

2004 Iowa Vo Ag/FFA Farm Business Management
Career Development Event

MULTIPLE CHOICE SECTION (100 pts.)

Select the best answer (2 pts ea). Code your answers on the answer sheet provided. Be sure to erase completely any answers that you change.

1. Futures contract delivery specifications include:
 - a. specific quantity of a commodity
 - b. specific quality of a commodity
 - c. acceptable delivery times and locations
 - d. all of the above

2. At any point in time, the total assets of a farm business are most likely to represent the farm's:
 - a. profits
 - b. net worth
 - c. net income
 - d. sale value

3. A multi-year loan often associated with the purchase of land is typically called:
 - a. a chattel
 - b. a lien
 - c. a mortgage
 - d. an annuity

4. Accounts payable by a business equal:
 - a. opportunity costs
 - b. accounts receivable
 - c. forthcoming expenses
 - d. items purchased but not yet paid for

5. The following is likely to be the most important need in order to produce goods (output):
 - a. money
 - b. inputs
 - c. profit
 - d. demand

6. Fertilizer expense per bushel of corn sold is an example of:
- marginal cost
 - average cost
 - opportunity cost
 - fixed cost
7. A person who buys a futures contract has this futures market position and obligation respectively:
- long, take delivery
 - long, make delivery
 - short, make delivery
 - short, take delivery
8. To calculate 'Total Revenue' for a business one would need the following information:
- price and quantity of output
 - income and expenses
 - supply and demand
 - assets and liabilities
9. The annual rate of return earned by a farmer on his/her assets was 5%. Net earnings for the year were \$30,000. This implies:
- total assets = \$150,000
 - total assets = \$600,000
 - equity = \$150,000
 - equity = \$600,000
10. Economics is the social science that studies how people allocate scarce _____:
- wants
 - needs
 - resources
 - supply and demand
11. A demand curve shows graphically the relationship between a product's price and:
- quality
 - consumers' income
 - quantity purchased
 - supply
12. A cash flow statement can help a business manager project:
- return on investment
 - net worth
 - operating expenses
 - future borrowing needs

13. A farmer's before-tax cost of production will normally be:
- affected by the tax rate
 - greater than the after-tax cost
 - less than the after-tax cost
 - unaffected by input prices
14. A country's type of money is also called that country's:
- devaluation
 - exchange rate
 - currency
 - tariff
15. The 'Mad Cow' scare in the U.S. first reported in December 2003, had this impact on the U.S. beef market:
- none
 - decreased demand for U.S. beef
 - increased demand for U.S. beef
 - increased exports of U.S. beef
16. If a producer only has variable costs, that producer is:
- experiencing variable profits
 - operating in the short run
 - operating in the long run
 - facing a lot of uncertainty with respect to input costs
17. Which of the following is not recognized as one of the three primary forms of business organization:
- entrepreneurship
 - partnership
 - corporation
 - sole proprietorship
18. Which of the following would be the best value to use for the cost of feeding homegrown (nonpurchased) hay to dairy cattle?
- 0
 - the cost of producing the hay
 - an average of hay costs for 2 or 3 recent years
 - the opportunity cost of the hay

19. A local elevator quotes a farmer corn at 25¢ under March futures for future sale, and will pick up the grain for free. Which of the following is most likely represented by the 25¢ number?
- the future corn basis
 - the cost of hauling corn to the terminal
 - the elevator's commission fee per bushel
 - the farmer's profit per bushel
20. A farmer has a debt-total asset ratio of 20% and total liabilities of \$100,000. The farmer must have:
- total assets of \$500,000
 - total equity of \$20,000
 - total debt of \$20,000
 - total equity of \$500,000
21. An increase in market supply would shift the supply curve:
- to the right and decrease price
 - to the right and increase price
 - to the left and increase price
 - to the left and decrease price
22. Less risk for the landlord and more risk for the tenant is associated with:
- cash rent contracts
 - production share rent contracts
 - hedging with options
 - government price support programs
23. A farmer recently sold a depreciable asset for \$1500. The asset had been purchased for \$2000 a few years earlier. The farmer had claimed \$700 of depreciation between the times of purchase and sale. What is the taxable realized gain?
- \$200
 - \$500
 - \$700
 - \$800
24. Which of the following is least likely to impact the breakeven rate to charge by a custom combine operator?
- purchase price of the combine
 - grain prices
 - fuel costs
 - repair costs

