AGRIBUSINESS MANAGEMENT
2006 Career Development Events in Agriculture
Kansas State University, Manhattan, Kansas

Multiple Choice Section

50 points | 50 questions (1 point each)

Select the best response for each question and mark that answer on the answer card by using a No. 2 pencil. Be sure to shade the whole circle on the answer card.

1. Fundamental market analysis in commodity hedging and/or speculating is most useful in determining:

   A. Entry levels
   B. Exit levels
   C. Market direction
   D. Market momentum
   E. All of the above

2. A principal payment on a loan is normally included as

   A. An expense on an income statement
   B. A use of cash on a cash flow statement
   C. A source of cash on a cash flow statement
   D. All of the above
   E. None of the above

3. A Kansas wheat farmer properly enrolled in the *Farm Security and Rural Investment Act of 2002* is guaranteed to receive which of the following payments each year during the life of the legislation:

   A. Loan Deficiency Payments
   B. Direct Payments
   C. Counter-Cyclical Payments
   D. Conservation Reserve Program Payments
   E. All of the above

4. The debt/asset ratio is one measure of

   A. Profitability
   B. Solvency
   C. Liquidity
   D. All of the above
   E. None of the above

5. A _____________ gives the buyer the right, but not the obligation to purchase the underlying futures at the ________________.

   A. Hedge-to-arrive contract, strike price.
   B. Put option, strike price
   C. Put option, opening bell
   D. Call option, daily closing price
   E. Call option, strike price

6. A farmer purchases 525 pound feeder steers for .82 per pound and plans to sell the steers at 750 pounds. The farmer estimates the total cost of gain to be .60 per pound. The nearest breakeven price when the steers are sold at 750 pounds is:

   A. 69.00cents/pound
   B. 69.18cents/pound
   C. 72.71cents/pound
   D. 75.40cents/pound
   E. None of the above

7. A farmer has a debt:worth ratio of 2:1. The current liabilities total $60,000 and the non-current liabilities total $120,000. What is the value of the assets?

   A. $90,000
   B. $240,000
   C. $270,000
   D. $300,000
   E. None of the above

8. For purposes of deducting expenses when preparing income taxes, which type of input is normally depreciated?

   A. Raised breeding livestock
   B. Machinery
   C. Livestock purchased for resale
   D. Land
   E. Both B and C

9. In order for limited partners to maintain their limited liability, the can **not**:

   A. Share in the profits of the limited partnership
   B. Own more than 1/3 of the limited partnership
   C. Participate in the management of the limited partnership
   D. Own more than 49.9% of the limited partnership
   E. Both C and D

10. If the price of a commodity is too low, the demand will be greater than the supply resulting in a:

   A. Surplus
   B. Boycott
   C. Monopoly
   D. Shortage

11. As the price of nitrogen fertilizer increases relative to the price of corn, the most profitable level of fertilization most likely:

   A. Increases
   B. Stays the same
   C. Decreases
   D. Becomes negative

12. If production of more of one enterprise results in less production of another enterprise, the technical relationship among these two enterprises is called

   A. Competitive
   B. Supplementary
   C. Complementary
   D. All of the above
   E. None of the above

13. Cash flow Statements are used to analyze:

A. The equity position of a farm business
B.. Solvency
C. Profitability
D. All of the above
E. None of the above

14. The role of price in a free market is to serve as a guide:

A. In controlling quantity supplied
B. In limiting quantity demanded
C. In allocating consumption
D. In deciding what, when and how much to produce
E. All of the above

15. Corn and grain sorghum are substitutes for each other in many livestock feed rations. Assuming that they are substitutes, a decrease in the supply of corn would cause the demand for grain sorghum to:

A. Shift to the left
B. Shift to the right
C. Decrease
D. Remain unchanged

16. Which of the following is normally <u>not</u> included in an accrual basis income statement?

A. Principal payments on loans
B. Interest
C. Depreciation
D. All of the above
E. None of the above

17. A farmer is purchasing a new baler at a cost of $24,000. His dealer will finance the baler under the following terms: 25% down payment with the balance repaid in equal payments over the next 5 years at 9% APR. The farmer expects the baler to last for 10 years and have a salvage value of $4,000. How much interest will the farmer pay the first year of the loan?

