

- Key
- 1) T or F The U.S. produces over 200 billion pounds of milk per year.
 - 2) T or F Class I milk is for fluid milk consumption.
 - 3) T or F Marketing orders only exist for milk.
 - 4) T or F Cyclical price patterns are driven by weather, holidays and input prices.
 - 5) T or F Since 1990, basis adjusted futures prices performed much better than the seasonal index at forecasting cattle and hog prices.
 - 6) T or F Livestock Revenue Protection insurance is available for purchase from 5:00 pm to 9:00 am
 - 7) T or F Livestock Revenue Protection insurance does not have basis risk because it settles against a live animal index.
 - 8) T or ~~F~~ Less than 10% of market hogs are sold via the spot market in 2010.
 - 9) T or F A higher percentage of fed cattle than market hogs are "captive" by packer ownership or marketing contract.
 - 10) T or F Centralized pricing refers a single entity like a coop or consortium negotiating a price for its members.

Multiple Choice (3 points each)

The most common form (based on percent of marketings) of market hog procurement is:

- a) Cost plus pricing based on feed costs
- b) Packer ownership
- c) Formula contract based on pork or hog prices
- d) Window price contract with upper and lower limits
- e) Cash market

If the packer is offering a carcass price bid that is higher than the wholesale meat price (boxed price) what must be true?

- a) They are not covering their variable cost and are trying to increase volume.
- b) The non-carcass revenue (hide and offal) is higher than the cost to operate the plant.
- c) The dressing percent of animals has increased to make up the difference.
- d) Wholesale meat prices will increase to cover the cash prices they are bidding.
- e) All of the above

Which of the following are not true of cycles in livestock markets:

- a) They have been recognized and studied for decades
- b) They are driven by profit motives and limited by biology
- c) They repeat themselves with some predictability over more than one year.
- d) They are easy to profit from by using counter cyclical investment strategies
- e) All of these statements are true.

		%
X	66.6	71.5
A	77	90
B	69	80
C	60	70
D	52	60
F		

(5 points) Name 5 jobs of a marketing order.

- Regulate milk prices
- Classify milk by its final use
- Establish minimum class and component prices
- Enforce payments for milk in supply chain
- Verify wts & test
- Audit records
- Provide mkt info

(4 points) Name 2 factors that differentiate milk prices among producers.

- Milk composition/components or list
- Milk quality
- Location of producer

(4 points) Agricultural insurance protects in a similar way to an option, paying off when events move in an adverse direction. Livestock Gross Margin (LGM) is like a combination of options; it's like having Put options on the dairy, beef cattle, or hogs and Call options on the feed.

(2 points) Identify two primary determinates of premiums and discounts in value-based hog marketing programs.

leanness
Weight

(2 points) If the cost of everything except the animal itself to finish a 750 pound yearling steer is \$600 what is the breakeven purchase price for the steer if the finish weight is 1350 pounds and expected selling price is \$115/cwt live weight? Show your work.

$$\frac{1350 \times 1.15 - 600}{750} = 127^{\#}$$

(6 points) Discuss the primary differences between live weight, in-the-meat and value-based (grid) selling and who stands the grading risk.

Live = \bar{x} live \times Live # total Packer
Meat = \bar{x} meat \times carcass # total Packer
Grid = (Individual value \times individual #) \times Seller

(10 points) Discuss three different procurement methods for slaughter hogs today and discuss a possible problem with current procurement methods and why it is a concern to both packers and producers?

2 pts for their markets

(6 points) Compare and contrast Livestock Revenue Protection insurance to CME put options.

Both have Floor Different Basis
LRP: Flex Size, after hours,

(6 points) Compare and contrast Livestock Revenue Protection insurance to Livestock Gross Margin insurance.

LRP: only revenue, available daily,
LGM: Margin
Both flex size, tied to futures

(12 points) A feedlot has received three bids from three different packers for their cattle. The trucking cost is the same across the three bids. The feedlot manager believes the cattle have a dressing percent of 63% and have 20% CAB, 30% Select and 20% Yield Grade 1&2 and 10% Yield Grade 4&5. **Show your work. Which bid should he accept? What factors influence your decision?**

A. Live bid on \$100/cwt weighed off the truck at the plant.

158.73

B. In-the-meat bid of \$161

C. A grid base bid of \$162 with premiums and discounts of: CAB \$7.00, Select -\$5.00, Yield Grade 1&2 \$3.00 and Yield Grade 4&5 -\$15.00 (all in \$/cwt carcass).

161

Choose B

No grade risk
higher price

(14 points) Assume the following estimated cost of production for finishing a weaned pig and the future and options information available at the time the pigs were purchased.

Cost	\$/head		\$/cwt
Pig	36	Futures	86.00
Feed	110	Basis	-1.00
Non Feed			
Variable	12	Put Option	
Fixed	8	Strike	Premium
		88.00	5.50
Live			
weight	270	86.00	4.00
Dressing %	0.75	84.00	2.75

a) What is the carcass price needed to cover variable cost of production?

2 78.02

b) What is the carcass price needed to cover total cost of production?

2 81.92

c) What risk management strategy would give the farmer the highest probability of a profitable price given this information? Show your work.

5 Sell futures 85 v 81.92

d) What strategy will protect his variable cost and allow the highest probability of reaching an \$87/cwt net live price.

5 Buy ~~at~~ 84 put floor = 80.25
 greater prob of $P > 87$ because it
 is cheap.
 Futures won't get 87.