25. The terms additional and incremental are usually associated with which following economic concept?
- total
 - average
 - marginal
 - opportunity
26. What has increased for a firm whose 'liquidity' has decreased?
- total assets less than total liabilities
 - current assets more than current liabilities
 - current assets less than current liabilities
 - debt
27. If a producer's debt to asset ratio decreases, the producer's
- profitability has increased
 - net cash flow has decreased
 - long-term credit riskiness has decreased
 - total asset value has decreased
28. The premium of an option is also known as the:
- | | |
|---------------------------|--------------------------|
| a. strike price | c. basis |
| b. prepaid for the option | d. extra profit received |
29. The market supply and market demand for a commodity is most likely to determine what for a producer of that commodity?
- | | |
|-------------------|------------------------|
| a. price received | c. profits |
| b. net cash flow | d. costs of production |
30. A legal claim on the property of another as security for a loan payment is called:
- a lien
 - a lease
 - a mortgage
 - an annuity
31. Which of the following would likely increase the demand for beef at the retail level by consumers?
- decrease in consumer income
 - decrease in the retail price of pork
 - increase in the retail price of poultry
 - decrease in advertising expenditures spent on beef products

32. A tax deduction allowed for using up a natural resource by mining or drilling is called:
- a. depreciation
 - b. a depletion allowance
 - c. an investment tax credit
 - d. a tax shelter
33. Money that must be put up (deposited) in order for a person to buy an item is often called this type of money:
- a. collateral
 - b. fast
 - c. lien
 - d. good faith or earnest
34. A cooperative business is typically different from other types of businesses in that a cooperative is:
- a. nonprofit
 - b. investor owned
 - c. user owned
 - d. incorporated
35. A firm that has positive profits and negative cash flows has:
- a. cash 'in' flows greater than cash 'out' flows
 - b. noncash revenues greater than noncash costs
 - c. made an error in calculating either profits or cash flows
 - d. both 'a' and 'b' are true
36. Which of the following costs is likely to be the largest for a business?
- a. financial
 - b. opportunity
 - c. cash
 - d. economic
37. How sensitive or responsive consumers are to changes in some demand factor such as price is known as a measure of:
- a. elasticity
 - b. tastes
 - c. well being
 - d. profitability
38. Renting new machinery is essentially the same as:
- a. buying new machinery
 - b. borrowing new machinery
 - c. leasing new machinery
 - d. renting land

39. Risk is usually due to:
- predictability of events
 - uncertainty of events
 - high prices
 - low prices
40. A grain farmer who has signed an agreement with an elevator to deliver corn in three months at a fixed price has entered into this type of a contract:
- forward price
 - backward price
 - basis
 - hedge
41. Hedgers usually take on this type of risk:
- cash price
 - premium
 - basis
 - market outlet
42. On a balance sheet, total assets:
- = total liabilities
 - = net worth
 - = total liabilities + owners' equity
 - = fixed assets + intermediate assets
43. Two years from today, \$2 would be worth \$2.33 if the relevant interest rate is 8%. The \$2.33 is known as the:
- future value
 - present value
 - compound interest factor
 - risk premium
44. Solvency is the ability to:
- | | |
|------------------------|-----------------------------|
| a. dissolve assets | c. make a short-term profit |
| b. pay long-term debts | d. sell the business |
45. A grain farmer who rents land and does so with an agreement to pay the land owner a percentage of the harvested crop has entered into this type of lease:
- cash
 - noncash
 - crop share
 - forward contract

46. Which of the following is usually regarded as the second step in a systematic, scientific decision making process?
- identify alternatives and collect information
 - evaluate alternatives
 - take action
 - identify the problem (or the need to decide)
47. Hedging with futures contracts normally reduces which of the following 'risks' for a producer:
- price
 - production
 - profit
 - basis
48. A partial budget is one that:
- is partially completed
 - evaluates the profitability of a business change
 - covers income and expenses for part of a year
 - excludes noncash expenses
49. If a farmer pays off a loan in full, one component of the loan payment is the amount borrowed which is also known as the:
- present value
 - interest
 - collateral
 - principal
50. Assume an item costs \$200 this year. If the price of this item increases 15% between this year and next year, what will the item cost next year?
- \$30
 - \$215
 - \$300
 - \$230

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PROBLEM SECTION (200 pts.)

