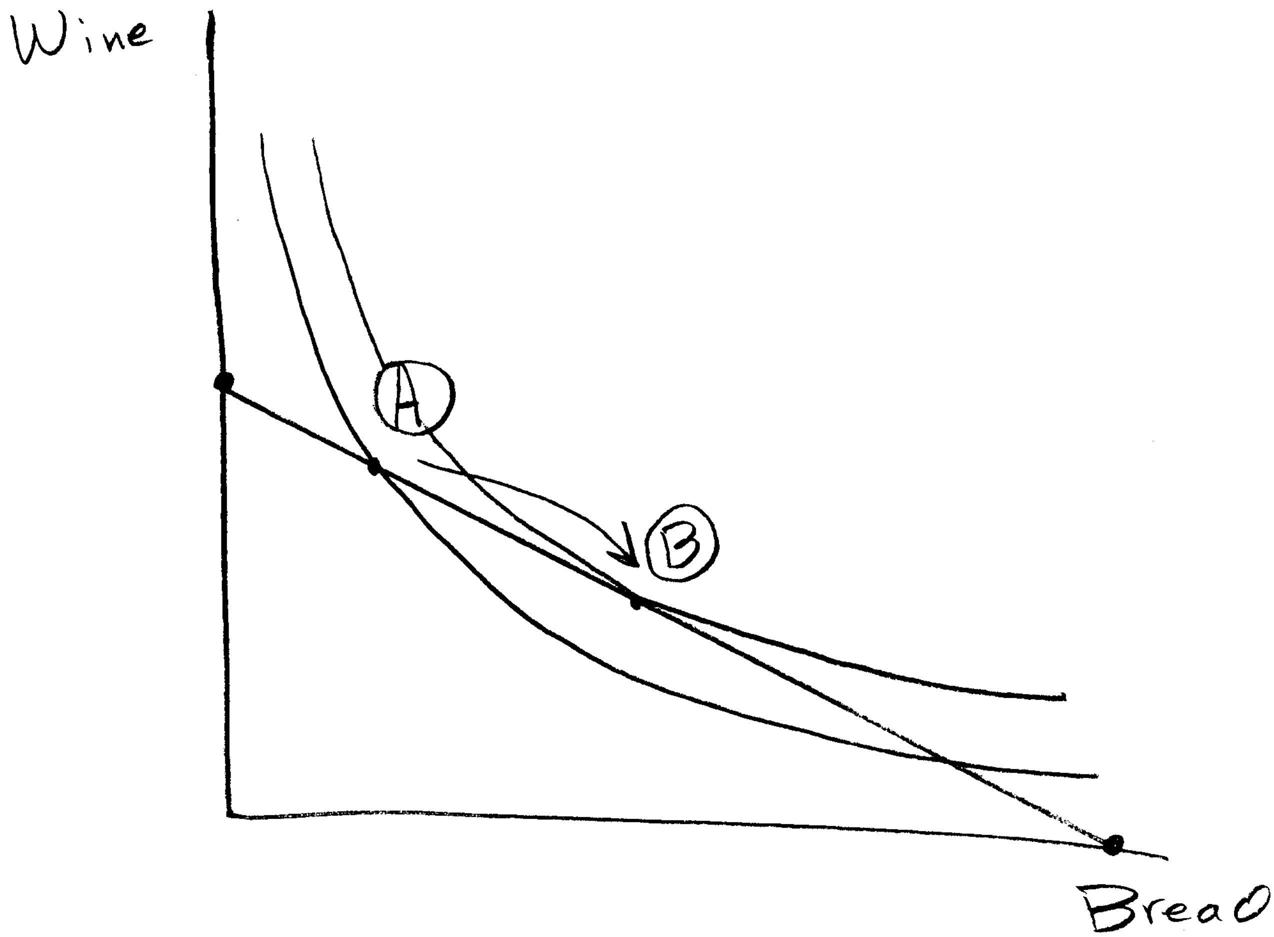
1



At point A, the marginal value of bread is 1/2 (This is the slope of the indifference curve through A)

If we draw a budget line through point A, it will show bundles that cost the same as bundle A (and are therefore also affordable). The slope of the budget line (relative price of bread) is 1/4. So at A marginal value exceeds relative price and

more bread should be purchased.
The diagram shows that it is possible to reach a higher indifference curve at a point like B.
The key to the diagram is that the indifference curve is steeper than the budget line at a point like A (described by the question)