A. $1,500.00
B. $1,620.00
C $1,728.00
D. $2,400.00
E. None of the above

18. After fertilizing and planting, the costs of seed and fertilizer would normally be considered

A. A Section 179 deduction
B A depreciable expense
C. A sunk cost
D. An opportunity cost
E. All of the above

19. Specialization in crops or livestock in a farm business tends to:

A. Increase income and increase risk
B. Decrease income and increase risk
C. Decrease risk and increase income
D. Decrease risk and decrease income

20. If the total costs are $400 to produce 100 units of output and total fixed costs are $200 for that level of output, then average variable costs are

A. $0.50
B. $2.50
C. $3.50
D. $4.00
E. None of the above

21. You are considering the purchase of a combine, rather than continuing to hire a custom operator at $22.00 per acre. If you purchase the machine, the annual fixed costs (interest, depreciation, etc.) will be $20,000.00. The variable cost is $12.00 per acre including the extra labor. There will be no other changes in costs and other returns associated with ownership and no savings other than the customer charges. How many acres must be harvested each year in order to justify (on a breakeven basis) purchasing the combine?

A. 833.3
B. 1,000
C. 1,200
D. 2,000
E. None of the above

Use the following information from financial tables to answer Questions 22-24.

Year	Present Value of \$1 @ 9%	Future Value of \$1 @ 9%	Present Value of Annuity @ 9%	Amortization for Equal Annual Payments @ 9%
1	0.9174	1.0900	0.9174	1.0900
2	0.8417	1.1188	1.7591	0.5685
3	0.7722	1.2950	2.5313	0.3951
4	0.7084	1.4116	3.2397	0.3087
5	0.6499	1.5386	3.8897	0.2571

22. What is the present value of a \$10,000 payment to be received 5 years from now if the annual interest rate is 9% compounded annually?

    A. \$1,862
    B. \$2,989
    C. \$4,000
    D. \$5,297
    E. \$6,499

23. Suppose someone loans you \$50.00 to be paid back in 5 years with 9% annual interest compounded annually. How much money will you pay back at the end of 5 years?

    A. \$80.53
    B. \$76.93
    C. \$54.42
    D. \$44.08
    E. \$25.19

24. Suppose in an annual per cow Beef Cowherd budget the cash flow entry for buildings and equipment costs is the annual loan payment (principal and interest) for a 5-year amortized loan for one-third of the investment in buildings and equipment per cow at an interest rate of 9 percent. If the investment in buildings and equipment per cow is \$1,050, what is the per cow cash flow entry for buildings and equipment costs?

    A. \$ 62.42
    B. \$ 89.98
    C. \$ 97.09
    D. \$105.00
    E. \$126.14

25. A feedlot operator purchases a pen of 100 feeder steers with an average weight of 788 pounds and sells them at an average weight of 1041 pounds. Total feed cost for the pen is $16,420.00. Feed cost per pound of gain is equal to:

A. $0.440
B. $0.515
C. $0.649
D. $0.720
E. None of the above

26. In the event the business is forced to liquidate, which of the following would have first claim on the proceeds?

A. Mortgage
B. Accounts payable
C. Holder of common stock
D. Unsecured creditors

27. The big advantage of renting a major asset as compared to purchasing is that renting:

A. Reduces your income taxes
B. Increases your depreciation
C. Releases capital for other uses
D. Improves output per worker
E. Costs less in the long run

28. Use of enterprise budgets for estimating total costs and returns for a farm enterprise assumes ________ returns to scale?

A. Decreasing
B. Constant
C. Increasing
D. Negative

29. Calculating present value is called

A. Discounting
B. Compounding
C. Valuing
D. All of the above
E. None of the above

30. If the price elasticity of demand for pork is -2.13 how would total revenue to the pork industry be affected if price of pork decreases?

A. Total revenue would increase
B. Total revenue would not change
C. Total revenue would decrease
D. All of the above
E. None of the above

31. Which ratio measures the percent of assets financed by the owner?

A. Debt to Equity Ratio
B. Equity to Asset Ratio
C. Equity to Debt Ratio
D. Asset to Equity Ratio
E. None of the above

32. Which of the following is normally included on a cash flow statement?

A. Principal payments on loans
B. Cash payments for operating inputs
C. Interest payments
D. All of the above
E. None of the above

33. Which statement shows a farm's financial situation at a point in time?

A. Balance sheet
B. Accrual basis income statement
C. Cash flow statement
D. All of the above
E. None of the above

34. Which noncash expense (or expenses) is (are) normally not accounted for when calculating net farm income?

A. Depreciation
B. Unpaid Family labor and management
C. Hired labor
D. Both A and B
E. Both B and C

35. In 1993 Pat Parker had net farm income of $35,000. Pat had total business assets of $725,000 and total liabilities of 350,000. Pat paid $32,000 in interest. Rate of return on equity for 1993 would be:

A. 5.8%
B. 9.3%
C. 12.8%
D. 14.0%
E. None of the above

36. A contract that gives the holder the right, but not the obligation to sell at a specified price is a:

A. Future contract
B. Put option
C. Call option
D. Forward contract
E. All of the above

37. All assets are financed by either debt or

A. Liabilities
B. Assets
C. Equity
D. Solvency
E. All of the above

38. Book value is defined as

A. Cost minus depreciation
B. Resale value
C. MACRS
D. All of the above
E. None of the above

39. Which type of cost increases during a short-run production period as the level of output is increased?

A. Average Fixed Cost
B. Total Variable Cost
C. Total Fixed Cost
D. All of the above
E. None of the above

40. Which type of cost or expense is not an ownership cost?

A. Income taxes
B. Depreciation
C. Property taxes
D. Both A and B
E. Both B and C

41. Which type of cost decreases during a short-run production period as the level of output is increased?

A. Average fixed cost
B. Total variable cost
C. Marginal cost
D. All the above
E. None of the above

42. A business is solvent if:

A. Value of total assets exceeds value of total liabilities
B. Net worth is positive
C. Equity is positive
D. All the above
E. None of the above

43. A record keeping system which records both the addition to equipment and the reduction of cash when an asset is purchased is called:

A. An income statement
B. Dual effect
C. A balance sheet
D. Double entry
E. None of the above

44. Given that net worth of Farm A is $200 and its total assets are $500 and the net worth of Farm B is $300 and its total assets are $400, which farm has the greater liabilities?

A. A
B. B
C. Farms A and B have the same amount of liabilities
D. All the above
E. None of the above

45. Some resources used in farming are valued at their "opportunity cost." This is the amount that:

A. The farmer paid to buy the resource initially
B. The farmer pays to rent the resource each year
C. Is added to net profit as a result of using the resource
D. The resource could earn if it was used elsewhere, either within or outside the farm business

46. Which of the following is a strategy for reducing "marketing" risk:

A. Using forward contracts to sell grain before harvest at attractive prices
B. Applying insecticide to growing crops
C. Purchasing property loss insurance to protect against such events as wind damage to farm buildings
D. Maintaining a low debt/equity ratio for the farm
E. All of the above

47. A certain wheat farm has had yields of 42, 47, 39, 43, 45, 49, 43, 41, 48, and 46 bushels per acre over the past 10 years, respectively. Assuming past yields are a good indicator of the future, what is the "expected value" of the farm's wheat yield.

A. 39.3
B. 44.3
C. 45.3
D. 46.0
E. 443.0

48. Assume the goal is to maximize profit. An appropriate tax management strategy for the farm business over time is

A. Minimize tax obligations each year
B. Maximize short-run pre-tax profit
C. Maximize long-run, after-tax profit
D. Not consider tax implications when making management decisions
E. All of the above

Use the information from the following tables to answer Questions 49-50.

2005 Crop Commodity Loan Program: Corn

Effective April 19, 2006	Posted County Price	Loan Rate
Riley County, KS	$2.04	$1.95
Wyandotte County, KS	$2.18	$2.09

Source: USDA Farm Service Agency Website

2005 Crop Commodity Loan Program: Soybean

Effective April 19, 2006	Posted County Price	Loan Rate
Riley County, KS	$5.30	$4.91
Wyandotte County, KS	$5.54	$5.15

Source: USDA Farm Service Agency Website

49. If John farms in Riley County, KS and Sue farms in Wyandotte County, KS and each of them is bid $2.00 for their corn by their local elevators on April 19, 2006, who will receive an Loan Deficiency Payment (LDP) for their corn if they have not previously filed for or claimed their LDP.

    A. John
    B. Sue
    C. John and Sue
    D. Neither John or Sue will receive an LDP

50. John planted 100 acres of corn in Riley County producing 75 bushels/acre and 20 acres of beans in Wyandotte County yielding 25 bushels/acre and had no other crops grown anywhere. He stored the crops on bins at the corner of the fields in which the crops were grown. If John went to claim his LDP on the crops on April 20, 2006 but the respective Posted County Price was $1.90 for corn and $5.40 for soybeans, how much would his total LDP on the crops be?

    A. $620
    B. $375
    C. $245
    D. $0
    E. None of the above