AGRIBUSINESS MANAGEMENT
2009 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. Technical market analysis in commodity hedging and/or speculating is most useful in determining:

   A. How the market is responding to crop conditions
   B. How world production estimates will impact the market
   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. Crop insurance products that key off revenue:

   A. Can pay a loss based on either low yields or low prices
   B. Are a tool to help offset the increased risk associated with high input prices
   C. Can become very expensive to purchase in an area that has suffered several years of low yields
   D. All of the above
   E. None of the above

4. Return on equity is one measure of

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

5. A _____________ gives the seller 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 $1.20 per pound and plans to sell the steers at 750 pounds. The farmer estimates the total cost of gain to be $0.60 per pound. The nearest breakeven price when the steers are sold at 750 pounds is:

   A. $1.02 per pound
   B. $0.60 per pound
   C. $1.20 per pound
   D. $0.95 per pound
   E. None of the above

7. A farmer has a debt-to-asset ratio of 0.40. The current liabilities total $60,000 and the non-current liabilities total $120,000. What is the value of the assets?

   A. $300,000
   B. $150,000
   C. $72,000
   D. $450,000
   E. None of the above

8. For purposes of deducting expenses when preparing income taxes, which assets are **not** normally depreciated?

   A. Raised breeding livestock
   B. Crops in the field
   C. Livestock purchased for resale
   D. Land
   E. All of the above

9. Corporate and LLC type legal structures may be preferred to sole proprietorships and simple partnerships for transitioning the business to the next generation because:

   A. The record keeping and reporting requirements are less
   B. Stocks and shares are more easily divided than physical assets
   C. Off-farm stakeholder interests can be more easily accommodated
   D. Both B and C
   E. None of the above

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

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

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

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

12. If I produce more corn, forcing me to produce less soybeans, then those two enterprises are _____________ on my farm.

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

13. The accrual income statement is 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 deciding the appropriate input mix to use
    D. In deciding what, when and how much to produce
    E. All of the above

15. Soybean meal and distillers grains are substitutes for each other in many livestock feed rations. Assuming that they are substitutes, an increase in the price of distillers grain would cause the demand for soybean meal to:

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

16. Which of the following is included in an accrual basis income statement?

    A. Operating expenses
    B. Interest expense
    C. Depreciation
    D. All of the above
    E. None of the above

17. A farmer is purchasing a new tractor at a cost of $100,000. His dealer will finance the tractor under the following terms: 25% down payment with the balance repaid in equal principal payments over the next 5 years at 7% APR. The farmer expects the tractor to last for 10 years and have a salvage value of $20,000. How much interest will the farmer pay the first year of the loan?

    A. $7,000.00
    B. $5,600.00
    C $10,000.00
    D. $5,250.00
    E. None of the above

18. Sunk costs (such as fertilizer after it has been applied) are:

A. A Section 179 deduction
B A depreciable expense
C. Not relevant for future decisions
D. An opportunity cost
E. All of the above

19. Diversification into multiple crop and livestock enterprises will tend 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. In order to maximize profit, business managers should:

A. Maximize production
B. Minimize total costs
C. Minimize average costs
D. Maximize average production
E. Set marginal cost equal to marginal revenue

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 $24,000.00. The variable cost is $14.00 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. 1091
B. 3,000
C. 1,200
D. 2,000
E. None of the above

22. What is the present value of a $10,000 payment to be received 2 years from now if the interest rate is 8% compounded annually?

    A. $10,000.00
    B. $8,573.39
    C. $9,259.26
    D. $10,800.00
    E. $11,664.00

23. What is the future value 2 years from now of $10,000 invested today in an investment that earns 8% compounded annually?

