Part I: Multiple Choice. 3 points each.

1. Which of the following strategies would reduce corn price risk?
   a. applying insecticide to a crop
   b. vaccinating livestock against disease
   c. keeping enough extra corn stored to feed the hogs through the winter
   d. selling grain before harvest by a forward contract
   e. none of the above
   f. b and d above

2. Which of the following would be included on a farm tax return when using the cash accounting method?
   a. income from corn sold this year
   b. depreciation
   c. fertilizer expense you paid this year
   d. interest expense you actually paid this year
   e. income from feeder cattle you sold this year but purchased last year
   f. all of the above
   g. a and b above

3. Sources of risk in agriculture include:
   a. mechanical, social, obsolescence
   b. price, production, financial
   c. insects, disease, death loss
   d. genetic variability, obsolescence, human
   e. human, social, mechanical
   f. all the above are potential sources of risk

Listed below are Federal, State and Social Security tax levels.

<table>
<thead>
<tr>
<th></th>
<th>Taxable Income</th>
<th>Tax Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Tax Levels</td>
<td>$0 to $35,000</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>$35,001 and above</td>
<td>28%</td>
</tr>
<tr>
<td>State Tax Levels</td>
<td>$0 to $10,000</td>
<td>4%</td>
</tr>
<tr>
<td></td>
<td>$10,001 to $25,000</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>$25,001 to $45,000</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>over $45,001</td>
<td>9%</td>
</tr>
<tr>
<td>Social Security</td>
<td>Income up to $60,000</td>
<td>15%</td>
</tr>
</tbody>
</table>

4. Given this, how much more taxes (Federal and State) and Social Security tax will be paid if you increase taxable income from $45,150 to $45,250 or by $100?
   a. $37
   b. $100
   c. $38
   d. $52
   e. none of the above

5. In 1997, The maximum first year expensing that could be claimed by a married couple filing a joint return was:
6. Activities which will increase taxable income would include (cash basis filing):
   a. delay purchases
   b. have feed delivered to the farm, and pay for it
   c. delay sales
   d. a and b above
   e. b and c above
   f. none of the above

7. You were in a relatively high tax bracket in 1998 as compared to other years and compared to where you expect to be in future years. The maximum tax write-off you can get in 1998 for assets purchased in 1998 is by using (they meet requirements for depreciation under the tax law):
   a. 50% of the MACRS rate
   b. MACRS using the fewest years with first year expensing
   c. straight line over the greatest number of years and first year expensing
   d. MACRS using alternative years
   e. straight line over the greatest number of years possible
   f. MACRS accelerated rate along with straight line
   g. none of the above provide the maximum tax write-off for 1997

8. You are in the 15% tax bracket. You claim $10,000 regular depreciation and $12,000 first year expensing. How much will this reduce your taxes which you owe?
   a. $22,000.00
   b. $3,300.00
   c. $2,500.00
   d. $146,667.00
   e. none of the above

You are provided the following information for dairy enterprise returns in Iowa. They are returns per hundred pounds of milk produced.

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Range</td>
<td>$-2.00 to $3.50</td>
</tr>
<tr>
<td>Average return (mean)</td>
<td>$1.25</td>
</tr>
<tr>
<td>Production cost</td>
<td>$12.75</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>$0.50</td>
</tr>
<tr>
<td>Fixed cost</td>
<td>$4.50</td>
</tr>
</tbody>
</table>

9. Given this, what is the coefficient of variation?
   a. 2.50
   b. .353
   c. .40
   d. $8.25
   e. $5.50
   f. none of the above
You are provided the following information for your steer feeding operation. It was pulled together with monthly Iowa returns.

