

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

1. Advantages of leasing land would include:
 - a. security of tenure, pride of ownership, high return on capital (ROA).
 - b. frees up working capital, operation size is more flexible, financial obligations are less flexible.
 - c. can be used as loan collateral, pride of ownership, financial obligations are more flexible.
 - d. financial obligations are more flexible, access to additional management, frees up working capital.
 - e. none of the above.

2. Advantages of land ownership would include:
 - a. security of tenure, pride of ownership, high return on capital (ROA).
 - b. frees up working capital, operation size is more flexible, financial obligations are more flexible.
 - c. can be used as loan collateral, pride of ownership, financial obligations are more flexible.
 - d. pride of ownership, management independence, operation size is more flexible.
 - e. none of the above.

3. The process of finding the future value of a present sum is called:
 - a. compounding.
 - b. discounting.
 - c. amortizing.
 - d. budgeting.
 - e. none of the above.

4. The process of finding the present value of a future sum is called:
 - a. compounding.
 - b. discounting.
 - c. amortizing.
 - d. budgeting.
 - e. none of the above.

5. The tenant bears the most risk with:
 - a. a 50-50 crop share rent lease.
 - b. a cash rent lease.
 - c. a custom farming contract.
 - d. a bushel lease.

6. According to State of Iowa law, if you are going to terminate a land lease, it needs to be terminated by:
 - a. March 1
 - b. July 1
 - c. October 1
 - d. September 1
 - e. December 1

7. According to Tim Fevold, Hertz Farm Management, the type of lease used most often in Iowa was the:
 - a. crop-share lease
 - b. cash lease
 - c. custom arrangement
 - d. modified share lease

8. Iowa land sales in 2000 showed that:
 - a. about 85 percent of the sales were to existing farmers.
 - b. new farmers purchased about 30 percent of the land sold.
 - c. investors purchased about one half (49%) of the land sold.
 - d. investors purchased about two-thirds (67%) of the land sold.
 - e. existing farmers purchased about two-thirds (67%) of the land sold.

9. According to Tim Fevold, Hertz Farm Management:
 - a. more than half of the land in Iowa is farmed by the person who owns it.
 - b. about 60 percent of the land in Iowa is farmed by someone who doesn't own it.
 - c. only 25 percent of the land in Iowa is farmed by someone who doesn't own it.
 - d. about 10 percent of the land in Iowa is farmed by someone who doesn't own it.
 - e. none of the above.

10. You have the opportunity to purchase a neighboring 50 acres for \$100,000. You project that the land will increase in value at about 4% per year over the next 20 years. Given this, what will the value of the land be in 20 years? (Attached information provided may be helpful.)
 - a. \$1,359,030.
 - b. \$219,110
 - c. \$265,333
 - d. You can't calculate with information provided.
 - e. none of the above.

11. Using a lower compound rate will cause the future value of a present amount to:
 - a. increase.
 - b. decrease.
 - c. remain constant.
 - d. increase initially, but then decrease.
 - e. none of the above.

12. You have the option to buy a farm. You have calculated that the profit will be \$10,000 per year. If the interest rate (or discount value) is 9 percent, what is the present value of the profit from the farm? You plan to own it for 25 years. (Attached information may be useful).
 - a. \$250,000.
 - b. \$98,226.
 - c. \$847,009.
 - d. \$86,231.
 - e. none of the above.

13. The Iowa Land Value Survey completed in November 2001, which was handed out in class, showed six positive factors for land value increase in 2001. The one listed most frequently or by 48% of the respondents was:
 - a. land supply
 - b. farm expansion/consolidation.
 - c. lower interest rates.
 - d. government payments.
 - e. none of the above.

14. According to a recent survey of farmland prices in Iowa, the average increase in land values in Iowa from November 2000 to November 2001 was:
 - a. 4.8%
 - b. 4.2%
 - c. 3.7%
 - d. 3.5%
 - e. 1.5%

15. According to Tim Fevold, Hertz Farm Management, items you should have in a farm lease includes:
 - a. description of property.
 - b. division of income and expenses
 - c. length of the lease.
 - d. signatures.
 - e. all of the above.

16. The average cash rent per acre of land cash rented in Iowa in 2001 was _____ per acre.
 - a. \$95.00
 - b. \$105.00
 - c. \$122.00
 - d. \$180.00
 - e. \$205.10

17. Crop share arrangements tend to vary across the country. As a tenant renting land you would expect to:
 - a. receive the same percent of the crop irregardless of land productivity.
 - b. receive a smaller percent of the crop from land with higher productivity.
 - c. receive a larger percent of the crop from land with a higher productivity.
 - d. receive a smaller percent of the crop from land with lower productivity.