Select the best answer (5 pts. each). Code your answers on the answer sheet provided. Be sure to erase completely any answers that you change.

Section A: Financial Statement Analysis (50 pts.) Using the attached ending net worth statement (balance sheet) and net farm income statement, answer the following questions.

1. What is the estimated value of this farm's cost value net worth on Jan. 1, 2004?
 - a. \$1,229,415
 - b. \$1,492,550
 - c. \$2,200,295
 - d. \$1,208,227

2. The difference between current liabilities and fixed liabilities is:
 - a. current liabilities are owed on the day the statement is made out, fixed liabilities were owed in the past
 - b. current liabilities are not past due, fixed liabilities are
 - c. current liabilities are for loans used to purchase current assets
 - d. current liabilities are due to be paid off in less than a year, fixed liabilities will be repaid over a longer period of time

3. Using 'market' values, the total debt to total asset ratio is:

a. .39	c. 2.54
b. 1.57	d. .44

4. Why is the market value of machinery and equipment higher than its cost value?
 - a. market value includes leased equipment as well as owned
 - b. machinery has been depreciated faster than its estimated sale value has decreased
 - c. market values are equal to the original cost of the machinery
 - d. someone made a mistake!

5. By how much has this farm increased its market value net worth over last year?
 - a. \$21,188
 - b. \$1,370,680
 - c. \$1,492,550
 - d. \$121,870

6. What is the purpose of the 'Income Adjustments' section of the Net Farm Income Statement?
- to include the value of expenses incurred but not yet paid in cash
 - to include the value of crops and livestock that have been produced but not sold yet
 - to subtract out income taxes that will have to be paid
 - to include only income received in cash
7. "Agricultural program payments" come from:
- The FFA
 - Local cooperatives
 - Iowa State University
 - The U.S. Department of Agriculture
8. From the Net Farm Income Statement, calculate net cash farm income for the past year.
- \$638,321
 - \$523,912
 - \$114,409
 - \$80,423
9. Net farm income from operations for 2003 was:
- \$645,489
 - \$65,424
 - \$80,424
 - \$114,409
10. Capital gains or losses could result from selling:
- soybeans
 - feeder pigs
 - milk
 - machinery

Section B. Cash Flow Analysis (50 pts.)

Use the attached cash flow budget projection to answer the questions below.

11. How much cash on hand did this farm have at the beginning of the year?
- \$48,787
 - \$41,295
 - \$19,597
 - \$163,691

12. In how many periods is this farm projected to show a positive net cash flow in the coming year?
- a. one
 - b. two
 - c. three
 - d. four
13. In which period does this farm project the largest total cash outflows for all purposes?
- a. January-February
 - b. March-April
 - c. May-June
 - d. November-December
14. Approximately, how many dollars will this farm need to borrow in January-February to have an ending cash balance of at least \$1,000 for that period?
- a. \$85,560
 - b. \$86,560
 - c. \$105,222
 - d. none
15. According to this example cash flow budget, when is this farm's cash rent due?
- a. all in the spring
 - b. all in the fall
 - c. half in the spring, half in the fall
 - d. monthly
16. In which period will this farm have to borrow the most operating loan money?
- | | |
|---------------|--------------|
| a. Jan.-Feb. | c. May-June |
| b. Mar.-April | d. Nov.-Dec. |
17. According to this budget, the farm's net income for the coming year is expected to be:
- a. positive
 - b. negative
 - c. zero
 - d. cannot tell
18. Which of the following items is included in a cash flow budget but does not appear in a net farm income statement?
- a. wages paid to hired labor
 - b. value of crop inventory not sold yet
 - c. principal payments on long-term loans
 - d. depreciation

19. How else could this farm project a positive cash balance at the end of the first period, besides borrowing operating loan funds?
- sell crops earlier in the year
 - pay real estate taxes later
 - delay family living expenses
 - increase the price used to value its beginning crop inventory
20. This farm's operating loan balance at the end of the year will probably be _____ than at the beginning of the year.
- higher
 - lower
 - the same
 - can't tell

Section C: Budgeting and Investment Analysis (50 pts.)

