Part I: Multiple Choice. Circle the best answer. (3 points each)

1. Advantages of land ownership would include:
   a. frees up working capital, operation size is more flexible, financial obligations are more flexible
   b. security of tenure, pride of ownership, high return on capital (ROA)
   c. pride of ownership, management independence, operation size is more flexible
   d. can have cash flow problems, lower returns on capital, less working capital
   e. none of the above

2. Disadvantages of leasing land would include:
   a. frees up working capital, operation size is more flexible, financial obligations are more flexible
   b. insecurity of tenure, no pride of ownership, cannot be used as loan collateral
   c. financial obligations are less flexible, access to additional management, frees up working capital
   d. cannot be used as loan collateral, no pride of ownership, financial obligations are more flexible

3. The following can be methods of gaining control of capital:
   a. debt (or borrowed) capital
   b. lease the asset
   c. outside equity
   d. your net worth
   e. all of the above

4. The tenant bears the least risk with:
   a. a cash rent lease
   b. a custom farming contract
   c. a mix of base cash rent and crop share lease
   d. a 50-50 crop share rent lease

5. The Iowa Land Value Survey for 2003, which was handed out in class, discussed some positive factors impacting land value in 2003. They included:
   a. Government payments
   b. lower interest rates
   c. strong investment demand
   d. scarcity of land on the market
   e. all of the above

6. Commercial banks provide the following types of credit to agriculture:
   a. long-term such as for real estate
   b. intermediate-term such as for a building
   c. short-term such as for feeder cattle purchase
   d. all the above types of credit are types of credit commercial banks provide
7. There are various sources of credit for agricultural purposes in Iowa. In January 2002 the agency which extended the greatest amount of real estate credit in agriculture was:
   a. the Farm Service Agency
   b. commercial banks
   c. the Farm Credit System
   d. individuals and others
   e. none of the above

8. From 1997 through 2001 the commercial banks:
   a. did not change its relative share of agricultural credit
   b. reduced its relative share of agricultural credit while other sources such as life insurance companies increased their relative share
   c. increased its relative share of agricultural credit while agencies such as the Farm Service Agency reduced its share
   d. increased its relative share of agricultural credit while agencies such as the Farm Service Agency reduced its share

You have pulled together the following information:

<table>
<thead>
<tr>
<th>Inflation rate</th>
<th>Net income per acre</th>
<th>Interest rate</th>
<th>Value of land as reflected on net worth statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>4%</td>
<td>$100.00</td>
<td>8%</td>
<td>$2,800</td>
</tr>
</tbody>
</table>

9. Given this, what value would you place on the land using the income capitalization approach?
   a. $1,250.00
   b. $2,500.00
   c. $2,800.00
   d. $833.33
   e. none of the above

Now you are a veteran at Econo 330 One Stop Bank and doing your own loan analysis. Christy Cyclone comes to you for a loan and provides the following information from her farm financial records:

<table>
<thead>
<tr>
<th>Total Assets</th>
<th>Rate of return on equity</th>
<th>Rate of return on assets</th>
<th>Total debt</th>
<th>Interest paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>$400,000</td>
<td>5%</td>
<td>6%</td>
<td>$300,000</td>
<td>$30,000</td>
</tr>
</tbody>
</table>

10. Given this, what is the maximum debt-to-asset ratio that Christy can go to?
   a. 33.33 percent
   b. 120 percent
   c. 60 percent
   d. 40 percent
   e. 50 percent
The next five questions are based on the following information. You have bought a combine. The purchase price is $180,000. You will borrow $150,000 and use $30,000 from the sale of soybeans to pay for the combine. The $150,000 loan will be paid off over 6 years with an interest rate of 6.5 percent. The loan will be paid annually. A table provided may help with some of the questions.

11. If you have an equal principal payment plan, how much interest do you pay with your third annual payment?
   a. $9,750
   b. $8,125
   c. $6,500
   d. $7,500
   e. none of the above

12. For the equal total payment plan, how much principal do you pay in the first year?
   a. $9,750.00
   b. $21,235.50
   c. $30,985.50
   d. $24,695.50
   e. can’t determine with the information provided

13. For the equal principal payment plan, how much interest will you have paid in total after you have made your second payment? This is the total interest for the first three years.
   a. $20,976
   b. $17,875
   c. $8,125
   d. $9,750
   e. can’t determine with the information provided

14. If you have an equal total payment plan, what is the level of payment (principal and interest) will you make in year 3?
   a. $9,750.00
   b. $30,985.50
   c. $24,695.50
   d. $41,825
   e. can’t determine with the information provided

15. For the equal total payment plan how much interest do you pay in the second year?
   a. $6,500.00
   b. $8,369.69
   c. $9,750.00
   d. $8,125.00
   e. $7,159.75

16. Location of production of products such as corn, cattle or any product can be impacted by:
   a. climate
   b. social and population
   c. distance to markets
   d. comparative advantage
   e. all of the above are factors which impact where products are produced
The next five questions are based on the following information:

Assume you have been provided the following information from ‘James Wright Farms’ and asked to provide assistance on the analysis.