<table>
<thead>
<tr>
<th>Range in Profit per Steer</th>
<th>Probability of Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>over $50</td>
<td>3%</td>
</tr>
<tr>
<td>$40 to $50</td>
<td>6%</td>
</tr>
<tr>
<td>$30 to $40</td>
<td>8%</td>
</tr>
<tr>
<td>$20 to $30</td>
<td>12%</td>
</tr>
<tr>
<td>$10 to $20</td>
<td>14%</td>
</tr>
<tr>
<td>$0 to $10</td>
<td>24%</td>
</tr>
<tr>
<td>$0 to -$10</td>
<td>22%</td>
</tr>
<tr>
<td>-$10 to -$20</td>
<td>7%</td>
</tr>
<tr>
<td>-$20 to -$30</td>
<td>3%</td>
</tr>
<tr>
<td>-$30 to -$40</td>
<td>1%</td>
</tr>
</tbody>
</table>

10. Based on your operation you have determined that your debt level is such that you can survive if profit is $-10.00 or greater per steer. Given this, what percent of the time would you expect the profit to be -$10.00 or more?
   a. 22%
   b. 11%
   c. 67%
   d. 24%
   e. 89%

11. Yesterday, on April 28, 1998, you traded a tractor you had for five years for another tractor. The traded tractor was purchased in 1993 for $55,000. You paid an additional $40,000 cash for the new tractor. The list price on the new tractor was $90,000. You have a remaining depreciation balance "book value" of $12,000 on the traded tractor. The market value of the traded tractor is $45,000. What is the tax basis (where you start depreciation) for the new tractor?
   a. $41,000
   b. $25,000
   c. $29,000
   d. $35,000
   e. $27,000
   f. none of the above

12. The current farm bill goes by which acronym?
   a. FAIR
   b. FSA
   c. FAPRI
   d. CARD

13. The current farm bill did away with which of the following?
   a. Set-aside acres
   b. Target prices
   c. Base acre restrictions
   d. All of the above
   e. None of the above

14. Government farm policy is only concerned with production.
   a. True
   b. False
15. Concern over soil erosion and government policies protecting the soil are a result of the environmental movement in the 1970's.
   a. True
   b. False

16. In 1997 you purchased the following depreciable assets which were 20 year or less class life property. What is the maximum regular MACRS depreciation you can claim on the cattle chute in 1997?

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
<th>Placed in service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dairy cows</td>
<td>$5,000</td>
<td>August 1</td>
</tr>
<tr>
<td>Cattle chute</td>
<td>$8,000</td>
<td>May 1</td>
</tr>
<tr>
<td>Pig feeders</td>
<td>$20,000</td>
<td>Dec 1</td>
</tr>
<tr>
<td>Hay rake</td>
<td>$10,000</td>
<td>Feb 1</td>
</tr>
</tbody>
</table>

   a. $1,071.44
   b. $857.12
   c. $2,000.00
   d. $2,500.00
   e. none of the above

17. According to Gary Maas, what do the majority of employees surveyed say they have as the most important priority of their employment?
   a. great compensation package
   b. bonus package
   c. reward and recognition
   d. the ability to grow and have a sense of accomplishment

18. Key elements of future farm labor management include:
   a. exercising greater control of employees to be sure they are profitable
   b. know the employees and allow flexibility and input from them to allow for greater progress
   c. use less labor to avoid all the extra costs and hassles attached to it
   d. reduce the operation to create less need which will better utilize employees you already have

19. You have checked your farm records and found that for the past ten years your corn yields have been 120, 140, 135, 160, 175, 105, 130, 145, 125, and 155 bushels per acre. What is your expected corn yield given this information? Assign equal weights to each year.
   a. 142 bushels per acre
   b. 139 bushels per acre
   c. 128 bushels per acre
   d. 145 bushels per acre
   e. 133 bushels per acre
   f. none of the above
The following information is for the next 3 questions.

On the last exam you calculated the loan payments for a 4-wheel drive pickup. If you recall, you have ISU license plates which say "Road Hog". It has it all: wide "mud" tires, high axles, etc., with ladder to get in and out of the "beast", chrome running boards and dual stacks, velvet seat covers, computer hook-up for market reports, etc. The purchase price was $25,000 and it was purchased on March 17, 1998.

