

2004
STATE FARM BUSINESS MANAGEMENT CONTEST
MULTIPLE CHOICE
(Score 2 points per question)

Name _____ School _____

- _____ 1. An enterprise budget is:
- a. a physical and financial plan for the entire farm business for a specific period of time.
 - b. statement of projected costs and returns associated with one production process, usually for one production period.
 - c. the tools used in analyzing only changes in the farm operations and the potential change in net income.
 - d. record of past production performance.
- _____ 2. Renting land for cash rent rather than for production shares results in:
- a. more risk for the landlord and less risk for the tenant.
 - b. less risk for the landlord and more risk for the tenant.
 - c. more risk for both the landlord and the tenant.
 - d. less risk for both the landlord and the tenant.
- _____ 3. The formula for calculating breakeven price to cover total operating costs is:
- a. Total operating cost plus (Price times Yield) = 0
 - b. (Price times Yield) minus total operating costs = 0
 - c. (Price times Yield) minus (total operating costs plus total fixed costs) = 0
 - d. (Total operating costs plus total fixed costs) minus (Price times Yield) = 0
- _____ 4. As a farmer plants more acres of corn, which of the following costs is least likely to change?
- a. Average variable costs per acre
 - b. Total variable costs
 - c. Average fixed costs per acre
 - d. Average total costs per acre
- _____ 5. The workman's compensation law
- a. guarantees agricultural workers over 16 a minimum wage
 - b. provides for payments by an employer to an employee injured on the job
 - c. allows farm workers to pay income tax on only 50% of wages over a minimum level
 - d. stipulates certain fringe benefits to be paid to full-time agricultural workers

- ___ 6. When a farmer increases an investment in land, building, and equipment without increasing the total units of production, the cost per unit of production:
- decreases
 - increases
 - remains the same
 - varies with the operator
- ___ 7. If tea and coffee are substitutes, then an increase in the supply of coffee will:
- increase the demand for tea, all other things equal
 - decrease the supply of tea, all other things equal
 - decrease the demand for tea, all other things equal
 - not affect the demand for tea
- ___ 8. The process of finding the present value of a dollar to be received at some future date is known as:
- compounding
 - discounting
 - forwarding
 - ratio analysis
- ___ 9. A cost of production which does not vary with the level of total production and includes such items as depreciation, taxes, insurance, and interest on investment is called?
- a liability
 - a variable cost
 - total cost
 - a fixed cost
- ___ 10. The cost of using a resource in one way is the return that could be obtained from using it in its most profitable alternative use. This economic principle is
- Peter's principle
 - the principle of marginal substitutions
 - the law of diminishing returns
 - the principle of opportunity cost
- ___ 11. A secured loan includes a pledge of a borrower's:
- receipts
 - expenditures
 - liabilities
 - assets
- ___ 12. Agriculture is considered to more closely resemble perfect competition than any other industry because
- there are many producers
 - there is complete freedom to enter and leave the industry
 - knowledge of production and marketing is widely dispersed
 - farmers produce a homogeneous product
 - all above statements are correct

- ___ 13. A decrease in the value of the U.S. dollar relative to the currency of other countries should result in:
- more costly imports to the U.S.
 - less costly imports to the U.S.
 - increased exports to the U.S.
 - no effect on imports or exports.
- ___ 14. A demand curve shows the relationship between quantity purchased and:
- quality.
 - income.
 - supply.
 - price.
- ___ 15. Comparing the average retail price and the farm value of agricultural commodities allows one to determine the portion of each dollar spent at the retail level that farm and producers receive for agricultural commodities. The difference between retail value and the farm value is the:
- value of marketing services for the commodity.
 - profit.
 - net farm revenue.
 - farm to city transportation cost.
- ___ 16. The most important reason for a complete farm record keeping system should be:
- provide information for farm management decision making.
 - to settle insurance claims.
 - to meet the requirement for reporting hired labor.
 - for income tax reporting
- ___ 17. Which of the following is a deductible cost to the farm business?
- wages earned in an off-farm job
 - net farm profits
 - machinery depreciation
 - all of the above
- ___ 18. An example of a farm non-cash cost would be ...
- machinery operating expenses
 - cattle feed
 - herbicides
 - interest on the owner's equity
- ___ 19. In calculating accrual basis net income - the main adjustments made to cash basis income are adjustments made for ...
- family living expenses
 - inventory changes
 - principal payments on loans
 - changes in non-farm income

- ___20. Mr. Retteb is purchasing a used tractor for \$11,000. His dealer will finance the tractor under the following terms: 10 percent down payment with the balance repaid in equal payments over the next three years. The interest rate is 10 percent per year. Mr. Retteb expects the tractor to last for nine years and have a salvage value of \$1,000. How much interest will Mr. Retteb pay in the first year of the loan?
- \$ 330
 - \$ 990
 - \$1,100
 - \$3,300
- ___21. A cash flow budget projected for the next year can provide information on:
- projected borrowing requirements and repayment ability
 - return to the farm operator's labor and management
 - net worth of the farm business
 - rate of return on the farm investment
- ___22. A business is "solvent" if:
- total receipts exceed total expenditures
 - total debt exceeds total equity
 - total sales exceed total cash expense
 - total assets exceed the total liabilities
- ___23. Good tax management is:
- paying no more than the legal minimum
 - evading the payment of tax owed
 - paying a little more than you actually owe
 - failing to report all your income
- ___24. Which term is used to describe a "Civil Wrong" which causes damage to another person or their property?
- warrant liability
 - assault liability
 - tort liability
 - negligent liability
- ___25. What is the role of the Judicial system in regard to laws affecting agricultural businesses?
- interpreting the meaning of laws
 - enforcing laws
 - debating and establishing laws
 - all of the above
- ___26. Which of the following must be proven to sue another person for negligence?
- damages were suffered
 - damages were caused by other person's actions
 - other person's actions were not reasonable
 - all of the above

