

Part I: Multiple Choice. 4 points each.

1. Risk and uncertainty is a part of production agriculture and needs to be effectively managed. Strategies to deal with financial risk and uncertainty would include:
 - a. spread sales.
 - b. hedge your crop.
 - c. diversify your crop mix.
 - d. build credit reserves.
 - e. all of the above

2. Information is provided which shows returns from farrow-to-finish hog production in Iowa-Southern Minnesota. Given this information, what percent of the time would you expect to receive a profit of at least breakeven (\$0) in feeding out market hogs?
 - a. 46.7%
 - b. 40.0%
 - c. 26.7%
 - d. 22.5%
 - e. can't calculate with the information provided.
 - f. none of the above

3. Given this information provided on farrow-to-finish hog production, what percent of the time would you expect to sell hogs at a profit during January?
 - a. 20%
 - b. 30%
 - c. 80%
 - d. 50%
 - e. 40%

4. The probability that the outcome of an uncertain event will be equal to or greater than a selected value is given by:
 - a. the coefficient of variation
 - b. the standard deviation
 - c. the expected value
 - d. cumulative probability distribution
 - e. none of the above

The following six questions are based on the information provided which shows Percent Returns on Investment by type of Iowa Farm. An attached table may be helpful here.

5. Which enterprise would you choose if you want to minimize losses or select that enterprise that would do the best in the worst situation? (Base your answer utilizing the approach where 95% of the observations would fall + or - 2 standard dev.)
 - a. hogs
 - b. beef feeding
 - c. dairy
 - d. grain
 - e. beef raising

6. Given this Iowa farm return information, where would you expect the percent return on investment for hog production to fall 95 percent of the time?
 - a. 14.2 and -1.8%
 - b. 20.3 and - .7%
 - c. 10.2 and 2.2 %
 - d. between 3.7 and 10.9%
 - e. none of the above

7. Which enterprise provides the highest expected or average return on investment?
 - a. hogs
 - b. beef feeding
 - c. dairy
 - d. grain
 - e. beef raising

8. With information provided, what is the coefficient of variation for beef raising?
 - a. .40
 - b. .29
 - c. 2.50
 - d. .79
 - e. .49

9. Which enterprise would you choose if you want to pick the enterprise which would provide the highest possible income or rate of return on investment? (Base your answer utilizing the approach where 95% of the observations would fall.)
 - a. hogs
 - b. beef feeding
 - c. dairy
 - d. grain
 - e. beef raising

10. Which enterprise would you choose if you want to choose the highest expected or average rate of return on investment but it cannot fall below a 0 percent rate of return? (Base your answer utilizing the approach where 95% of the observations would fall.)
- a. hogs
 - b. beef feeding
 - c. dairy
 - d. grain
 - e. beef raising

The following information is for the next three questions. (Information in tables provided may be helpful.)

You purchased a combine today, December 12, 2008. It was an end of the year deal. It has it all: triple on each axle, air cooled seat and climate controlled cab, computer hook-up for market reports and computer farm records, guidance system, air-glide riding system, surround sound Bose stereo system, chrome ladder for getting into and out of your 'second home', and velvet seat covers. It will even harvest crops. The purchase price was \$220,000.

11. How much regular MACRS depreciation can you claim in 2009? (Do not first year expense, not mid quarter). (Round to nearest dollar.)
- a. \$23,571
 - b. \$42,093
 - c. \$65,664
 - d. \$5,894
 - e. none of the above
12. How much regular straight-line depreciation can you claim on the combine in 2008? (Do not first year expense, not mid quarter.) (Round to nearest dollar.)
- a. \$31,429
 - b. \$44,000
 - c. \$22,000
 - d. \$15,714
 - e. None of the above.
13. If you use additional first year expensing, and regular MACRS depreciation, how much is your level of depreciation claimed for both methods together for 2008? (You are filing a joint return, not mid quarter.) (Round to nearest dollar.)
- a. \$220,000
 - b. \$225,000
 - c. \$195,000
 - d. \$235,000
 - e. Can't claim additional first year expensing as it is too much.

14. If your federal and state income marginal tax rate was 25 percent and your taxes payable before depreciation is \$20,000. You have \$20,000 depreciation. How much does your taxes decline as a result of the depreciation?
- \$80,000
 - \$5,000
 - \$20,000
 - Depreciation is not tax deductible.
 - None of the above.
15. The process of finding the future value of a present sum is called:
- compounding
 - amortizing
 - budgeting
 - none of the above
16. The process of finding the present value of a future sum is called:
- compounding
 - discounting
 - amortizing
 - budgeting
 - none of the above
17. You have the opportunity to purchase a neighboring 80 acres for \$250,000. You project that the land will increase in value at about 4% per year over the next 30 years. Given this, what will the value of the land be in 30 years? (Attached information provided may be helpful.)
- \$4,323,000
 - \$690,810
 - \$930,450
 - \$810,850
 - none of the above
18. You are looking at buying the neighboring 100 acres. The purchase price is \$300,000. You calculate that you can generate a profit of \$6,000 per year. You also calculate that you expect the value of land to appreciate at 6% per year. The value of money to you or the discount rate is 7%. You plan to own the farm for 20 years. Given this, what is the present value of the land purchase?
- \$300,000
 - \$962,130
 - \$312,198
 - \$295,421
 - \$392,645
19. Using a higher discount rate will cause the present value of the farm value to:
- increase
 - decrease
 - remain constant
 - increase initially, but then decrease
 - none of the above

20. You were in a relatively high tax bracket in 2008 as compared to other years and compared to where you expect to be in future years. The highest tax write-off you can get in 2006 for assets purchased in 2008 is by using (they meet requirements for depreciation under the tax law):
- 50% of the MACRS rate
 - MACRS using the fewest years with first year expensing
 - straight line over the fewest number of years and first year expensing
 - MACRS using the fewest number of years
 - straight line over the greatest number of years possible
21. Risk and uncertainty is a part of agriculture and needs to be effectively managed. Strategies to deal with market risk and uncertainty would include:
- spread sales
 - use operating loans
 - diversify your crop mix
 - build credit reserves
 - all of the above
22. Sources of risk in agriculture would include the following:
- genetic variability
 - market price
 - social
 - human
 - all of the above
23. Personal risk management tools would include:
- if you have liquid reserves
 - if you spread your crop sales
 - your level of business owner equity
 - if you have health insurance
 - none of the above
24. You have an investment where the net cash revenue averages \$5,000 per year. Your initial investment is \$50,000. You plan on keeping the investment for 20 years. What is the payback period?
- 20 years
 - 10 years
 - 7 years
 - 10 percent
 - none of the above
25. We wish you all the very best. For those graduating, go for it!!! For those returning, have a great and eventful holiday break!
- I will do that!
 - I do not plan on doing that.
 - 'B' is not an acceptable answer.