1. **Carry** is the difference between futures prices.

2. Hedging is the holding of _equal_ and _opposite_ positions in the cash and futures markets.

True or False (2 points each)

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

4. The top reason crops fail is flooding.  
   - T  or   F

5. Direct payments rates do not move with crop prices.  
   - T  or   F

6. The last 2 corn crops are the 2 largest corn crops the U.S. has ever had.  
   - T  or   F

7. A long hedge protects against rising prices.  
   - T  or   F

8. Option premiums are established in a market.  
   - T  or   F

9. A basis contract locks both the futures price and the basis.  
   - T  or   F

10. A hedge-to-arrive contract protects you from futures price risk.  
    - T  or   F

Short answer (2 points each):

11. Which is better for a long hedger, a narrowing basis or a widening one?

A widening basis

A long hedger is usually a processor or a user of the commodity. Since they are a user of the commodity, the price represents their cost. A wider basis translates into a lower cost.
12. At what price level does the season average price for soybeans have to be lower for countercyclical payments to begin?

$5.56

$6.00 - $0.44, Target Price – Direct Payment Rate

13. How many months can a marketing loan, through the federal government’s marketing loan program, be utilized?

9 months

14. Name two of the new generation contract categories.

Automated Pricing, Managed Hedging, and Combination

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

The crop can be used as payment for the marketing loan.

16. What is the soybean direct payment rate and how much would I receive in direct payments if I have 250 acres of soybean base and a direct payment yield of 35 bushels per acre?

$0.44 per bushel

\[
\text{Payment} = \$0.44 \text{ per bushel} \times 35 \text{ bushels per acre} \times 250 \text{ acres} \times 83.3\% = \$3,207.05
\]

17. What is the strike price and settlement (or closing) premium for the nearest in-the-money put option on the December 2012 corn futures on April 27, 2012? (State it in $/bushel, Check the markets after 4pm).

<table>
<thead>
<tr>
<th>Date</th>
<th>Futures Price ($ per bushel)</th>
<th>Strike Price ($ per bushel)</th>
<th>Premium ($ per bushel)</th>
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</table>

18. Why might you use a deferred price contract?

Believe market prices are on the rise, Takes care of storage, and Allows producer to lock prices at a later time
Long Answer (10 points each)

19. For 2012, you have an expected corn yield of 200 bushels per acre on your farm, based on your previous corn yields. The spring time insurance price for corn is $5.68 per bushel.

a) If you bought 80% yield insurance, what is your insurance guarantee?

160 bushels per acre
80% * 200 bushels per acre

b) If you bought 80% revenue insurance, what is your insurance guarantee?

$908.80 per acre
80% * 200 bushels per acre * $5.68 per bushel

c) If you got 150 bushels per acre in 2012 and the harvest time price was $6.00 per bushel, what would be the insurance payment if you bought 80% yield insurance?

$56.80 per acre
$5.68 per bushel * (80% * 200 bushels per acre – 150 bushels per acre)

d) If you got 150 bushels per acre in 2012 and the harvest time price was $6.00 per bushel, what would be the insurance payment if you bought 80% revenue insurance (with the harvest price option)?

$60.00 per acre
80% * $6.00 per bushel * 200 bushels per acre – $6.00 per bushel * 150 bushels per acre

20. How much are the total storage and opportunity costs for soybeans that I have in storage given the following details?
10,000 bushels of soybeans stored for 4 months
10 cents per bushel upfront charge plus 2 cents per bushel for each month
Harvest price of $12 and a short-term interest rate of 3%

$3,000
Storage costs: 10,000 bushels * (10 cents/bushel + 2 cents/bushel/month * 4 months)
= 10,000 bushels * 18 cents/bushel
= $1,800
Opportunity costs: 10,000 bushels * $12/bushel * (4 months / 12 months) * 3%
= 10,000 bushels * 12 cents/bushel
= $1,200