ECONOMICS 135
AGRICULTURAL FIRMS, MARKETS AND PRICES
Fall, 2001

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Office Hours
Hayenga Generally available after class; call or e-mail for an appointment.
Shunmugavelu Wed 2-4, or email for an appointment

Course Objectives
1. Get introduced to the food and agricultural marketing system, its complexities, problems, important issues, and the economic principles underlying the behavior of markets and marketing firms.

2. Analyze price behavior in the food and agricultural sector, pricing and coordination systems linking producers and their ultimate customers, and the risk management alternatives available to managers.

3. Develop a logical framework that can be used in analyzing marketing problems and issues, making decisions regarding marketing alternatives and policy issues, and communicating their reasoning effectively.

Basic Procedure
The focus of the course will be on learning about the food and agricultural marketing system, and how to analyze new marketing issues or problems. Most of the course will be devoted to:
- demand, supply, and price behavior and forecasting;
- futures, options, and related price risk management in agribusiness;
- production and marketing contracts, vertical integration;
- the farm input supply, agr processing and distribution industries; and
- the industrialization of the food and agricultural sector.

The difficult and complex problem of selecting the best available market linkages among food chain participants in a complicated and changing commodity marketing environment will be considered. Issues and policy debates that arise in the rapidly changing marketing system will be occasional topics for discussion.
The course will be conducted in a combination discussion-lecture mode, with as much discussion as feasible in a large class. Class participation (offering relevant questions or comments, responding to instructor questions thoughtfully, showing up for class, and turning in high quality assignments) is strongly encouraged and rewarded via 10% of the points available for assignments, and by bumping up the grades of those considered to have contributed to class discussion a lot. If you are not going to be able to attend for a while, alert me to that in advance, where possible, so arrangements can be made to help you get the material. We will have several guest speakers from ISU extension and the food industry. Some topics will be covered when the speakers will be available, rather than in the order shown on the list of topics.

Occasional assignments will be given to assist students in understanding the material and finding useful market information. Students will be asked to complete assignments before coming to class, and be prepared to discuss them. These include some internet and simulated speculation and hedging assignments. Near the end of the class, some group projects may be assigned.

I'm currently planning to have an optional 8-10 page term paper (typed, double-spaced, 12 point Times font); an A or high B quality term paper would be required to elevate the course grade into the A range if the rest of the course performance was quite good. A term paper will involve digging into a marketing topic of particular interest to you, and doing some original thinking and analysis (that's what I will be looking for when grading your paper). You must meet with me to discuss possible topics you have in mind, and obtain advance approval of your paper topic. One page giving your title and describing how you plan to collect the information needed is due in the last week of September. The deadline for turning in your completed term paper is December 4. Late papers get a 10% penalty.

Students having a strong interest in futures markets can do an optional special project trading futures throughout the semester using Tradesim (at a cost of $10), and writing a report on your trading rationale, results and lessons learned (considered equivalent of 1/2 a term paper).

If any student has a fervent interest in agricultural marketing topics different from what will be covered in the course, special arrangements for in-depth term papers or projects may be negotiated with me near the beginning of the semester, with corresponding changes in the course grade determination procedure.

Reading the assigned readings on each topic before it is discussed in class will help your absorption of the material significantly. The primary text (recommended, not required) is Agricultural Futures and Options, 2nd edition, 1999, by Wayne Purcell (Prentice Hall, Inc.). In addition, Marketing of Agricultural Products (the new ninth edition --2002) by Kohls and Uhl will be used some, and would be worth buying if you have little background on the food and agricultural sector. The Econ/Sociology Reading Room,
third floor, Heady Hall will have assigned hard-copy readings on reserve. Complimentary Chicago Mercantile Exchange and Chicago Board of Trade futures and options publications will be passed out to you.

To follow futures markets and other food industry business developments, a student subscription to the Wall Street Journal is available at low rates. Internet locations for futures prices and charts and other industry developments are available for those on the information superhighway. The FarmDayta machines in 174 Heady and 468 Heady also can be checked for futures prices and charts, weather, cash prices, etc. The computer lab in the basement of Heady Hall (68) will be used for all computer-based class assignments. Brock Report commodity price graphs and analysis will be available at www.agmarketing.com/brock report/brock_report.html. I'll give you user names and passwords later.

Some material in the course is not in the texts, so regular class attendance is encouraged to enhance your class participation grade and to avoid missing some material. My PowerPoint slides and most transparencies will be put on the Econ 135 home page http://www.econ.iastate.edu/classes/econ135/hayenga/ for review, but they will not cover everything presented.

Exams will require you to apply the concepts discussed to practical problems or issues in agricultural marketing, will emphasize using the concepts, and will not emphasize memorization. One midterm exam (open book and open notes) will be given to give you feedback on your progress, plus a final exam. Make-up exams will not be given unless advance arrangements have been made with the instructor (Call me!). The final exam will be a comprehensive two-hour examination over the entire course (Tues., Dec. 18 9:45-11:45 a.m.)

