Circle the T for true and F for false for each of the following statements.  2 points each.

1) T F Inadequate membership support is seldom a reason for failure of traditional coops.
2) T F A futures trader's margin account is settled only after the contract is offset to determine how much is gained or lost.
3) T F Country of Origin Labeling applies only to retail grocery stores and not food service.
4) T F Basis patterns reflect national or global market conditions rather than that of local markets.
5) T F One benefit to having speculators in the futures market is that they add liquidity to the market.
6) T F The basis is equal to the local cash price minus the nearby futures price.
7) T F The Commodity Credit Corporation is the regulatory body for the futures markets.
8) T F The organic food market sales are growing at a rate exceeding 20% per year.
9) T F The own price elasticity is the percentage change in price due to a 1% change in supply.
10) T F The futures market is a “zero sum game”; gains = losses before commissions are paid.
11) T F Typical own-price flexibilities for beef and pork are approximately 2 times larger than their respective cross-price flexibility.
12) T F Traditional coop operations shall be conducted so as to approach a cost basis
13) T F Option strike prices are traded in the options pits by sellers and buyers.
14) T F Members of new aged closed coops are required to do business with their coop.
15) T F The USDA loan deficiency payment requires that the grain be sold to collect the LDP.
16) T F Broiler production in 2003 was larger than pork and turkey combined.
17) T F Because livestock costs increase as they are fed longer, MC=MR is not an appropriate marketing rule.
18) T F The marketing loan program provides price protection similar to buying a put option.
19) T F The loan rate and the posted county price are two key variables in both the marketing loan and loan deficiency payment.
20) T F Corn production in 2003 was larger than all other crops combined on an acreage basis.
21) T F Traditional coops are governed by a vote of members based on the amount of stock owned.
22) T F Consumers can purchase desired credence attributes based on visual inspection of the product.
23) T F Part of the problem with the 1996 Hedge-to-Arrive was that history didn’t repeat itself.
Multiple choice questions. Circle the best answer. 2 points each.

1) The buyer of a put or call option may
   A Exercise the option.
   B Sell the option to another buyer.
   C Let it expire.
   D The buyer of an option may choose any of the above.

2) A hog producer could buy a call option to
   A protect against a basis change.
   B protect against higher hog prices.
   C protect against lower hog prices.
   D protect against higher corn prices.

3) The actual net price from hedging will equal the expected hedge price if
   A futures prices do not change from the initial level
   B actual basis equals expected basis.
   C cash prices increase.
   D futures prices decrease.

4) A farmer sold cattle futures contracts to hedge his production and received margin calls.
   A Futures prices decreased.
   B If the basis is as expected the cash cattle price decreased.
   C If the basis is as expected the cash cattle price increased.
   D None of the above.

5) The basis relationship holds for the following generalities except:
   A Cash and futures typically move together.
   B Basis narrows at contract maturity as futures and cash price converge.
   C Basis is less predictable than futures prices.
   D Basis follows a predictable pattern such as seasonal trends.

6) Which of the following is not true of a forward contract for delivery?
   A The contract is with a local buyer.
   B The required margin account is larger than for futures.
   C The contracted amount must be delivered to a specified location.
   D The basis is known at the time of signing the contract.

7) Which of the following is true about premiums on options contracts assuming all else is equal?
   A Premiums decrease if the level of protection increases.
   B Premiums decrease with increased volatility of the underlying futures contract.
   C Premiums decrease as the time to expiration decreases.
   D Premiums decrease as interest rates increase.
8) Which of the following applies to members of a closed coop?
   A There is typically an initial investment to become a member.
   B They are required to “use” the coop (deliver input or take output).
   C The value of their stock rises and falls with the profitability of the coop.
   D All the above.

9) Which of the following factors are included determining value-based hog prices
   A USDA Quality grade
   B Leanness
   C Carcass weight
   D Both B and C

10) Which of the following is not true about auction markets for livestock?
   A Major method of marketing feeder cattle.
   B Provide assembly function for cull cows.
   C Major method of marketing feeder pigs.
   D All of the above are true.

11) A speculator wanting to profit from falling prices, but also wanting limited risk would:
   A Buy a put option
   B Sell a call option.
   C Sell a put option.
   D Buy a call option.

12) The loan deficiency payment assures a corn producer a minimum price equal to the loan rate if:
   A the farmer collects the LDP and waits to sell the cash grain at a later date.
   B the farmer collects the LDP and sells the cash grain at the same time.
   C the farmer sells the grain and waits to collect the LDP.
   D the farmer collects the LDP and then buys a futures contract.

13) A corn farmer buys a put option at a $.30/bushel premium and futures expire above the strike price.
    The farmer’s net price is:
    A The futures price adjusted for basis minus commission minus the premium.
    B The cash price plus $.30/bushel plus commission.
    C The futures price minus premium and commission.
    D The cash price.

14) The grain balance sheet includes all of the following except:
    A imports and exports.
    B domestic production.
    C a direct measure of feed usage.
    D beginning and ending inventories.
15) If the option is exercised, the seller of a call option:
   A must buy a futures contract.
   B must sell a futures contract.
   C must buy a call option.
   D must sell a call option.