- 21 Calculate the gross income per dairy cow given the following production rates and prices:

Milk sales:	20,000 lb. per year @ \$14 per cwt.	_____
Cull cow sales:	3 head weighing 1,400 lb. @ \$.50 per lb.	_____
Dairy calf:	9 head @ \$200 per head	_____

- \$280,390
 - \$3,680
 - \$3,700
 - \$3,190
- 22 Which source of income would be different if replacement heifers were raised from the herd instead of purchased?
- milk sales
 - cull cow sales
 - dairy calf sales
 - all of them

The following information is used for questions #23 through #26.

You are considering buying a new grain combine and want to calculate annual costs (fixed and variable) of owning it for 10 years. You have the following information.

Capacity	=	3 acres per hour
Interest rate	=	6%
Repairs annually (% of purchase price)	=	1%
Years of ownership expected	=	10
Fuel used per acre	=	.6 gallon
Fuel price per gallon	=	\$1.10
Purchase price	=	\$180,000
Salvage value expected after 10 years	=	\$50,000

23. How much is the annual depreciation cost for the combine?
- a. \$18,000
 - b. \$23,000
 - c. \$13,000
 - d. \$11,500
24. How much is the annual interest (opportunity) cost for the combine based on its average value during its 10-year life?
- a. \$6,900
 - b. \$10,800
 - c. \$1,380
 - d. \$3,900
25. How much is the expected fuel cost per year if the combine is used on 2,000 acres per year?
- a. \$2,200
 - b. \$1,200
 - c. \$1,320
 - d. \$.66
26. If the wage for the combine operator is \$12 per hour, then the labor cost per acre for combining is?
- a. \$4.00
 - b. \$12.00
 - c. \$36.00
 - d. \$.75

Refer to the attached 'Dryland Barley' budget to answer questions 27 through 30.

27. How much are the projected total receipts per acre in this budget?
- a. \$2.14
 - b. \$83.46
 - c. \$8.32
 - d. \$91.78
28. What is the budgeting unit for this barley budget?
- a. 1 bushel
 - b. 1 acre
 - c. \$1
 - d. 1 hour
29. What is the break-even yield per acre of barley necessary to cover the total costs (subtract other income from total costs first)?
- a. \$43.4 bu/acre
 - b. \$39.5 bu/acre
 - c. \$2.38 per bu.
 - d. \$2.17 per bu.
30. Based on this budget, would you recommend growing barley or leaving the land idle?
- a. Grow barley
 - b. Leave it idle
 - c. Cannot tell from the budget
 - d. No clue

Section D: Marketing (50 pts.)

31. Assume on March 20, Izza Farmer hedged some future (November 1) soybean sales using the Nov. Soybean futures contract at \$7.70. Izza had to pay a commission fee of \$0.02/bu. and expects the local soybean basis to be \$0.25/bu. on November 1. Izza can expect to receive what net price for the 'hedged' soybeans after commissions?
- a. \$7.70
 - b. \$7.45
 - c. \$7.47
 - d. \$7.43
32. Which of the following would most likely result in a farmer receiving a lower than expected net corn price as a result of having hedged with futures?
- a. corn basis turns out to be wider than expected (\$0.30 versus \$0.20)
 - b. cash corn prices decrease after hedge is placed
 - c. corn futures prices decrease after hedge is placed
 - d. cash corn prices increase after hedge is placed

33. While hedging, which of the following would Izza (see question #31) most likely do on Nov. 1 when he/she lifts the hedge?
- sell November soybean futures
 - sell cash soybeans and buy November soybean futures
 - buy November soybean futures
 - buy March soybean futures and sell Nov. soybeans futures
34. Production, market (or price), financial, human health, and legal are different types of:
- risks
 - expenses
 - resources
 - enterprises
35. If Izza (see question #31) wanted to hedge against a soybean price decline using options, Izza would most likely:
- sell Nov. Soybean put options
 - buy Nov. Soybean call options
 - buy Nov. Soybean put options
 - sell Nov. Soybean call options
36. The 'premium' on an options contract is:
- the cost of buying the contract
 - the cost of selling the contract
 - the extra price one can expect to receive over a standard futures contract
 - the premium quality of product required for delivery
37. Which of the following actions is most likely taken to deal with price risks in marketing:
- purchase multiple peril crop insurance
 - enter into a forward contract on finished hogs
 - lease instead of purchase equipment
 - crop share rent instead of cash rent
38. If a farmer sells 4,000 bushels, 5,000 bushels, and 6,000 bushels of soybeans at \$7.20, \$7.40, and \$7.60 respectively, what is the average price per bushel received by this farmer?
- \$7.40
 - \$7.50
 - \$7.43
 - \$7.53

