Econ 339X Spring 2010

Final Due 5/5/2010
100 points possible

True or False (2 points each)

T or F 1. The U.S. produces over 180 billion pounds of milk per year.

T or F 2. Class II milk is used for butter production.

T or F 3. Marketing orders exist for milk, fruits, and vegetables.

T or F 4. A marketing order sets production controls or limits.

T or F 5. All dairy futures are cash settled.

T or F 6. Put and call options are opposite positions that can offset each other.

T or F 7. The top reason crops fail is drought.

T or F 8. The federal government will pay up to 2/3 of your crop insurance premium.

T or F 9. Most of Iowa qualified for SURE payments in 2008.

T or F 10. Direct payments rates move with crop prices.

Short Answer (5 points each)

11. Pick a date between 4/27 and 5/4, tell me the date and the settlement (or closing) futures price for December 2010 corn. (Check the markets after 2pm).

12. Given your answer to question 11 above, what is the strike price and settlement (or closing) premium for the nearest out-of-the money put option on the December 2010 corn futures?

13. Name 5 jobs of a marketing order.

14. When a farmer signs up for the ACRE program, what three things do they give up in the traditional farm programs?

15. What does “nonrecourse” mean in the marketing loan program?

16. What is the soybean direct payment rate and how much would I receive in direct payments if I have 100 acres of soybean base and a direct payment yield of 30 bushels per acre?

17. Name two marketing challenges new generation contracts are structured to overcome.

18. Name three steps in building a marketing plan.

Long Answer (10 points each)

19. Calculate Class III and IV milk prices, based on the following product prices:

Butter Price	= $1.4388 per pound
Nonfat Dry Milk Price	= $1.0454 per pound
Cheese Price	= $1.3632 per pound
Dry Whey Price	= $0.3761 per pound

20. You have a farm in Story County, Iowa. In 2010, you have an expected corn yield of 160 bushels per acre.

a) What would be the net insurance payment (payment minus premium) if you bought 65% yield insurance and had an actual corn yield in 2010 of 100 bushels per acre?

b) What would be the net insurance payment if you bought 75% yield insurance?

21. Given the data below, compute a 14-day Relative Strength Index for Nov. 2010 soybeans. What does the RSI indicate about the current soybean market?

Date	Futures Price	Date	Futures Price
4/7/2010	9.4125	4/19/2010	9.56
4/8/2010	9.375	4/20/2010	9.6325
4/9/2010	9.365	4/21/2010	9.77
4/12/2010	9.35	4/22/2010	9.85
4/13/2010	9.45	4/23/2010	9.79
4/14/2010	9.4625	4/26/2010	9.775
4/15/2010	9.61	4/27/2010	9.6175
4/16/2010	9.655		

22. Using the futures and options data below and assuming historical expected basis of -$0.25 per bushel and a commission of $0.01 per bushel, give me two market strategies, one to set an target floor price of at least $3.30 for corn and the other to set a target ceiling price of at most $3.60 for corn.

All prices and premiums are listed in dollars per bushel

Dec. 2010 Corn
Futures Price 3.69

Options	Strike Price	Premium	Options	Strike Price	Premium
Put	2.00	0.00125	Call	1.00	2.69
Put	2.20	0.0025	Call	1.40	2.29
Put	2.30	0.0025	Call	2.80	0.90625
Put	2.40	0.00375	Call	2.90	0.81875
Put	2.50	0.005	Call	3.00	0.73625
Put	2.60	0.00875	Call	3.10	0.65625
Put	2.70	0.0125	Call	3.20	0.5825
Put	2.80	0.02	Call	3.30	0.515
Put	2.90	0.0325	Call	3.40	0.45375
Put	3.00	0.04875	Call	3.50	0.3975
Put	3.10	0.06875	Call	3.60	0.35
Put	3.20	0.095	Call	3.70	0.3075
Put	3.30	0.1275	Call	3.80	0.27
Put	3.40	0.165	Call	3.90	0.2375
Put	3.50	0.20875	Call	4.00	0.20875
Put	3.60	0.26	Call	4.10	0.18375
Put	3.70	0.3175	Call	4.20	0.1625
Put	3.80	0.38	Call	4.30	0.1425
Put	3.90	0.44625	Call	4.40	0.12625
Put	4.00	0.5175	Call	4.50	0.11125
Put	4.10	0.59125	Call	4.60	0.09875
Put	4.20	0.67	Call	4.70	0.0875
Put	4.30	0.75	Call	4.80	0.07875
Put	4.40	0.8325	Call	4.90	0.07125
Put	4.50	0.9175	Call	5.00	0.065
Put	4.60	1.005			
Put	4.70	1.0925			
Put	4.80	1.18375			
Put	5.00	1.36875			