

**Economics 466**  
**Spring 2010**  
**TR 11:00-12:20**  
**160 Heady Hall**

## **Agricultural Finance**

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**Course Web site:** <http://www.econ.iastate.edu/classes/econ466/Jolly>

### **Course Description:**

Financial analysis of agricultural businesses; liquidity, capital structure, and growth of agricultural firms; risk and return; capital budgeting methods; analysis of land investments, leasing, and costs of credit; financial intermediation and major financial institutions for agriculture; credit scoring, loan pricing, and asset-liability management techniques by financial intermediaries; public policies affecting agricultural credit markets. (3 credits).

**Prerequisites:** Econ 301, Stat 226; Fin 301 and Econ 353 recommended.

### **Required Text:**

Barry, P. J. and P. N. Ellinger, J. A. Hopkin and C. B. Baker. 2000. *Financial Management in Agriculture*, 6<sup>th</sup> edition, Interstate, Danville, IL.

### **Additional Texts** (on reserve)

Besanko, D., D. Dranove, M. Shanley and S. Schaefer. 2004. *Economics of Strategy*, 3<sup>rd</sup> edition.  
Rose P. 2001. *Commercial Bank Management*, 5<sup>th</sup> edition.  
Brealey, R. and S. Myers. 2003. *Principles of Corporate Finance*. 7<sup>th</sup> edition.

### **Course Objectives:**

Upon successful completion of the course, students should understand:

- and be able to interpret financial statements for farms, agribusinesses and agricultural lenders
- financial intermediation in agriculture and the management of major financial intermediaries
- the process of extending and manager credit to agricultural firms
- the meaning and management of liquidity, risk and capital structure in farm businesses and agricultural firms
- the time value of money and be able to apply capital budgeting techniques appropriately to agricultural problems
- competitive strategy among agricultural credit suppliers
- current policy issues and the role of the government in agricultural finance

In addition, this course is intended to increase your skill in critical reasoning, communication, teamwork and leadership.

**Primary Tasks:**

**Team Problems:** You will be given 8 unscheduled team problems. Each team problem will apply and extend material presented in the lecture or assigned readings. The team problem analysis will be handed in at the end of class.

**Speaker Reviews:** We will have 4 – 5 guest speakers during the semester. At the end of the class period, you will complete and hand in a short summary of the speaker’s presentation.

**Learning Projects:** You will complete two projects during the semester. You will work as part of a 3-4 member team for both projects. The purpose of using teams is not to make your life miserable. Rather I hope to help prepare you for the world of work where cross-functional teamwork is commonplace. Briefly, the two learning projects are as follows:

1. Farm Credit Case Study.  
Your team will select an actual farm business and describe the role that credit and financial services play in farm profitability and growth. Your team will prepare a written report. Selected teams will present their findings to the class.
2. Performance Assessment of a Community Bank in Iowa.  
Your team will select a community bank in Iowa and develop a financial profile of the institution and its peers. I will also ask you to describe the key elements in the bank’s competitive strategy. In addition you will select and analyze a specific management problem faced by the bank. You will use publicly-available information from the FDIC’s web site along with personal interviews of bank officers. Your team will prepare a written report and present your findings to the class.

**Exams:** There will be five short quizzes during the semester – approximately two weeks apart. Each quiz will cover material presented since the previous quiz. You will be allowed to drop your lowest scoring quiz – in other words your grade will reflect your four best quizzes.

**Evaluation:**

Your final grade will be based on a weighted average of the following six items (each item is evaluated on a 100 point scale):

	<b><u>Weight (%)</u></b>
Quizzes.....	20
Unscheduled team problems .....	20
Learning project I (credit analysis) .....	20
Learning project II (bank analysis) .....	35
Speaker reviews .....	<u>5</u>
	100

Grades for the learning projects will be assigned to the team. (*The team may suggest how grades should be allocated to individual team members, however.*)

I'll use the following cut-off values, based on your cumulative score for establishing letter grades.

<u>Grade</u>	<u>Score(=s)</u>	<u>Grade</u>	<u>Score(=s)</u>
A	$s \geq 92$	C	$72 \leq s < 78$
A-	$90 \leq s < 92$	C-	$70 \leq s < 72$
B+	$88 \leq s < 90$	D+	$68 \leq s < 70$
B	$82 \leq s < 88$	D	$62 \leq s < 68$
B-	$80 \leq s < 82$	D-	$60 \leq s < 62$
C+	$78 \leq s < 80$	F	$s < 60$

### **Special Needs**

Please address any special needs or special accommodations with me at the beginning of the semester or as soon as you become aware of your needs. Those seeking accommodations based on disabilities should obtain a Student Academic Accommodation Request (SAAR) form from the Disability Resources (DR) office (515-294-6624). DR is located on the main floor of the Student Services Building, Room 1076.

### **Academic Integrity**

I expect all students to adhere to the highest standard of academic integrity for individual as well as group assignments and projects. The University defines academic dishonesty as follows:

*Academic dishonesty occurs when a student uses or attempts to use unauthorized information in the taking of an exam; or submits as his or her own work themes, reports, drawings, laboratory notes, or other products prepared by another person; or knowingly assists another student in such acts or plagiarism.*

The University expects me to refer all suspected cases of academic dishonesty to the Dean of Student Affairs.

## Class Schedule:

<u>Dates</u>	<u>Major Topics</u>	<u>Readings</u> <sup>1/</sup>
Jan. 12	● Introduction to agricultural finance	T: 1, 2
Jan. 14	● A look at current farm financial conditions and the structure of agricultural credit markets	
Jan. 19, 21	● An introduction to competitive strategy	Be: 10, 11, 12
Jan. 26, 28 Feb 2, 4, 9, 11	● Financial analysis, planning and control for farm businesses	T: 3, 4, 5
Feb. 16, 18	● Capital structure, liquidity and risk management	T: 6, 7, 8 Br: 17, 18
Feb. 23, 25 March 2	● Agribusiness finance	
March 4, 9	● Capital budgeting and long-term decision making	T: 9, 10, 11
March 11	● Class presentations – farm credit case studies	
March 16, 18	● Spring break!	
March 23, 25, 30 April 2	● Capital budgeting and long-term decision making	T: 12, 13, 14
April 6, 8	● Management of financial intermediaries serving agriculture	T: 15, 16, 17 R: 4, 5
April 13, 15, 20	● Guest speakers	
April 22, 27, 29	● Class presentations, bank reports	
May 4-6	● Finals week	

## Tentative Quiz Dates

- February 4
- February 18
- March 4
- April 2
- May 6 (take home due)

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<sup>1/</sup>T = Text

Be = Besanko, et. al

R = Rose

Br = Brealy