

Key

Part I: Multiple Choice. 3 points each.

1. Risk and uncertainty is a part of production agriculture and needs to be effectively managed. Strategies to deal with market risk and uncertainty would include:
 - a. use crop insurance.
 - b. hedge your crop.
 - c. contract sales.
 - d. use self-liquidating loans.
 - e. All of the above.

2. 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. use crop insurance.
 - b. hedge your crop.
 - c. contract sales.
 - d. use self-liquidating loans.
 - e. All of the above.

3. A cash flow budget can be used to:
 - a. estimate when and how much money will need to be borrowed during the year.
 - b. estimate when and how much debt can be repaid during the year.
 - c. estimate when excess cash may be available so plans can be made to invest it.
 - d. plan your credit needs.
 - e. all of the above.

4. When preparing a cash flow budget for 2008 you would:
 - a. include depreciation so you know how much cash is needed to replace assets.
 - b. include expense for fertilizer applied during the Fall 2007 that you paid in 2007. You need to account for it in the year the crop was harvested.
 - c. consider family living expenses that are paid in 2007 but are used in 2008.
 - d. use it to project your expected profit for the operation.
 - e. none of the above.

5. Which of the following would appear on a cash flow for 2007?
 - a. Level of depreciation claimed in 2007.
 - b. The value for corn you have in inventory on Dec. 31, 2007.
 - c. The feed bill you have on account on Dec. 31, 2007.
 - d. The value for the cattle you sold in July 25, 2007.
 - e. All of the above would be on a cash flow for 2007.

6. Steps to preparing a cash flow budget would include:
 - a. taking an inventory of the operation.
 - b. estimating livestock sales.
 - c. estimating crop expenses.
 - d. estimating crop sales.
 - e. all of the above are steps to a cash flow.

7. Information is provided which shows returns from finishing median No. 1 yearling steers to choice grade. Given this information, what percent of the time would you expect to receive a profit of at least \$60 in feeding out yearling steers?
- a. 10.8%
 - b. 49.2%
 - c. 29.2%
 - d. 61.7%
 - e. can't calculate with the information provided.
 - f. none of the above
8. 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 Iowa Farm Type for 1970-2005.

9. 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 two standard deviations.)
- a. hogs
 - b. beef feeding
 - c. dairy
 - d. grain
 - e. beef raising
10. Given this Iowa farm return information, where would you expect the percent return on investment for beef raising production to fall 95 percent of the time?
- a. 11.9 and -2.1%
 - b. 8.4 and 1.4%
 - c. 14.1 and .2 %
 - d. between 3.7 and 10.9%
 - e. none of the above
11. Which enterprise provides the highest expected or average return on investment?
- a. hogs
 - b. beef feeding
 - c. dairy
 - d. grain
 - e. beef raising

12. With information provided, what is the coefficient of variation for hog production?
- a. .596
 - b. 1.68
 - c. .374
 - d. .223
 - e. 2.67
13. 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 68% of the observations would fall or one standard deviation.)
- a. hogs
 - b. beef feeding
 - c. dairy
 - d. grain
 - e. beef raising
14. 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 or two standard deviations.)
- a. hogs
 - b. beef feeding
 - c. dairy
 - d. grain
 - e. beef raising

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

You purchased a four-wheel drive tractor today, December 5, 2007. It has it all: triple on each axle, air cooled seat and climate controlled cab, computer hook-up for market reports and PC Mars 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 pull tillage equipment. The purchase price was \$200,000.

15. How much regular MACRS depreciation can you claim in 2007? (Do not expense, not mid quarter).
- a. \$5,358
 - b. \$21,428
 - c. \$30,000
 - d. \$38,266
 - e. none of the above
16. How much regular straight-line depreciation can you claim on the tractor in 2007; round to the nearest dollar? (Do not expense, not mid quarter.)
- a. \$28,571
 - b. \$40,000
 - c. \$20,000
 - d. \$14,286
 - e. None of the above.

