

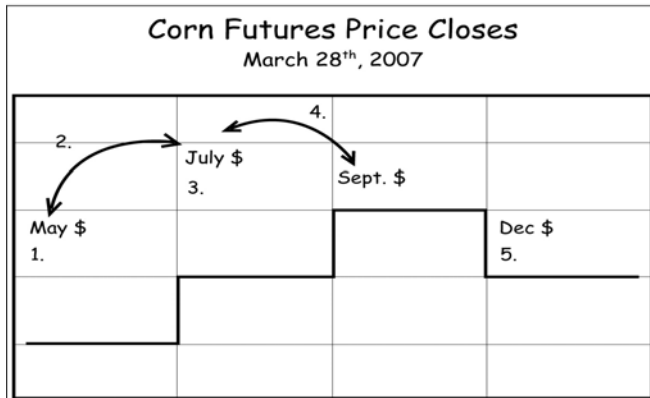
**Quiz: Econ 338C Grain Marketing**  
**Spring 2007**  
**3/29/07**

Name: Key

A. Matching - Match each Crop Marketing Term with the one best response  
(1 point each)

- |                                |  |
|--------------------------------|--|
| <u>g</u> At the money          | a. An agreement between a buyer and seller covering a quantity of grain to be delivered at a specified time in exchange for a specific futures price. However, basis is usually not set when such an agreement is initiated. |
| <u>c</u> Basis                 | b. The amount paid to purchase an option.  |
| <u>j</u> Call                  | c. The difference between the futures price for a commodity and its cash price at a specific location.   |
| <u>j</u> Forward cash contract | d. An option that conveys the right, but not the obligation, to sell futures for a predetermined price in exchange for a premium paid in advance.  |
| <u>a</u> Hedge-to-arrive       | e. Money that must be deposited into a brokerage account to open or maintain a futures position.   |
| <u>e</u> Margin                | f. The price granted by an option at which a position in the futures market may be taken.  |
| <u>b</u> Premium               | g. An option that conveys the right to buy or sell futures for about the same futures price they're trading.   |
| <u>d</u> Put                   | h. The act of selling a commodity when a positive difference between prices for futures delivery months occurs; by forward cash contract, hedge-to arrive or futures contract.   |
| <u>h</u> Sell the carry        | i. An agreement between a buyer and seller covering a quantity of grain to be delivered at a specified location and time in exchange for a specified price.  |
| <u>f</u> Strike Price          | j. An option that conveys the right, but not the obligation, to buy futures for a predetermined price in exchange for a premium paid in advance.   |

**B. Matching** – Match the number with the one best descriptor.  
(1 point each)



- 5   New Crop Futures
- 2   Carry
- 4   Inverted
- 1   Nearby Futures
- 3   Deferred

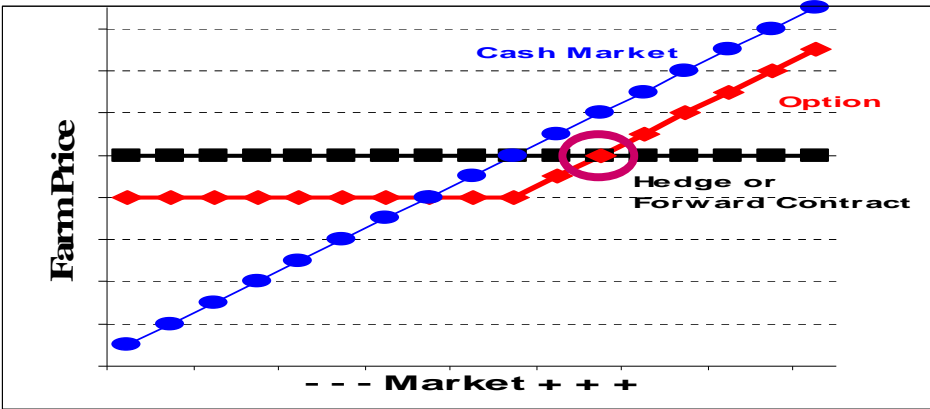
**C. True-False** Place a T or F in each blank. (1 point each)

1. The basis for corn and soybeans has no seasonal pattern.   F
2. On average since 1990, the summer months of June, July and August usually provide “seasonal high” for December corn and November soybean futures.   F
3. Cash-flow requirements for producing corn can vary from one farm to another by \$1.00 per bushel or more.   T
4. Arbitrage is an important part of a grain merchandiser’s job.   T
5. New ethanol plants in northwest Iowa appear to have strengthened the corn basis in that part of the state relative to the north central district.   T
6. Futures price movement in the month of March determines the Spring Base Price for crop insurance products like CRC, RA and GRIP.   F
7. Brazil alone produces more soybeans annually than does the U.S.   F
8. Corn prices on the east, west and southern coasts of the U.S. are higher than in Iowa because of transportation costs   T
9. The USDA Risk Management Agency pre-establishes the Spring Base Price for crop insurance products like CAT, MPCl and GRP.   T
10. If a producer forward prices new crop bushels for fall delivery, they should consider using a yield insurance product rather than a revenue product.   F