16) If you buy a call option and pay a $2.00/cwt premium, what is the most you can lose?
   A $2.00/cwt.
   B $2.00/cwt plus commission.
   C Your loss potential is unlimited.
   D The amount in your initial margin account.

17) Buying a put option will always be second best because
   A a futures hedge pays better if prices fall.
   B the cash market pays better if prices rise.
   C both A and B.
   D buying a put option is typically the best choice.

18) Which of the following is not a factor in value-based cattle prices?
   A Carcass weights
   B Dressing percentage
   C Yield grade
   D Quality grade

19) The "supply to use" ratio in a grain balance sheet
   A Incorporates supply and demand into a single number.
   B Measures feed demand directly as a single variable.
   C Includes only production and imports as the source of supply.
   D Has a positive linear relationship to prices.

20) The purpose of coops is to
   A Provide a competitive yardstick.
   B Provide an investment opportunity for producers.
   C Assure members a profit.
   D All of the above.

21) (8 pts) Identify the month of the seasonal high and low for the following commodities.

<table>
<thead>
<tr>
<th></th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Soybeans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fed cattle</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hogs</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

22) (1 pt each) Match the appropriate letter to the question below. Answers may be used more than once.
   A) Less than 10%,  B) 10-40%,  C) 40–70%,  D) 70-90%  E) More than 90%
Dressing percentage for hogs
US pork production that is exported
US wheat crop used for food production domestically
Dressing percentage for cattle
US corn production used for seed and industrial
US corn crop fed domestically
US soybean crop crushed into oil and meal
Milk handled through coops
All agricultural receipts through coops
Futures contracts that are offset rather than making or taking delivery.

23) (1 pts each) Answer questions using the following terms. Terms may be used more than once.

a) Buy a call option  
   e) Buy a put option
b) Buy a futures contract  
   f) Sell a futures contract
c) Sell a call option  
   g) Sell a put option
d) Sell in the cash market  
   h) Cash forward contract

2a) ______ Required to take delivery of a specified commodity if contract is not offset.
2b) ______ Must make delivery of commodity to a local buyer and price is known in advance.
2c) ______ Receive a premium but maybe obligated to sell a futures contract at the strike price.
2d) ______ Have the right but not the obligation to sell a futures contract at the strike price.
2e) ______ Receive payment into a margin account if futures price increases.
2f) ______ Make delivery of a commodity, but price is unknown in advance.
2g) ______ Seller protected from lower prices and but may receive higher prices.
2h) ______ Protects buyer from higher prices but doesn’t prevent lower prices.
2i) ______ Have the right but not the obligation to buy a futures contract at the strike price.
2j) ______ Must pay into a margin account if futures price increases.
24) (16 points) A soybean producer decided to divide his expected production into fourths and market each section in the following fashion: 1/4th stay in the cash market, 1/4th hedged in the November futures market at $7.39, bought a $6.60 strike price put on 1/4th, and bought a $7.60 strike price put on 1/4th. The expected hedge and minimum prices are as follows. The expected basis for November is -$0.40/bushel and commission is $.01/bushel. The premiums paid for the puts are listed.

<table>
<thead>
<tr>
<th>Futures</th>
<th>Expected hedge price</th>
<th>$6.98</th>
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</thead>
<tbody>
<tr>
<td>$6.60 Put</td>
<td>Expected minimum price</td>
<td>$5.86</td>
</tr>
<tr>
<td>$7.60 Put</td>
<td>Expected minimum price</td>
<td>$6.36</td>
</tr>
</tbody>
</table>

Given this information and two possible levels of futures prices and basis at harvest, complete the table below by entering the price the producer will receive using each of the four strategies above:

<table>
<thead>
<tr>
<th>Futures at Harvest</th>
<th>$6.00</th>
<th>$6.00</th>
<th>$8.00</th>
<th>$8.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basis</td>
<td>-$.40</td>
<td>-$.50</td>
<td>-$.40</td>
<td>-$.30</td>
</tr>
<tr>
<td>Cash at Harvest</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Futures Hedge</td>
<td></td>
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<tr>
<td>$6.60 Put</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>$7.60 Put</td>
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</tbody>
</table>

25) (20 points) Forecast the price of hogs for the 3rd quarter 2004 given the following information. Prices are in carcass weight not live weight (Complete table and show work)

Average price 3rd quarter 2003 = $55.00 Average price 2nd quarter 2004 = $70.00

Compared to the 3rd quarter 2003 pork production is expected to be up 3% and beef is expected to be down 3% while poultry is forecast to be up 2%. Pork trade is expected to be stable and consumer spending will be 2% higher than the 3rd quarter in 2003.

**Factor impacting forecast**

| Flexibility |
|-------------|-----------|
| -3.0        | production |
| -0.3        | production |
| -0.3        | production |
| +0.2        | production |
| +1.0        | production |

25a) What is the expected percentage change in hog prices???

25b) What is your forecast of 3rd quarter 2004 hog prices given this information?