A. **Matching** - Match each Crop Marketing Term with the one best response (1 point each)

___g__ At the money

a. An agreement between a buyer and seller covering a quantity of grain to be delivered at a specified time in exchange for a specific futures price. However, basis is usually not set when such an agreement is initiated.

___c__ Basis

b. The amount paid to purchase an option.

___j__ Call

c. The difference between the futures price for a commodity and its cash price at specific location.

___j__ Forward cash contract

d. An option that conveys the right, but not the obligation, to sell futures for a predetermined price in exchange for a premium paid in advance.

___a__ Hedge-to-arrive

e. Money that must be deposited into a brokerage account to open or maintain a futures position.

___e__ Margin

f. The price granted by an option at which a position in futures market may be taken.

___b__ Premium

g. An option that conveys the right to buy or sell futures for about the same futures price they’re trading.

___d__ Put

h. The act of selling a commodity when a positive difference between prices for futures delivery months occurs; by forward cash contract, hedge-to arrive or futures contract.

___h__ Sell the carry

i. An agreement between a buyer and seller covering a quantity of grain to be delivered at a specified location and time in exchange for a specified price.

___f__ Strike Price

j. An option that conveys the right, but not the obligation, to buy futures for a predetermined price in exchange for a premium paid in advance.
B. Matching – Match the number with the one best descriptor.
(1 point each)

<table>
<thead>
<tr>
<th>Corn Futures Price Closes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>May $</strong> 1.</td>
</tr>
<tr>
<td><strong>July $</strong> 2.</td>
</tr>
<tr>
<td><strong>Sept. $</strong> 3.</td>
</tr>
<tr>
<td><strong>Dec $</strong> 4.</td>
</tr>
<tr>
<td><strong>New Crop Futures</strong> 5.</td>
</tr>
<tr>
<td><strong>Carry</strong> 2.</td>
</tr>
<tr>
<td><strong>Inverted</strong> 4.</td>
</tr>
<tr>
<td><strong>Nearby Futures</strong> 1.</td>
</tr>
<tr>
<td><strong>Deferred</strong> 3.</td>
</tr>
</tbody>
</table>

C. True-False Place a T or F in each blank. (1 point each)

1. The basis for corn and soybeans has no seasonal pattern. **F**
2. On average since 1990, the summer months of June, July and August usually provide “seasonal high” for December corn and November soybean futures. **F**
3. Cash-flow requirements for producing corn can vary from one farm to another by $1.00 per bushel or more. **T**
4. Arbitrage is an important part of a grain merchandiser’s job. **T**
5. New ethanol plants in northwest Iowa appear to have strengthened the corn basis in that part of the state relative to the north central district. **T**
6. Futures price movement in the month of March determines the Spring Base Price for crop insurance products like CRC, RA and GRIP. **F**
7. Brazil alone produces more soybeans annually than does the U.S. **F**
8. Corn prices on the east, west and southern coasts of the U.S. are higher than in Iowa because of transportation costs **T**
9. The USDA Risk Management Agency pre-establishes the Spring Base Price for crop insurance products like CAT, MPCI and GRP. **T**
10. If a producer forward prices new crop bushels for fall delivery, they should consider using a yield insurance product rather than a revenue product. **F**
D. True-False  Use the chart below and answer T or F in each blank. (1 point each)

1. The Cash Market depends totally on when the Farm Price decision made.  T
2. The Hedge or Forward Contract appears the same, but basis might differ.  T
3. The Option always exceeds the Hedge or Forward Contract Farm Price.  F
4. The Option exceeds the Hedge or Forward Contract, but only if the futures market exceeds the original futures price when the Option was purchased plus the Option premium.  T
5. If a Hedge is made at the highest futures price, the Option alternative will never exceed the Hedge.  T

E. Fill in the Blank (each blank is worth 1 point)

1. Five major economic functions of the grain marketing system are:  Providing time utility Providing form utility Providing space utility Financing and price/value discovery.

2. Arbitrage = Maximizing return over time & space.

3. The three components of the local grain price are cash, futures and basis.
F. Problem Solving (fill in the blanks worth 1/2 point each, problems worth 2 points each)

You plan to sell over the next 3 months 10,000 bushels of corn located on your farm 5 miles N. of Ames. Use the charts below and solve each problem based on March 28th prices. Calculate all answers on a per bushel basis.

Source: [www.cashgrainbids.com](http://www.cashgrainbids.com)  

<table>
<thead>
<tr>
<th>Gilbert Cash Price</th>
<th>Futures Settlement Price</th>
<th>Calculate the Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Spot $3.57</td>
<td>May $3.89</td>
<td>- .32</td>
</tr>
<tr>
<td>2. July Delivery $3.69</td>
<td>July $3.98</td>
<td>- .29</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ft. Dodge Cash Price</th>
<th>Futures Settlement Price</th>
<th>Calculate the Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Spot $3.64</td>
<td>May $3.89</td>
<td>- .25</td>
</tr>
<tr>
<td>4. July Delivery $3.73</td>
<td>July $3.98</td>
<td>- .25</td>
</tr>
</tbody>
</table>

5. Compare the transportation costs for hauling 10,000 bushels of corn 1 mile to Gilbert vs. 63 miles to Ft. Dodge ($ .0047/bu/mile for up to 30 miles and $ .0028/bu/mile for distances over 60 miles).

Gilbert = $ .0047 or $ .01 /bu  
Ft. Dodge = $ .1764 or $ .18 /bu.

6. Include transportation costs and compare selling all 10,000 bushels at Gilbert vs. Ft. Dodge using todays’ spot bid minus transportation costs.

Gilbert = $ 3.5653 or $ 3.57 /bu  
Ft. Dodge = $ 3.436 or $ 3.46 /bu.

7. Include transportation and monthly interest charges of $ .022/bu. that will accrue the first of each month from April through June and compare selling all 10,000 bushels for July delivery at Gilbert vs. Ft. Dodge.

Gilbert = $ 3.619 or $ 3.62 /bu  
Ft. Dodge = $ 3.4876 or $ 3.49 /bu.