39. The public announcement of discovery of a cow with 'Mad Cow' disease in the U.S. in December 2003 resulted shortly thereafter in live cattle futures declining the maximum allowable amount known as:
- a. the basis
 - b. the margin
 - c. the premium
 - d. the limit
40. What is the breakeven price per bushel for a corn producer who has \$200 per acre operating costs and \$90 per acre fixed costs if the farmer's projected yield is 180 bushels per acre?
- a. \$0.50
 - b. \$1.11
 - c. \$1.61
 - d. \$0.62

Problem

Section

Attachments

Ending Net Worth Statement

Name **FFA Farm**

Date **01/01/04**

Farm Assets	Cost Value	Market Value	Farm Liabilities	Market Value
			Accounts payable (Sched. N)	29,540
Checking and savings accounts	19,597	19,597	Farm taxes due (Sched. O)	0
Crops held for sale/feed (Sched. A)	285,360	285,360	Current notes and credit lines (Sched. P)	163,691
Investment in growing crops(Sch. B)	0	0	Accrued interest - short (Sched. P)	9,216
Commercial feed on hand (Sch. C)	7,600	7,600	- fixed (Sched. Q)	44,169
Prepaid expenses (Sched. D)	12,750	12,750		
Market livestock (Sched. E)	157,563	157,563	Due in 12 months - fixed (Sched. Q)	60,912
Supplies on hand (Sched. F)	0	0		
Accounts receivable (Sched. G)	0	0	Other current liabilities	
Other current assets		0		
		0		
Total Current Assets	\$482,870	\$482,870	Total Current Liabilities	307,528
Unpaid coop. distributions(Sch. H)	14,435	14,435	Notes and contracts, remainder (Sched. Q)	663,352
Breeding livestock (Sched. I)	49,125	49,125	Machinery	
Machinery & equipment (Sched. J)	321,132	500,000	Land	
Buildings/improvements (Sched. K)	452,734	617,000		
Farmland (Sched. L)	880,000	800,000		
Farm securities, certificates(Sch. M)	0	0	Other fixed liabilities	
Other fixed assets		0		
Total Fixed Assets	1,717,426	1,980,560	Total Fixed Liabilities	663,352
a. Total Farm Assets	2,200,295	\$2,463,430	b. Total Farm Liabilities	\$970,880
c. Farm Net Worth (a - b)		\$1,492,550	Working Capital	\$175,342
d. Farm Net Worth Last Year	1,208,227	1,370,680	Current Asset-to-Debt Ratio	
e. Change in Farm Net Worth (c - d)			Total Debt-to-Asset Ratio	
Personal Assets			Personal Liabilities	
Bank accounts, cash, savings			Credit card, charge accounts, other loans	
Automobiles, boats, etc.			Automobile loans	
Household goods, clothing			Accounts payable, taxes due	
Stocks, bonds, etc.			Other loans	
Real estate			Real estate, other long-term loans	
f. Total Personal Assets		0	g. Total Personal Liabilities	0
h. Total Personal Net Worth (f - g)		0		
i. Total Net Worth, Market Value (c + h)			Personal Debt-to-Asset Ratio	0%

Net Farm Income Statement

Name

Mayer Farm

Year

2003

Income					
Cash Income		Income Adjustments		Ending	Beginning
Sales of livestock bought for resale		Crops held for sale or feed (Sched. A)		285,360	298,485
Sales of market livestock, grain, etc.	559,679	Market livestock (Sched. E)		157,563	136,270
Cooperative distributions paid		Accounts receivable (Sched. G)		0	0
Agricultural program payments	48,790	Unpaid coop. distributions (Sched. H)		14,435	14,435
Crop insurance proceeds		Breeding livestock (Sched. I)		49,125	50,625
Custom hire income		Subtotal of Adjustments		506,483	499,815
Other cash income	5,672			b	c
Sales of breeding livestock	24,180	d. Value of Home Used Production			500
a. Total Cash Income	\$638,321	e. Gross Farm Revenue (a + b - c + d)			\$645,489