18. There are various sources of credit for agricultural purposes. During 1999 the agency which

extended the greatest amount of credit in agriculture was:

- a. the Farm Credit System.
 - b. the Farm Service Agency.
 - c. life insurance companies.
 - d. commercial banks
 - e. individuals and others.
19. From 1995 through 1999 the Farm Credit System:
- a. reduced its relative share of agricultural credit while other sources such as equipment dealers increased their relative share.
 - b. did not change its relative share of agricultural credit while agencies such as the Farm Service Agency increased its relative share.
 - c. increased its relative share of agricultural credit while agencies such as the Farm Service Agency reduced its relative share.
 - d. increased its relative share of agricultural credit while agencies such as commercial banks dramatically reduced their share.
20. You have just started your new job at Econo 330 One Stop Bank. A client your yours would like to know what his rate of return to equity is. He provided you with the following information:

Equity capital	=	\$100,000
Borrowed capital (debt)	=	\$200,000
Rate of return on assets	=	10 percent
Interest cost (rate)	=	8 percent

Given this, what is the rate of return on equity?

- a. 12 percent.
 - b. 7 percent.
 - c. 14 percent.
 - d. Can't calculate with the limited information provided.
 - e. None of the above.
21. The principle of increasing leverage (risk) is essentially:
- a. a principle that compares high risk crop enterprises.
 - b. a principle that says high equity positions are the best.
 - c. a principle that says that high leverage (debt) can substantially increase the financial risk of the business operations.
 - d. a principle that helps you calculate your interest payments.
 - e. none of the above.

22. If the interest rate is greater than your rate of return on assets, the rate of return on your equity is
- greater than the interest rate.
 - less than the rate of return on assets
 - negative
 - equal to the interest rate
 - none of the above.
23. Now you are a veteran at Econo 330 One Stop Bank and doing your own loan analysis. Charlie Cyclone comes to you for a loan and provides the following information from his farm financial records:

Rate of return on assets	=	6%
Rate of return on equity	=	5%
Interest rate on debt	=	8%
Return on assets	=	\$45,000
Interest cost	=	\$50,000

Given this, what is the maximum debt to asset ratio for Charlie?

- 62.5 percent
- 83.3 percent
- 133.3 percent
- 160 percent
- 75 percent

The following information is for the next **three** questions. You are provided the following information regarding Clones Farm.

Beginning livestock inventory	\$100,000
Ending livestock inventory	\$120,000
Value of homegrown feed fed	\$50,000
Value of purchased feed fed	\$40,000
Value of home consumption	\$3,000
Value of livestock purchases	\$60,000
Livestock sales	\$170,000

24. Given this, what is the value of livestock produced by Clones Farm?
- \$138,000
 - \$133,000
 - \$128,000
 - \$170,000
 - None of the above.

25. If the value of livestock produced was \$160,000 (not the correct answer) for Clones Farm and death loss was \$5,000, what is the value of livestock production per \$100 feed fed?
- \$168.42
 - \$188.24
 - \$194.26
 - \$177.78
 - None of the above.
26. If the value of livestock production was \$150,000 and your other costs (not including feed costs) represented 55 percent of your total production costs, you:
- covered all your costs and had money remaining.
 - lost money as you did not cover all your costs.
 - Can't tell with the information provided.
27. Methods of gaining control of capital for a business operation would include:
- debt capital, outside equity, leasing.
 - owner's net worth, contracting, outside equity.
 - leasing, outside equity, debt capital.
 - outside equity, contracting, debt capital.
 - All of the above are sources of capital.

The next **four** questions are based on the following information. You have bought a tractor. The purchase price is \$80,000. You will borrow \$70,000 and use \$10,000 from the sale of soybeans to pay for the tractor. The \$70,000 loan will be paid off over 7 years with an interest rate of 8 percent. The loan will be paid annually.

28. If you have an equal total payment plan, what is the level of payment (principal and interest) will you make in year 2?
- \$14,800.00.
 - \$13,444.90.
 - \$12,979.20.
 - \$15,142.40
 - None of the above.
29. If you have an equal principal payment plan, how much interest do you pay with your fifth annual payment?
- \$5,600.
 - \$3,200.
 - \$1,600.
 - \$4,000.
 - None of the above.
30. For the equal total payment plan, how much interest do you pay in total for the seven loan payments?
- \$25,695.
 - \$22,400.
 - \$24,114.30.
 - Can't determine with the information provided.
 - None of the above.
31. For the equal total payment plan, what is the outstanding principal for year 2 (or after you make

- your first payment)?
- a. \$60,000.00
 - b. \$62,155.10.
 - c. \$61,355.10.
 - d. \$63,479.15.
 - e. None of the above.
32. You are looking at buying the neighboring 80 acres. The purchase price is \$200,000. You calculate that you can generate a profit of \$10,000 per year. You also calculate that you expect the value of land to appreciate at 4 percent per year. The value of money to you or the discount rate is 6 percent. You plan to own the farm for 20 years. Given this, what is the present value of the land purchase?
- a. \$200,000
 - b. \$438,220
 - c. \$136,637
 - d. \$251,336
 - e. \$314,699
33. Location of production of products such as corn, cattle or any product can be impacted by:
- a. comparative advantage.
 - b. climate.
 - c. distance to markets.
 - d. social and population.
 - e. All of the above are factors which impact where products are produced.

Part II. Bonus - 3 points

There is a major ISU student run celebration coming up the weekend of April 19, 20, and 21. Unscramble the following letters to get the function - VIHSEEA

If you need a hint, let me know.