<table>
<thead>
<tr>
<th>Information</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unpaid labor charge</td>
<td>$20,000</td>
</tr>
<tr>
<td>Unpaid management charge</td>
<td>$10,000</td>
</tr>
<tr>
<td>Interest expense</td>
<td>$15,000</td>
</tr>
<tr>
<td>Net farm income from operations</td>
<td>$60,000</td>
</tr>
<tr>
<td>Capital charge (opportunity cost)</td>
<td>5%</td>
</tr>
<tr>
<td>Average asset value</td>
<td>$600,000</td>
</tr>
<tr>
<td>Average level of liabilities</td>
<td>$350,000</td>
</tr>
<tr>
<td>Amount of increased liabilities</td>
<td>$600</td>
</tr>
</tbody>
</table>

17. What is ‘James Wright’s’ return to assets?
   a. $75,000  
   b. $45,000  
   c. $35,000  
   d. $40,000  
   e. none of the above

18. If ‘330 Acres’ return to assets is $50,000 (not the correct answer), what is James Wright’s rate of return to assets (ROA)?
   a. 14.29%  
   b. 8.33%   
   c. 10.83%  
   d. 5.83%   
   e. none of the above

19. If ‘James Wright’s’ return to equity was $30,000 (not the correct answer), what is his rate of return on equity (ROE)?
   a. 8.57%   
   b. 17.14%  
   c. 12.85%  
   d. 4.29%   
   e. none of the above

20. What is ‘James Wright’s’ return to management? (Calculate according to the Farm Financial Standards Task Force)
   a. $22,500  
   b. $25,000  
   c. $45,000  
   d. $42,500  
   e. none of the above

21. What is ‘James Wright’s’ return to equity?
   a. $40,000  
   b. $30,000  
   c. $21,000  
   d. $45,000  
   e. none of the above
22. A recent survey by Dr. Mike Duffy on Iowa land values showed that Iowa land values were:
   a. in the $2,200-$2,300 range in 2003
   b. in the $3,000-$3,100 range in 2003
   c. in the $3,500-$3,600 range in 2003
   d. in the $1,950-$2,050 range in 2003
   e. none of the above shows the correct increase for 2003

23. According to Tim Fevold, Hertz Farm Management:
   a. more than 75 percent of the land in Iowa is farmed by the owner
   b. more than half of the land in Iowa is farmed by a tenant
   c. about 80 percent of the land in Iowa is farmed by a tenant
   d. about 40 percent of the land in Iowa is farmed by the owner
   e. none of the above

24. Tim Fevold, of Hertz Farm Management indicated that:
   a. Most land in Iowa is rented through a crop share lease
   b. Most land in Iowa is rented through a cash lease
   c. Most land in Iowa is under a custom farming arrangement
   d. The typical crop mix in Iowa is a 50-50 corn soybean mix
   e. a and d above

25. According to Tim Fevold, Hertz Farm Management, the four items you need in a land lease arrangement are:
   a. division of time when things will be done
   b. description of the type of equipment to be used
   c. length of the term of the lease
   d. description of where the crop will be stored
   e. all of the above are needed

26. The three R’s of credit are:
   a. Respect, responsibility, returns
   b. Returns, risk bearing ability, responsibility
   c. Repayment capacity, risk bearing ability, returns
   d. Responsibility, repayment capacity, returns
   e. none of the above

27. Mr. James Wright provided the following information and would like to know what returns per $100 feed fed was for his cattle feeding operation.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>230,000</td>
</tr>
<tr>
<td>Inventory change</td>
<td>+$10,000</td>
</tr>
<tr>
<td>Cattle purchases</td>
<td>$100,000</td>
</tr>
<tr>
<td>Value feed fed</td>
<td>$70,000</td>
</tr>
</tbody>
</table>

Given this, what is the return per $100 feed fed?
   a. $342.86
   b. $328.57
   c. $200.00
   d. $185.71
   e. none of the above
28. Given the above information, Mr. James Wright:
   a. made money (profit) in the cattle feeding operation
   b. lost money in the cattle feeding operation
   c. can't determine with the information provided

29. Mr. James Wright provided you with the following information:

<table>
<thead>
<tr>
<th></th>
<th>Value of farm production</th>
<th>Total farm assets</th>
<th>Total liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of farm production</td>
<td>$200,000</td>
<td>$500,000</td>
<td>$300,000</td>
</tr>
</tbody>
</table>

Given this, what is the asset turnover for Mr. James Wright?

   a. .4  
   b. 5.0  
   c. .67  
   d. .6  
   e. 1.0

30. Mr. James Wright has the opportunity to feed out cattle this year. You helped him pull together the following information.

<table>
<thead>
<tr>
<th></th>
<th>Projected total production costs</th>
<th>Projected income</th>
<th>Projected loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected variable costs</td>
<td>$175,000</td>
<td>$200,000</td>
<td>$-15,000</td>
</tr>
<tr>
<td>Projected fixed costs</td>
<td>$40,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projected total production costs</td>
<td>$215,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Given this information:

   a. Mr. Wright should leave the feedlot empty this year
   b. Mr. Wright should place cattle in the feedlot this year
   c. the economic situation is the same for either choice, place cattle or not place cattle, that Mr. Wright makes
   d. there is not sufficient information to determine if cattle should be placed in the feedlot this year

31. The basic forms of business organization are:

   a. sole proprietorship
   b. partnership
   c. corporation
   d. all of the above

32. Disadvantages of a sole proprietorship include:

   a. capital is pooled
   b. the operator assumes all risk
   c. there is a lack of business continuity
   d. it is more costly to maintain
   e. b and c above
   f. b, c, and d above
33. Advantages of a corporation include:
   a. it is simple to establish  
   b. there is freedom of decisions  
   c. you assume all the risks  
   d. it is cheap to form  
   e. none of the above is an advantage  

BONUS – 2 points

You will have a great Thanksgiving Break and come back renewed and ready to finish off the semester in grand fashion.

_________ True
_________ False

**HINT:** “False” is not an acceptable answer.