Expenses					
Cash Expenses		Expense Adjustments		Beginning	Ending
Car and truck expenses	1,894	Investment in growing crops (Sched. B)		5,850	0
Chemicals	40,460	Commercial feed on hand (Sched. C)		7,000	7,600
Conservation expenses		Prepaid expenses (Sched. D)		0	12,750
Custom hire	0	Supplies on hand (Sched. F)		0	0
Employee benefits	1,780			Ending	Beginning
Feed purchased	104,310	Accounts payable (Sched. N)		29,540	45,600
Fertilizer and lime	25,500	Farm taxes due (Sched. O)		0	0
Freight, trucking	12,290	Accrued interest (Sched. P, Q)		53,385	54,353
Gasoline, fuel, oil	23,650	Subtotal of Adjustments		95,775	120,303
Insurance	16,500			g	h
Interest paid	85,511	i. Depreciation (Sched. J, K)			80,681
Labor hired	28,000	j. Gross Farm Expenses (f + g - h + i)			\$580,065
Pension and profit-share plans					
Rent or lease payments	85,900	k. Net Farm Income From Operations (e - j)			
Repairs, maintenance	12,333				
Seeds, plants	18,560	l. Sales of Farm Capital Assets			15,000
Storage, warehousing		m. Cost Value of Items Sold (Sched. J, K, L)			0
Supplies purchased	2,375	n. Capital Gains or Losses (l - m)			15,000
Taxes (farm)	8,980				
Utilities	21,386	o. Net Farm Income (k + n)			\$15,000
Veterinary fees, medicine, breeding	11,623				
Other cash expenses	4,560				
Livestock purchased	18,300				
f. Total Cash Expenses	\$523,912				

Dryland Barley Enterprise Budget - Grain Only
 1200 acres farmed, 1040 acres for this budget



				Total	
PRODUCTION	Units	Price	Quantity	\$/Acre	Your Value
Barley	Bu.	\$ 2 14	39	\$	_____
Small Grain Pasture	Acre	\$ -	0	\$	_____
Other Income	Acre	\$ 8 32	1	\$ 8.32	_____
Total Receipts				\$	\$
OPERATING INPUTS	Units	Price	Quantity	\$/Acre	Your Value
Barley Seed	Bu./acre	\$ 5.80	2.00	\$ 11.60	_____
Fertilizer	Acre	\$ 13.88	1	\$ 13.88	_____
Custom Harvest	Acre	\$ -	0	\$ -	_____
Pesticide	Acre	\$ 4.60	1	\$ 4.60	_____
Crop Insurance	Acre	\$ 1.98	1	\$ 1.98	_____
Annual Operating Capital	Dollars	8.80%	35.36	\$ 3.11	_____
Machinery Labor	Hrs	\$ 6.50	1.01	\$ 6.57	_____
Irrigation Labor	Hrs.	\$ -	0	\$ -	_____
Custom Hire	Acre	\$ 5.00	1	\$ 5.00	_____
Machinery Fuel, Lube, Repair	Acre	\$ 21.44	1	\$ 21.44	_____
Irrigation Fuel, Lube, Repair	Acre	\$ -	0	\$ -	_____
Rent	Acre	\$ -	0	\$ -	_____
Other Expense	Acre	\$ -	0	\$ -	_____
Total Operating Costs				\$ 68.18	\$ 68.18
Returns Above Total Operating Costs				\$ 23.60	\$ 23.60
FIXED COSTS	Units	Rate		\$/Acre	Your Value
Machinery/Irrigation	\$/value				
Interest at	Dollars	9.10%		\$ 9.84	_____
Taxes at	Dollars	1.00%		\$ 1.70	_____
Insurance	Dollars	0.60%		\$ 0.65	_____
Depreciation	Dollars			\$ 12.43	_____
Land	\$/acre	\$ -			
Interest at	Dollars	0.00%		\$ -	_____
Taxes at	Dollars	0.00%		\$ -	_____
Total Fixed Costs				\$ 24.62	\$ 24.62
Total Costs (Operating + Fixed)				\$ 92.80	\$ 92.80
Returns Above All Specified Costs				\$ (1.02)	\$ (1.02)

Team Participation Event (100 pts.)

