

Name: _____

AG 346 Take Home Quiz 3
Due April 3, 2006
Typed Answers greatly appreciated

50 points

1. Using John Welty's lecture and information found in your book, answer the following:
 - a. Cooperatives are one of five types of businesses, list and briefly describe two others.
 - b. List and describe the four cooperative principles
 - c. List 4 types of cooperatives
 - d. What are the four types of Agricultural Cooperatives that John Welty discussed.
 - e. List two local cooperatives and briefly describe their purpose/services provided.

2. Relative to Jim Dyer's lecture, answer the following questions.
 - a. List three types of direct marketing he discussed.
 - b. What are two innovative ways to add value to an agricultural product.
 - c. Respond to the statement, "Buying Organically produced goods supports small farmers."

3. Steve Stovall
 - a. What are A I D A?
 - b. Advertising is an investment or a expense? (Circle one)
 - c. Relative to your marketing project, briefly outline what you might do to get the A, I, D and A of your potential consumers.

Cash and Futures Market- Using class notes, book chapter and booklet, answer the following.

4. List two of the cash marketing alternatives discussed in class, and their advantages and disadvantages.
5. What is the difference between Forward Contract and Futures contract?
6. Define Futures Contract:
7. In the futures market, what is the difference between a hedger and a speculator?

8. What is basis?
9. Briefly discuss the difference between a strengthening basis and a weakening basis. Who benefits from these changes?
10. Given the product that you have been graphing this semester, what is the current basis? Please list your product!
11. What does it mean to “offset” your contract?
12. What is the purpose of a long hedge?
13. What is the purpose of a short hedge?
14. What is the difference between an initial performance margin and a maintenance margin?
15. A corn producer planted 100 acres of corn. It is August and he is expecting a yield of at least 100 bushels per acre. It has been a good summer and he expects yields across the United States to be above average. The current cash price is \$3.00 and the December futures price is \$3.25.
 - a. What would you do?
 - b. **Scenario 1:** In late November, he harvests his corn and the cash price has fallen to \$2.50 bushel. Since the historical basis is $-.25$, the December futures price is now \$2.75. Given your decision in (a), what is your per bushel selling price and the total income for your corn crop (assume 100 bushels per acre)?
 - c. **Scenario 2:** In mid August a hail storm sweeps through the midwest destroying 30% of the corn but not yours. By harvest time in November the cash price has risen to \$3.50 and the basis is still $-.25$. Given your decision in (a), what is your per bushel selling price and the total income for your corn crop (assume 100 bushels per acre).
 - d. **Scenario 3:** In mid August a hail storm sweeps through the midwest destroying 30% of the corn but not yours. By harvest time in November the cash price has risen to \$3.50 and the basis has strengthened to $-.20$. Given your decision in (a), what is your per bushel selling price and the total income for your corn crop (assume 100 bushels per acre).
16. You are a poultry producer that needs to purchase soybean meal for feed. It is early October and you

have projected that you will be purchasing 100 tons in January. The current cash price is \$148 per ton. You like the price but have no storage space. You expect the price to rise by January so you decide to hedge. A 100 ton January soybean meal contract is trading at \$153/ton.

- a. What is the basis?
- b. What position would you take?
- c. **Scenario 1:** As expected, there is a greater than expected soybean meal demand and a smaller than expected soybean harvest, which causes soybean meal prices to rise. In late December, cash prices are now \$156/ton and January futures are \$161. What is the net purchase price per ton?
- d. **Scenario 2:** What would happen if both cash and futures prices fell by an equal amount by December. The cash price for soybean meal is now \$140/ton while the Jan futures are \$145/ton. What is the net purchase price per ton?
- e. **Scenario3:** What would happen if the cash price rises less than the futures price, causing the basis to weaken? The December cash price is now \$151/ton while the January futures is \$160/ton. What is the net purchase price per ton?
- f. Scenario 4: You choose to not hedge in the futures market. What would be your net purchase price per ton in each of the previous scenarios?

	<u>No hedge</u>	<u>Hedge (input information from above)</u>
Scenario 1:		
Scenario 2:		
Scenario 3:		

- g. Briefly discuss why this poultry producer would want to hedge in the futures market?