    A. $10,000.00
    B. $8,573.39
    C. $9,259.26
    D. $10,800.00
    E. $11,664.00

24. When conducting a capital budgeting investment analysis, a higher discount rate will:

    A. Increase the NPV of the investment
    B. Decrease the NPV of the investment
    C. Make the investment more profitable
    D. Not change the results of the analysis
    E. None of the above

25. A feedlot operator purchases a pen of 100 feeder steers with an average weight of 765 pounds and sells them at an average weight of 1223 pounds. Total feed cost for the pen is $34,575.00. Feed cost per pound of gain is equal to:

    A. $0.525
    B. $0.560
    C. $0.755
    D. $0.770
    E. None of the above

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

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

27. The primary advantage of leasing a major asset as compared to purchasing is that leasing:

   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. Diseconomies of scale means that:

   A. Total costs increase as the enterprise gets larger
   B. Large farms are always more profitable
   C. Per unit cost of production decreases as the enterprise gets larger
   D. Per unit cost of production increases as the enterprise gets larger

29. Compounding means:

   A. Calculating a present value
   B. Calculating a future value
   C. Calculating a loan payment
   D. Amortizing a loan
   E. None of the above

30. Own Price elasticity of demand measures:

   A. The responsiveness of quantity demanded to price
   B. The responsiveness of price to quantity demanded
   C. The responsiveness of supply to demand
   D. All of the above
   E. None of the above

31. Which ratio measures liquidity?

   A. Debt to Equity Ratio
   B. Current Ratio
   C. Operating profit margin ratio
   D. Interest expense ratio
   E. None of the above

32. Which of the following is normally included on a cash flow statement but not on the income 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 snapshot of a farms financial position 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. Why might cash basis schedule F income be less than accrual management income for the same farm?

    A. Accelerated depreciation on the schedule F
    B. Accumulation of unsold grain inventory during the year
    C. Selling off of last year's grain
    D. Both A and B
    E. Both A and C

35. In 2008 Fred Farmer had net farm income of $110,000. Fred had total business assets of $850,000, total business liabilities of $250,000, and a value of farm production of $300,000. Fred paid $17,500 in interest and had unpaid labor of $50,000. The operating profit margin for 2008 would be:

    A. 18.3%
    B. 25.8%
    C. 36.7%
    D. 42.5%
    E. None of the above

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

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

37. Leverage (increased debt) will improve profitability as long as:

A. ROA > interest rate
B. ROA < interest rate
C. Interest rates are under 10%
D. The loan will cash flow
E. None of the above

38. Accelerated depreciation may be a good management choice because:

A. It allows managers to take advantage of the time value of money
B. It reduces the total tax bill over time
C. Machinery wears out faster now than it used to
D. You always want to depreciate as fast as you can
E. None of the above

39. 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. Total Fixed Cost
D. All of the above
E. None of the above

40. If the price of wheat goes up relative to the price of corn:

A. Farmers will not change planting intentions
B. Farmers will plant more wheat and less corn
C. Farmers will plant more corn and less wheat
D. Feeders will use less corn
E. Both B and C

41. Regularly scheduled family business meetings can:

A. Improve stakeholder interaction
B. Keep the business on track
C. Improve business performance
D. None of the above
E. All 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. An accounting system which includes revenues and expenses when they occur, rather than when cash changes hands is called:

A. Double entry
B. Cash basis
C. Accrual basis
D. Balanced
E. None of the above

44. A low “asset turnover” ratio could be an indication of:
A. High fertilizer prices
B. Exceptionally high yields
C. Under investment in machinery
D. Over investment in machinery
E. None of the above

45. When doing enterprise budgeting, Farmer Joe values his own labor at its opportunity cost. This is the amount that:

A. Joe pays himself in cash for his labor
B. Is the same for all farmers
C. Is added to net profit as a result of using the resource
D. His labor could earn if it was used elsewhere, either within or outside the farm business

46. Which of the following is (are) strategy(ies) for reducing "production" 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. The current local forward contract wheat bid is $7.50/bushel for harvest delivery. Assuming past yields are a good indicator of the future, what is the "expected dollar value" of the farm's wheat production per acre?

A. 44.3 bushels
B. $332.25
C. $345.00
D. $360.00
E. $292.50

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

49. A government farm program that increased direct payments while lowering target prices and loan rates would:

A. Benefit producers more when supplies are large and individual farmers raise a large crop
B. Benefit producers most who have a crop failure during times of low prices
C. Cause more problems with the World Trade Organization
D. Help irrigation farmers more than dryland farmers

50. Financial risk can be managed by:

A. Borrowing money
B. Routinely hedging
C. Maintaining a low debt/asset ratio
D. Quitting the off-farm job to become a farmer