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As a group (or team), you are to collectively select the best answer to each question below (10 pts. each). Code your answers on the answer sheet provided (one answer sheet per team). Be sure to erase completely any answers that your team changes.

This activity is designed to test your ability as a group to 1) apply your knowledge of economic and business concepts to actual firm decisions, and 2) generalize and summarize the basic content and implications of economic articles and reports. The applications will focus on information summarized in selected publications previously cited as reference materials for this event.

1. Which of the following is NOT an Iowa farm ownership/operation trend reported by Iowa State University for the period 1982-2002:
 - a. a decrease in the percent of acres operated by the owner
 - b. an increase in the percent of acres owned by people aged 65 and over
 - c. an increase in the percent of leases that are of the crop-share type
 - d. an increase in the percent of leases that are of the cash-rent type

2. Tax advantages of passing land on to heirs through an estate and less money required to expand a farming operation are two advantages of:
 - a. leasing versus owning land
 - b. cash-rent lease versus crop-share lease
 - c. borrowing money from relatives versus borrowing money from a bank
 - d. farming in Iowa versus farming in Wyoming

3. Returns to farmland ownership as reported by Iowa State University are of the following two forms:
 - a. before tax and after tax
 - b. leasing and owning
 - c. short-run and long-run
 - d. cash (estimated by cash rental rates) and the annual change in the market value of farmland

4. From the information below, what was the total percentage return to Iowa farmland ownership for the year 2002 as reported by Iowa State University?

<u>Year</u>	<u>Cash Rent</u>	<u>Land Value</u>
2002	\$116	\$1980
2001	\$114	\$1900

- a. 5.9%
- b. 4.2%
- c. 10.1%
- d. 69.6%
5. On an annual percentage basis, land values in Iowa:
- a. increased the most 1973-1980 and decreased the most 1982-1987
- b. increased the most 1980's and decreased the most 1990's
- c. increased the most 1990's and decreased the most 1970's
- d. increased the most 1982-1987 and decreased the most 1973-1980
6. Assume the average Iowa market land value for 2003 is \$2079. If this is 5% greater than the corresponding value for 2002, what was the average Iowa market land value in 2002?
- a. \$2183
- b. \$1975
- c. \$1980
- d. \$2038
7. For the past 20 years in Iowa, whole farm cash rents per acre have consistently been 6-9% of:
- a. crop-share lease values
- b. net farm income per acre
- c. gross farm income per acre
- d. average market land values
8. Suppose a person who has \$250,000 to invest comes to your team for advice. This person is considering buying Iowa farmland, or apartment buildings, or stocks of business firms. In particular, this person is interested in knowing more about the past returns to investing in Iowa farmland. Which of the following would be a true statement about the past annual returns to Iowa farmland ownership for the years 1970-2002 that you could tell this investor:
- a. they have never been negative during this time period
- b. they have never been less than the returns on stock ownership
- c. they have varied greatly depending on when farmland was purchased
- d. they have been remarkably constant regardless of when farmland was purchased

9. On October 15, 2003, Iowa State University projected the following Iowa average soybean prices by quarter (=Q) for 2004:

<u>Qtr</u>	<u>Price</u>
1	\$6.70
2	\$6.55
3	\$6.40

Suppose a soybean farmer with 200 acres of soybeans in 2003 (projected yield = 40 bushels/acre) has decided to sell all of his/her beans in the second quarter of 2004. What would be his/her expected cash receipts from soybean sales (excluding any government payments)?

- a. \$53,600
 - b. \$52,400
 - c. \$51,200
 - d. \$52,267
10. Refer to the 2004 projected soybean prices (by ISU) and farmer production information above in question #9. What is your estimate of the net economic benefit to this farmer of selling all of his/her 2003 soybean crop in the 1st quarter of 2004 versus selling half of the crop in the 2nd quarter and half in the 3rd quarter?
- a. \$1800
 - b. more than \$1800
 - c. less than \$1800
 - d. there would be a net loss (no positive net economic benefits)