TOPIC OUTLINE

Introduction to the Marketing System
Economic Linkages among Products and Markets
Changing Farm and Agribusiness Structure
The Internet in Agriculture
Futures Markets - Introduction
Charting Price Movements (Technical Analysis)
Price Behavior and Fundamental Price Forecasting
Basis and Hedging in Futures Markets
Commodity Options
Other Pricing and Coordination Systems
   Vertical Integration (including cooperatives)
   Production Contracts
   Marketing Contracts
   Strategic Alliances
Spot Markets (Terminal, Auction, Direct)
## Course Grade Determination

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
<th>Grade Scale</th>
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</thead>
<tbody>
<tr>
<td>Midterm</td>
<td>30%</td>
<td>90-100% A, A-</td>
</tr>
<tr>
<td>Final Exam</td>
<td>40%</td>
<td>80-89 B+, B, B-</td>
</tr>
<tr>
<td>Term Paper-optional</td>
<td>10%*</td>
<td>70-79 C+, C, C-</td>
</tr>
<tr>
<td>Futures trading project</td>
<td>5%*</td>
<td>55-69 D+, D, D-</td>
</tr>
<tr>
<td>Class Participation</td>
<td>10%</td>
<td>&lt; 55 F</td>
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</tbody>
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An upward trend in grades during the semester can improve your grade. Significant in-class discussion contributions will be rewarded by bumping up grades one or two notches.

* If a student elects to do both an optional term paper and futures trading project, the term paper will be scaled down to 5 pages for 5% of the grade.
Economics 135 Assigned Readings
[The readings to emphasize will be designated by the instructor; some may be added or removed during the semester]

Introduction to the Marketing System  
Kohls and Uhl, Chapters 1-4  
USDA; intro, Ch. 2, 4,5  
John Gray-- Foodservice Trends  

Economic Linkages Among Products and Markets  
Kohls and Uhl, Chapters 11, 18, 19

Changing Farm and Agribusiness Structure  
Kohls and Uhl, Chapters 5-6  
Agricultural Input and Processing Industries, ISU RD-05  
Hayenga -- section 1 in Beef and Pork Contracting  
http://www.econ.iastate.edu/faculty/hayenga  
Hayenga and Wisner, Cargill case study  
http://www.econ.iastate.edu/outreach/agriculture/marketing/hayenga/

The Internet in Agriculture  
Thompson, et al. E-Agribusiness, Session D2 at  

Futures Markets - Introduction  
Purcell, Chapter 1, Appendix Chapter 4A  
CME Self Study Guide to Hedging with Livestock Futures Units 1-4, 10-12

Charting Price Movements  
(Part of Technical Analysis)  
Purcell, Chapter 4 and  
Chapter 5, pp. 174-180, Appendix

Price Behavior and Fundamental Price Forecasting  
Kohls and Uhl, Chapter 8, 10  
Futrell and Wisner, Marketing for Farmers, Chapters 7 and 11  
Purcell, Chapter 3, and  
CBOT Weather and The Corn Market  
CBOT What's in a Price?  
Hayenga, The Oprah case (Choices, 2nd qtr., 1998)

The Role of Basis, Speculation and Hedging in Futures Markets  
Purcell, Chapter 2 and 11  
CME Self Study Guide to Hedging with
Livestock Futures Units 5-9
CBOT Understanding Basis
Iowa State Extension basis info
http://www.econ.iastate.edu/faculty/wisner/BasisT.html
http://www.ehcon.iastate.edu/faculty/lawrence/Acrobat/CattleBasis95-00.pdf
http://www.econ.iastate.edu/faculty/lawrence/Acrobat/Basishog00Aug.pdf
http://www.econ.iastate.edu/faculty/lawrence/Acrobat/CattleBasis95-00.pdf

Commodity Options
Purcell, Chapter 7
CBOT Agricultural Options for the Beginner
CME Self Study Guide --Forward
Pricing with Livestock Options

Pricing and Coordination Systems
Kohls/Uhl, Chapt. 12, 13, 16, 17, 23, 26
Iowa Atty. General contract checklist and contracts at
http://www.state.ia.us/government/ag/99grain.htm
http://www.state.ia.us/government/ag/livestck.htm
http://www.state.ia.us/government/ag/ag_contracts/index.html

USDA Farmers' Use of Marketing and Production Contracts


Buhr and Kunkel, A Guide to Swine Marketing Contracts
http://agecon.lib.umn.edu/mn/p99-08.pdf

Agribusiness Risk
Management, Marketing Plans,
Purcell, Chapter 11
Contract Evaluation Strategies
USDA, Managing Risk in Farming,
Marketing Plans--readings to be determined later