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

1. Methods of acquiring capital for agriculture would include:
   a. outside equity
   b. lease
   c. your equity
   d. borrow
   e. all of the above
   f. b, c and d above

2. Sources of credit for use in agricultural land purchases would include:
   a. supply and equipment dealers, commercial banks, Farm Credit system
   b. commercial banks, Farm Credit system, individuals
   c. short term credit from commercial banks, Farm Credit system, insurance companies
   d. short term credit from Farm Credit system, individuals, insurance companies
   e. none of the above

3. According to Mr. William Tufford the four C's of credit are:
   a. character, cash flow, collateral, capacity
   b. comparison, collectibility, cash flow, capabilities
   c. cash flow, cash flow, cash flow, cash flow
   d. compassion, cash flow, collateral, co-sponsor
   e. character, compassion, collateral, capacity
   f. character, collateral, compassion, cash flow

4. According to Mr. William Tufford, President of State Bank and Trust, Nevada, Iowa, the two questions asked farmers in the 1970s when they were seeking a loan were:
   a. "What does your farm plan look like?" and "How long will you need the money?"
   b. "What does your cash flow look like?" and "What is your earned net worth?"
   c. "How much do you want to borrow?" and "How long will you need it (the money)?"
   d. "How much money have you made the in the last ten years?" and "Can you cash flow the loan?"
   e. None of the above represent the two questions asked.

5. Which type of land access agreement results in the least amount of price and yield risk for the tenant?
   a. fixed cash
   b. flexible cash
   c. crop share
   d. custom farming

6. The process of finding the present value of an amount you will receive in the future is
called:
  a. compounding
  b. discounting
  c. amortizing
  d. budgeting
  e. none of the above

7. Using a higher compound rate will cause the future value of an amount you have today to:
   a. increase
   b. decrease
   c. remain constant
   d. increase for short time periods but decrease for time periods of over 10 years
   e. none of the above

8. You have taken out a $16,000 loan to use in purchasing that four-wheel drive pick-up of your dreams. 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 loan is at 10 percent for 4 years. If you are making equal total principal payments annually of $4,000 what is the level of interest you will be paying in the third year of the loan?
   a. $800
   b. $1,600
   c. $4,000
   d. $2,400
   e. $1,000
   f. none of the above

9. In Lab 9 you calculated the debt-to-asset ratio which you could sustain. If you are earning an average return on assets of 6 percent and your average interest rate on borrowed money is 8 percent, the maximum debt-to-asset ratio you can sustain is:
   a. 6 percent
   b. 48 percent
   c. 133 percent
   d. 75 percent
   e. 8 percent
   f. none of the above

10. You have the option to purchase a farm for $150,000. You will be taking out a 20 year loan and wish to evaluate the investment over the 20 year period. You project that you will have a return of 12 percent (7 percent will be an annual return with a 5 percent annual increase in farm land value). Your opportunity cost (discount rate) of capital is 8 percent. What is the present value of what the farm land value will be in 20 years? If you are within $5.00 to $6.00 select that answer. (Attached tables may be helpful for this calculation.)
    a. $150,000
    b. $397,995
    c. $85,390
    d. $526,715
    e. $124,537
    f. none of the above
11. There are different types of loan repayment plans. They range from a single payment at the end of a loan to amortized loans. One type of amortized loan is the equal total payments plan where total payments are the same each payment period. Part of each payment goes to pay interest and the remainder goes to pay principal. With this plan:
   a. the amount of interest paid in each payment increases with each payment period.
   b. the amount of principal paid in each payment decreases with each payment period.
   c. the amount of interest paid in each payment decreases with each payment period.
   d. none of the above.

12. You have an investment alternative that will provide a return to you of $10,000 per year over a four year period. With a discount rate of 4 percent what is the present value of this investment?
   a. $40,000
   b. $36,299
   c. $20,000
   d. $42,465

13. Which of the following can be used to measure efficiency:
   a. Labor use per acre
   b. Capital expenditures per hundred pounds
   c. Cost per unit
   d. All of the above
   e. None of the above

14. An oral lease is NOT legally binding in Iowa.
   a. True
   b. False

15. A larger farm will always be more efficient in terms of the average cost per unit.
   a. True
   b. False

16. Which of the following is a reason for having a written lease. (Circle any that apply.)
   a. Preventing misunderstandings
   b. Helping settle estates
   c. Leases not in writing cannot be legally enforced
   d. None of the above

17. A 50/50 crop share lease is the only truly fair lease available today.
   a. True
   b. False

18. Most farm commodities in Iowa exhibit an L shaped average cost curve (start out decreasing and then flatten out).
   a. True
   b. False

19. Non-farm expenses should be included in a cash flow budget but it is not necessary to include non-farm income.
   a. True
20. The full purchase price of a capital item (assuming no trade-in) should be included in a cash flow budget.
   a. True
   b. False

21. The so-called landlord’s lien means that the landlord will get paid before any other creditors. This protection is offered for which of the following (Circle all that apply)
   a. Cash leases
   b. Crop share leases
   c. Custom operations
   d. All of the above
   e. None of the above

22. In Iowa, landlords must notify the tenant in writing if they wish to break the lease but tenants can orally break a lease.
   a. True
   b. False

23. There are no economies of size for farms in Iowa.
   a. True
   b. False
24. Which of the following is a consideration when estimating the value of land using the comparable sales approach.
   a. How the sale was financed
   b. Relationship of the buyer and seller
   c. Time of the sale
   d. All of the above
   e. None of the above
25. In Iowa, for a lease to be legal, the cost of seed must be divided the same as the yield in a crop share lease?
a. True
b. False
Part II. Problems, etc.

1. (5 pts.) Put an "x" beside the items that Mr. William Tufford indicated he looks at when evaluating an agricultural loan today.
   _____ a. cash flow
   _____ b. debt/asset (D/A) ratio
   _____ c. earned net worth
   _____ d. current ratio
   _____ e. historical trends

2. (2 pts.) What is the most important factor in determining the value of a particular parcel of land?

3. Consider the following information for the questions that follow (questions continue on next page).

   Size of the land parcel: 210 acres
   
   Income:
   Corn 100 acres 140 bushel per acre $2.50 per bushel
   Soybeans 100 acres 60 bushel per acre $6.00 per bushel

   Expenses (per acre) Corn Soybeans
   Seed, chemical, fertilizer $140 $95
   Machinery
   Ownership costs 45 25
   Operating costs 35 20
   Labor 20 15
   Real estate tax 15 15
   Other crop and ownership expenses 15 5

   a. (8 pts.) What is the total income (all 100 acres of corn and soybeans) for the parcel?
b. (3 pts.) What is the value of the parcel per acre using an 8 percent capitalization rate?

c. (2 pts.) What is the value using a 10 percent capitalization rate?

d. (3 pts.) If you were using a 6 percent capitalization rate and this parcel of land was offered for sale at $2,000 per acre, would you buy it? Why?

**Bonus: (2 pts.)**
What is the name of the person sitting next to you in this class?