Quiz II, Econ. 338c Spring 2004

Name or student number ____________________________________

(4 points for each question)

Multiple Choice  (Circle the correct choice)

1. In Iowa, a strong basis means the local cash price is (a) closer or (b) further from the futures price than normal.
2. Will the following factors (a) strengthen or (b) weaken the local corn basis?
   --Corn is piled outside many grain elevators around the state
   --The Mississippi River is closed for navigation due to high water
   --A dock strike at the New Orleans ports is preventing the loading of grain for export
   --Farmers are aggressively selling grain
3. At harvest time, a weak basis signals farmers to: (a) sell grain in the cash market at harvest, (b) sell on a basis contract, (c) store and hedge or forward contract for later delivery.
4. At harvest time, a strong basis signals farmers to: (a) sell grain at harvest, (b) sell on a basis contract, or (c) store and hedge or forward contract for later delivery.
5. A basis contract is advantageous to use when the basis is (a) weak or (b) strong.
6. There are (2), (3), or (4) general classes of new generation contracts.
7. A premium-offer contract typically (a) does, (b) does not involve potential farmer commitments in two separate crop marketing years.
8. The grain buyer obtains the premium paid to farmers in a premium-offer contract through sales of (a) put options or (b) call options.
9. Put options purchases involve (a) buying the right to sell (put the commodity on someone else) the commodity, (b) buy the right to buy the commodity.
10. When someone buys either a put or a call option, he/she has (a) exposure to potential added losses if the market goes against them, (b) has a fixed and known maximum financial risk exposure-- the initial cost of purchasing the options.

True or False

____F______ 1. In calculating off-farm corn storage costs, it is not necessary to include extra drying and shrinkage costs below the marketable moisture level.

____F______ 2. In calculating on-farm corn storage costs, it is not necessary to include extra drying and shrinkage costs below the marketable moisture level.

_____T______ 3. New generation contracts fall into three general classes.
4. In calculating off-farm soybean storage costs, it is not necessary to include extra drying and shrinkage costs below the marketable moisture level.

5. In calculating on-farm soybean storage costs, it is not necessary to include extra drying and shrinkage costs below the marketable moisture level.

6. Key determinants of soybean crush margins are oil yield, oil price, meal yield, meal price, and soybean price.

7. Off-farm and on-farm storage costs are approximately the same.

8. Loan deficiency payments are paid when the posted county price is below the county loan rate.

9. It is not advisable to forward contract grain for harvest delivery if the forward contract price is below the loan rate.

10. The size of government Counter-Cyclical payments is determined in part by the U.S. weighted marketing year average price received by farmers.

Fill in the Blanks

1. Key costs of storing corn at the elevator are interest, extra drying, extra drying, extra shrinkage, and elevator charge.

2. A disadvantage of forward contracts is farmers can't receive a higher price.

3. An advantage of buying put options is upward price flexibility is retained.

4. A disadvantage of buying put options is premium cost.

5. In Decision-Rule Contracts (DRCs), sales decisions are made by computer chart signals.
Extra Credit (Four points for each question)

1. Given the following market conditions, would you expect the old-crop soybean basis to be (a) stronger or (b) weaker than normal: (1) near-record-tight old-crop supplies, (2) strong crush demand, driven by good livestock and record poultry feeding profits, (3) inability to import soybeans, and (4) uncertainty about new-crop production potential.

2. Name four types of traditional grain contracts:
   __________________________________________
   __________________________________________
   __________________________________________
   __________________________________________

3. List four areas of risk exposure in grain contracts:
   __________________________________________
   __________________________________________
   __________________________________________
   __________________________________________