D. True-False Use the chart below and answer T or F in each blank. (1 point each)



**Comparing Marketing Alternatives:**



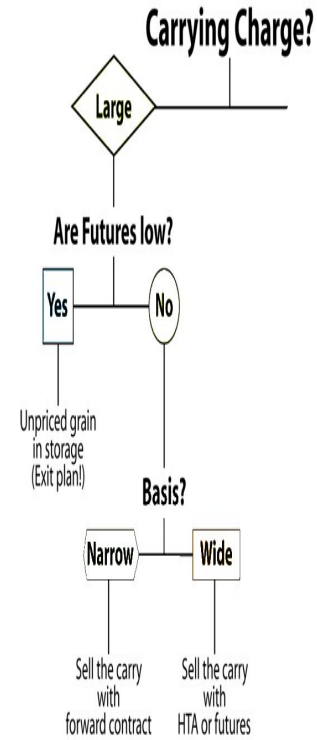
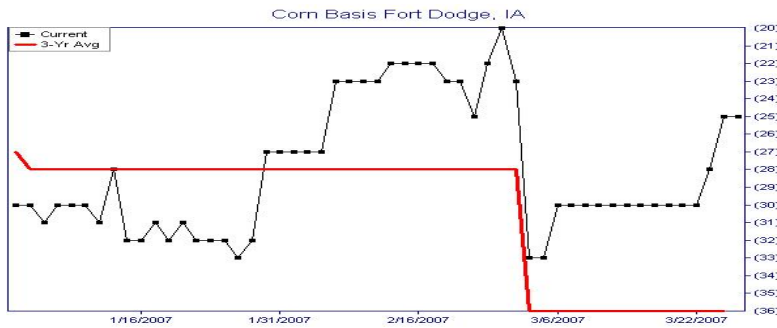
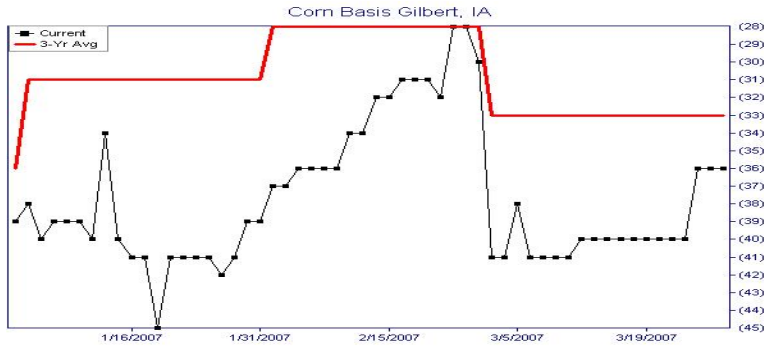
Iowa Farm Bureau Federation

1. The Cash Market depends totally on when the Farm Price decision made. T
2. The Hedge or Forward Contract appears the same, but basis might differ. T
3. The Option always exceeds the Hedge or Forward Contract Farm Price. F
4. The Option exceeds the Hedge or Forward Contract, but only if the futures market exceeds the original futures price when the Option was purchased plus the Option premium. T
5. If a Hedge is made at the highest futures price, the Option alternative will never exceed the Hedge. T

E. Fill in the Blank (each blank is worth 1 point)

1. Five major economic functions of the grain marketing system are:  
 Providing time utility  
 Providing form utility  
 Providing space utility  
 Financing and price / value discovery.
2. Arbitrage = Maximizing return over time & space.
3. The three components of the local grain price are cash, futures and basis.

**F. Problem Solving** (fill in the blanks worth 1/2 point each, problems worth 2 points each)  
 You plan to sell over the next 3 months 10,000 bushels of corn located on your farm 5 miles N. of Ames. Use the charts below and solve each problem based on March 28<sup>th</sup> prices. Calculate all answers on a per bushel basis.



Source: [www.cashgrainbids.com](http://www.cashgrainbids.com)

Source: U of MN, CFFM, 2006.

**Gilbert Cash Price**

- 1. Spot \$3.57
- 2. July Delivery \$3.69

**Futures Settlement Price**

- May \$3.89
- July \$3.98

**Calculate the Basis**

- .32
- .29

**Ft. Dodge Cash Price**

- 3. Spot \$3.64
- 4. July Delivery \$3.73

**Futures Settlement Price**

- May \$3.89
- July \$3.98

**Calculate the Basis**

- .25
- .25

5. Compare the transportation costs for hauling 10,000 bushels of corn 1 mile to Gilbert vs. 63 miles to Ft. Dodge (\$ .0047/bu/mile for up to 30 miles and \$ .0028/bu/mile for distances over 60 miles).

Gilbert = \$ .0047 or \$ .01 /bu

Ft. Dodge = \$ .1764 or \$ .18 /bu.

6. Include transportation costs and compare selling all 10,000 bushels at Gilbert vs. Ft. Dodge using today's spot bid minus transportation costs.

Gilbert = \$ 3.5653 or \$ 3.57 /bu

Ft. Dodge = \$ 3.436 or \$ 3.46 /bu.

7. Include transportation and monthly interest charges of \$ .022/bu. that will accrue the first of each month from April through June and compare selling all 10,000 bushels for July delivery at Gilbert vs. Ft. Dodge.

Gilbert = \$ 3.619 or \$ 3.62 /bu

Ft. Dodge = \$ 3.4876 or \$ 3.49 /bu.