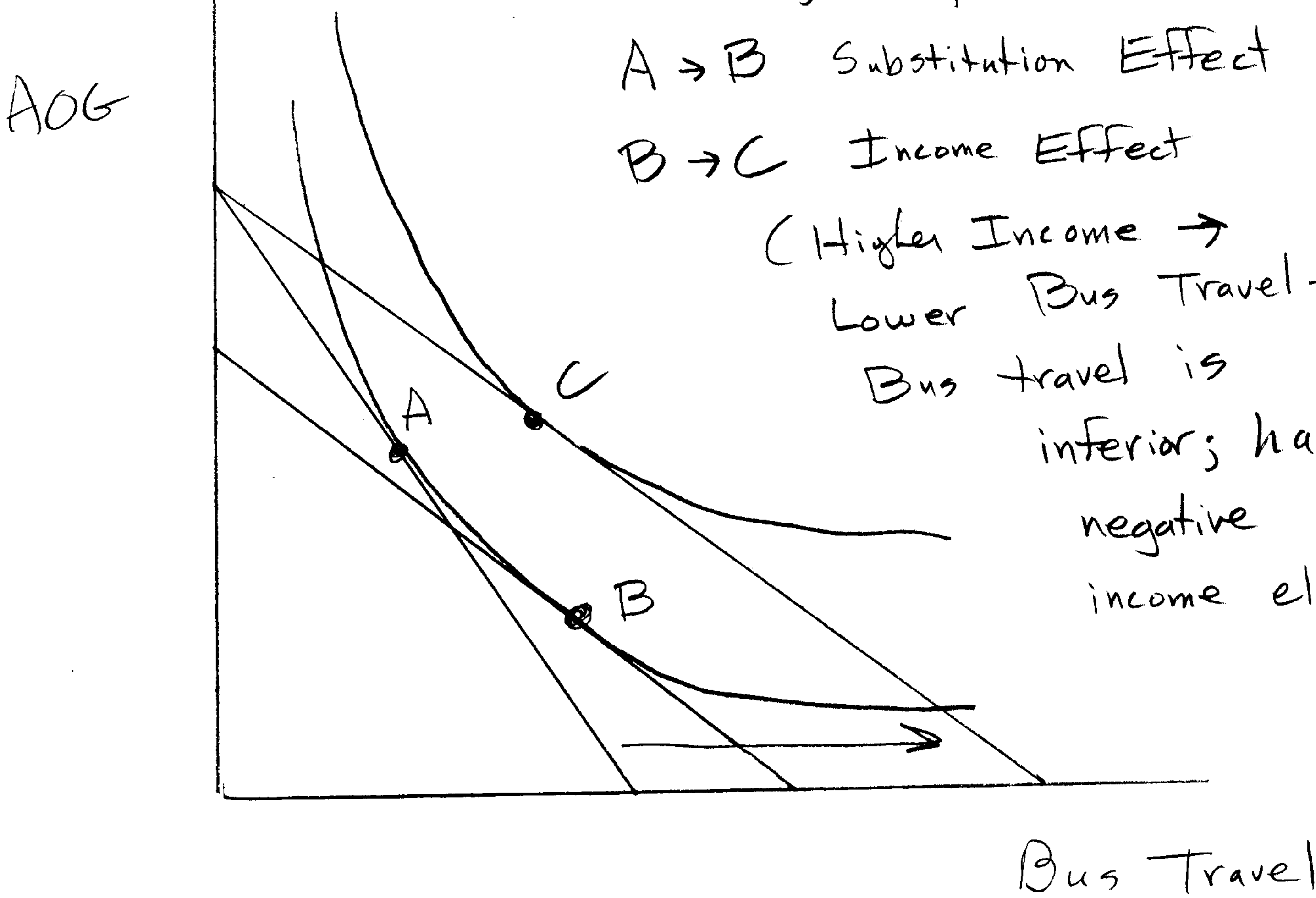
2

A original point

A → B Substitution Effect

B → C Income Effect

(Higher Income → Lower Bus Travel → Bus travel is inferior; has negative income elasticity)



Budget Line shifts with lower price of bus travel.