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

1. With an equal principal payment plan, the interest payment made each period is:
   
a. Increasing  
b. Decreasing  
c. Constant  
d. Can be all of the above  
e. There is no interest payment.

Use the following information to answer the next two questions:

You establish a line of credit with your banker that charges an annual percentage rate of 10%. On January 1, you borrow $30,000. You borrow another $5,000 on March 1, and then make a payment of $25,000 on October 1.

2. Your total interest paid as of October 1 is:
   
a. $500  
b. $2,042  
c. $2,542  
d. $1,500  
e. $2,000

3. Your unpaid balance as of October 1 (including interest charges) is:
   
a. $10,000  
b. $12,000  
c. $12,542  
d. $12,675  
e. $13,172

4. Liquidity is commonly measured by:
   
a. Current ratio  
b. Debt to asset ratio  
c. Your current debt load  
d. a or b
5. You are analyzing yield trends for soybeans produced in Iowa. Yield variability might be measured by:

a. Average yields  
b. The standard deviation  
c. The coefficient of variation  
d. b and c  
e. None of the above

6. Net revenue earned on a storage hedge for 1 bushel of grain is given by:

a. Current futures price  
b. Current futures price + distant cash price - distant futures price  
c. Current futures price + distant futures price - current cash price  
d. Current cash price + distant futures price - current futures price  
e. c and d

7. The success of hedging as a measure to reduce price risk depends on the fact that cash and futures prices for the same commodity:

a. Only differ by the basis, which tends to be less volatile than the cash price.  
b. Tend to move in opposite directions.  
c. Move up or down independently of eachother.  
d. Are always the same.  
e. Are always different

8. Which of the following does not represent a benefit to producers from producing under contract:

a. Reduced financial risk  
b. Access to capital  
c. Risk of not being payed  
d. Access to new markets  
e. Higher prices

9. Which of the following does not represent a reason why agricultural contracts can improve economic returns among contracting parties:
a. Risk sharing between contracting parties  
b. Improved communication of quality needs  
c. More precise timing of harvest and delivery dates  
d. Investment in specialized equipment  
e. Intellectual property protection  

10. New generation cooperatives are structured so that:

a. Producer members are obligated to deliver on contracted acreage or production  
b. Own shares in the organization that may appreciate in value.  
c. Every member has equal voting rights  
d. b and c  
e. a and b  

11. Outside equity increase the total resources of a farming operation can be obtained by:

a. Long-term borrowing  
b. Reinvesting net farm income  
c. Securing funds from non-operator investors or limited partners  
d. inflation in asset values  

12. The degree to which a farm’s liabilities are backed up by assets is known as:

a. Liquidity  
b. Solvency  
c. efficiency  
d. profitability  

13. The advantages to the operator of a livestock production contract include all of the following, except:

a. Less risk from changing market prices  
b. Less capital investment in feed and livestock  
c. More profit potential  
d. More constant utilization of livestock facilities  

14. The tenant bears the most yield risk with a:

a. Fixed cash rent lease  
b. Flexible cash rent lease  
c. 50-50 crop share lease  
d. Custom farming contract
Part II: Fill in the blank. (3 points each)

15. An equal total payment plan results in a ________________ total finance charge than an equal principal payment plan?

16. The rate of return to investment in farm machinery is much ________________ than for investment in farmland.

17. A production hedge is ________________ risky than a storage hedge.

18. A put is an option to ________________ and a call is an option to ________________.

Part III: Answer true or false to each of the following (3 points each).

19. An equal total payment plan results in improved cash flow during the early periods of the loan.
   True or False.

20. Land owners are more affected by changes in the profitability of farming than are operators.
   True or False.

21. Standard deviation is a unit-free measure of risk. True or False.

22. A crop share lease is not binding unless it is in written form. True or False.

23. Once a lease ends, it is automatically terminated unless both parties agree in writing to continue the lease. True or False.

24. Selling a futures contract eliminates all price risk during the period of the contract.
   True or False.

25. Contracts mainly benefit the contractor and offer little opportunity to producers.
   True or False.

26. Many of the changes occurring in U.S. agricultural markets are unique to agriculture, and should be addressed with government policy. True or False.
Part IV: Follow the directions indicated.

27. Indicate whether each of the following represents a reason to own (O) or rent (R) land (2 points each):

___ Volatility in land prices
___ Flexibility
___ Economic return
___ Risk sharing with others
___ Build equity

28. Which type of risk control does each of the following management strategies illustrate?

A. Reduce the variability of possible incomes
B. Set a minimum price or income level, for a fixed charge
C. Maintain flexibility for making decisions
D. Improve ability of the business to bear risk

___ Sell grain by a commodities futures contract (hedge)
___ Produce five different crops instead of only one
___ Rent land with a crop share lease
___ Price grain by buying a commodity option (put)
___ Keep $30,000 in short-term savings

29. Show how much the principal and interest payments are each year for a $25,000 loan to be repaid in 3 equal annual installments at 11% annual interest. The total payment is $10,230 each year.

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