17. If you use additional first year expensing, and regular MACRS depreciation, how much is your level of depreciation claimed for both methods together for 2007; round to the nearest dollar? (You are filing a joint return.)
- a. \$146,428
 - b. \$128,000
 - c. \$200,000
 - d. \$133,036
 - e. Can't calculate with the information provided.
18. If you use additional first year expensing in 2007 on the combine, how much regular straight line depreciation can you claim on the combine in 2009; round to nearest dollar?
- a. \$5,357
 - b. \$10,714
 - c. \$15,000
 - d. \$7,500
 - e. None of the above.
19. If your federal and state income marginal tax rate was 28 percent, how much would you reduce your tax bill by purchasing depreciable assets and claiming additional first year expensing, and regular depreciation of \$150,000?
- a. \$28,000
 - b. \$42,000
 - c. \$535,714
 - d. \$150,000
 - e. None of the above.
20. The total value of your 3 through 20 year class life assets purchased in 2007 was \$300,000. Today, December 5, 2007, you purchased a combine for \$115,000. The combine is the only asset you purchased in the last quarter. Given this, what is the most depreciation you can claim for tax purposes on the combine in 2008? (Do not first year expense.) (Round to nearest dollar.)
- a. \$12,321
 - b. \$7,081
 - c. \$22,003
 - d. \$23,982
 - e. None of the above
21. Today December 5, 2007, you traded a pickup for another pickup. The remaining book value of the traded pickup was \$15,000. You paid \$20,000 in cash 'boot' for the new pickup plus the pickup traded. Given this, how much regular MACRS depreciation do you claim on the new pickup in 2007?
- a. \$1,607
 - b. \$2,143
 - c. \$2,250
 - d. \$4,750
 - e. None of the above

22. You purchased 80 acres for \$400,000. You feel that land values will increase, on average, 5 percent per year. Given this, what will the land be worth in 30 years? (Attached information provided may be useful.)
- a. \$92,552
 - b. \$2,297,400
 - c. \$1,297,360
 - d. \$1,728,760
 - e. \$577,690
23. Sources of risk in agriculture would include the following:
- a. Weather
 - b. Market price
 - c. Social
 - d. Human
 - e. All of the above
24. Methods of gaining control of capital for a business operation would include:
- a. Debt capital, outside equity, leasing
 - b. Owner's net worth, contracting, outside equity
 - c. Leasing, outside equity, debt capital
 - d. Outside equity, contracting, debt capital
 - e. All of the above are sources of capital
25. Commercial banks provide the following types of credit to agriculture:
- a. long-term such as for real estate
 - b. intermediate-term such as for a building
 - c. short-term such as for feeder cattle purchase
 - d. all of the above types of credit are types of credit commercial banks provide
26. The Iowa Agricultural Development Authority provides the following types of credit to agriculture:
- a. There is not an Iowa Agricultural Development Authority
 - b. For operating credit such as for seed purchases, etc.
 - c. For machinery, livestock, land.
 - d. For land purchases only.
 - e. For high equity farmers.
27. 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.
28. You have the opportunity to purchase a neighboring 80 acres for \$300,000. The discount rate is 5% and you will own the farm for 30 years. You project that the profit, or return, will be about 7 percent. Given this, what is the value of the profit to you today? (Attached information provided may be helpful.)
- a. \$159,858
 - b. \$260,589
 - c. \$322,823
 - d. \$39,411
 - e. None of the above

29. 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?
- a. \$248,634
 - b. \$962,130
 - c. \$312,198
 - d. \$295,421
 - e. \$392,645
30. Using a lower discount rate will cause the present value of the farm value to:
- a. Increase
 - b. Decrease
 - c. Remain constant
 - d. Increase initially, but then decrease
 - e. None of the above

The following information is for the next two questions.

Today you purchased a line of machinery for \$150,000. You took out a loan with Community Bank of the Neighborhood. It is a 7 year loan with an interest rate of 7 percent. You make an annual payment with the first payment in December 2008.

31. If you have an equal total payment plan what is your loan payment (principal and interest) in December 2008? (Attached information may help with this question.) (Round to nearest dollar.)
- a. \$26,912
 - b. \$31,929
 - c. \$27,833
 - d. \$21,429
 - e. None of the above.
32. If you have an equal principle payment plan, what is your loan payment for December 2008? (Round to nearest dollar.)
- a. \$21,429
 - b. \$31,929
 - c. \$26,912
 - d. \$27,833
 - e. None of the above
33. We wish you all the very best. Have a great and eventful holiday break!
- a. I will do that!
 - b. I do not plan on doing that.
 - c. 'B' is not an acceptable answer.