20. How much MACRS depreciation can be claimed on the pickup in 1999? Do not expense, not mid-quarter.
   a. $4,783.25
   b. $3,187.50
   c. $3,750.00
   d. $6,375.00
   e. $6,250.00
   f. none of the above

   a. $5,000.00
   b. $4,166.67
   c. $2,500.00
   d. $6,000.00
   e. $2,000.00
   f. none of the above

22. How much regular MACRS depreciation can be claimed on the pickup in 1998 if you need to use mid-quarter convention? Do not expense.
   a. $10,937.50
   b. $3,281.25
   c. $6,562.50
   d. $937.50
   e. $5,000.00
   f. none of the above

The following information is for the next 2 questions. You purchased a new tractor on August 10, 1997. It cost $80,000.

23. If you claim first year expensing (joint return) along with regular MACRS in 1997, how much regular MACRS plus additional first year expensing can you claim on the tractor in 1997? Mid-quarter does not apply.
   a. $18,000.00
   b. $8,571.20
   c. $24,642.68
   d. $26,571.20
   e. $12,500.00
   f. none of the above

24. How much regular MACRS depreciation can be claimed on the tractor in 1997? Do not expense, not mid-quarter.
   a. $6,428.80
   b. $5,500.00
   c. $8,571.20
   d. $12,000.00
   e. $15,306.40
   f. none of the above

25. Possible labor incentive programs would include:
   a. a tenure incentive plan
   b. percent of gross income
   c. equity in the business
26. According to Danny Klinefelter, farm managers of the future will:
   a. be strategic thinkers
   b. see challenges as opportunities
   c. work hard at communication
   d. excellent risk managers
   e. all of the above

27. Three key aspects of hired labor are:
   a. finding, benefits, preparing work schedule
   b. training, retaining, termination
   c. preparing and work schedule, providing for full labor utilization, termination
   d. finding, training, retaining
   e. retaining, a written agreement, immediate payment
   f. none of the above
Part II. Problems, etc.

1. Listed are characteristics of farm business arrangements. Match the farm business arrangement A, B and C with the appropriate descriptive term: (10 pts)

   A. Sole proprietorship
   B. Partnership
   C. Corporation

   _____  1. Simplest to operate
   _____  2. Has business continuity
   _____  3. Other members of this arrangement can be personally liable for actions of others in the organization
   _____  4. Ownership is one individual
   _____  5. The owner has the most freedom for independent decisions
   _____  6. Is usually more costly to form
   _____  7. Individual liability is limited
   _____  8. There is joint ownership of assets
   _____  9. Has two or more owners but does not pay income taxes directly
   _____ 10. Is a separate legal entity separate and apart from owners

2. You have the following information from Iowa Enterprise Returns. (5 pts)

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Average Return per $100 Invested</th>
<th>Standard Deviation per $100 Invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hogs</td>
<td>$22</td>
<td>$11</td>
</tr>
<tr>
<td>Dairy</td>
<td>$18</td>
<td>$ 8</td>
</tr>
<tr>
<td>Cattle Feeding</td>
<td>$20</td>
<td>$ 6</td>
</tr>
<tr>
<td>Soybeans</td>
<td>$15</td>
<td>$ 4</td>
</tr>
</tbody>
</table>

Base the answers for a-e on that range where 95% of the observations fall.

a)________ Which enterprise would you select if you want the highest expected return, but cannot afford for your returns to be less than $2 per $100 invested?

b)________ Which enterprise should you select if you are shooting for the highest possible return?

c)________ Which enterprise should you select if you want the highest expected returns?

d)_______ Which enterprise provides the highest return in the worst case scenario (minimum losses)?

e)_______ Which enterprise provides the lowest relative level of risk (coefficient of variation)?
3. The attached sheet provides information on percent return on investment for Iowa farms. With this information fill in the information for the probability distribution below. (3 pts)

![Percent Return Graph]

Percent Return

a. What is the average return for dairy (Point B)?

b. Between what percent return values would you expect percent return to fall 95% of the time? Low value (Point A) ________

High value (Point C) ________

The Old Sage Says:

There are two ways to get to the top of an oak tree: Catch that first limb and climb...or, find a good healthy acorn, sit on it and wait.

The important thing about your lot in life is whether you use it for parking or building.