- ____ 27. The advantages of making out a will are
- guardians can be named for surviving children
 - each member of the family can be provided for as you see fit
 - prevention of all estate taxes
 - both a and b
- ____ 28. How many acres are in the SW-1/4 of the NE-1/4 of a section of land?
- 160 acres
 - 40 acres
 - 20 acres
 - 10 acres
- ____ 29. Fuel tax is an example of a
- property tax
 - progressive tax
 - vender tax
 - use tax
- ____ 30. Income taxes which are assessed at a higher percentage on higher income is called
- flat
 - progressive
 - regressive
 - natural
- ____ 31. An insurance premium is:
- the payment one makes as a policy holder in agreement with the policy for insurance
 - the amount the insured person receives in case he sustains the loss for which he is insured against
 - generally regarded as a variable cost of production
 - none of the above
- ____ 32. Livestock, land, and other personal property used to secure the loan are known as:
- collateral
 - amortization
 - mortgages
 - principle
- ____ 33. Crop insurance provides a means of:
- lowering costs
 - reducing risks
 - increasing profits
 - increasing working capital
- ____ 34. The "Principle of Diminishing Returns"
- provides a good "Rule of Thumb" to apply to over-management.
 - gives the farm manager some indications as to most efficient resource use.
 - can be applied to almost any problem in farm income tax management
 - applies only to problems concerning fertilizer use.

- ___ 35. It is profitable for a farmer to borrow money to expand his farm business when the borrowed money:
- will increase volume of business
 - can improve the level of production
 - can be secured at a low interest rate
 - returns more than the cost of borrowing money
- ___ 36. You have secured a loan and now have the money to buy one complete section of Minnesota farm land, how many acres would you actually be buying?
- 360 acres
 - 640 acres
 - 960 acres
 - 1280 acres
- ___ 37. If quantity supplied changes by 10% when price changes by 20%, the price elasticity of supply is:
- 0.5
 - 5
 - 50
 - 2
- ___ 38. A farmer that wants to have the right, but not the obligation, to sell a futures contract for a commodity at a specified price level would use a:
- cash forward contract.
 - call option.
 - put option.
 - basis contract.
- ___ 39. The price where consumers are willing and able to buy all that the producers are willing and able to supply to the market is called the:
- opportunity price.
 - strike price.
 - equilibrium price.
 - risk-free market price.
- ___ 40. Westend Poultry Farms, raises three million broilers annually. In addition, Westend Poultry Farms owns the mill which provides feed for the birds, owns the processing facility, and markets the dressed birds to retail grocery stores. This type of business structure is known as:
- horizontal integration.
 - vertical integration.
 - a marketing cooperative.
 - a supply cooperative.

- ___ 41. The price of beef is determined by the supply of beef and the demand for beef. A change in price occurs when the demand for beef increases or decreases even though the supply remains constant. Which of the following causes a change in the demand for beef?
- Decrease in cattle numbers.
 - Increased income of consumers.
 - Increased number of beef cattle producers.
 - Increased cost of producing beef.
- ___ 42. Which type of business would distribute patronage refunds?
- individual proprietorship
 - cooperative
 - limited partnership
 - corporation
 - partnership
- ___ 43. A market that consists of many buyers and sellers trading in a uniform commodity such as wheat or corn is called:
- a monopoly.
 - pure competition.
 - monopolistic competition.
 - an oligopoly.
- ___ 44. If the demand response for a product changes less than the changes in price, the demand is:
- neutral.
 - elastic.
 - inelastic.
 - unitary.
- ___ 45. Due to favorable weather conditions, a larger than normal crop of grain is produced. This will result in a shift of the:
- supply curve downward to the right and a higher price.
 - supply curve downward to the right and a lower price.
 - supply curve upward to the right and a higher price.
 - demand curve downward to the left and a lower price.
- ___ 46. A farm businesses projected cash flow includes:
- cash income, cash expenses and debt payments
 - expenses, inventories and debt payments.
 - debt payments and expenses
 - projected incomes, debt payments and expenses
- ___ 47. An advantage of making life insurance policies payable to an estate is:
- provide liquid funds to satisfy tax liability
 - provide insurance protection to heirs
 - decrease size of your estate
 - reduce estate tax liabilities

- ___ 48. A plan designed to create the desired economic and legal consequences in disposition of one's estate
- 1996 Tax Reform Act
 - estate planning
 - retirement plan
 - trust
- ___ 49. If the Crabtree's decide to use the futures markets to hedge the price of cattle to be sold in the future, they would initially:
- sell futures contracts expecting to sell more contracts when the cattle are sold.
 - sell futures contracts expecting to buy them back when the cattle are sold.
 - buy futures contracts expecting to sell the contracts when the cattle are sold.
 - buy futures contracts expecting to buy more contracts when the cattle are sold.
- ___ 50. The Crabtree's plan on buying 20 tons of soybean meal in May of next year. The meal will be fed to the cattle throughout the year. It is now August and the Crabtree's expect the price of soybean meal to increase significantly by next May. What should the Crabtree's do to provide some protection from the increasing price of soybean meal?
- Buy May soybean meal futures contracts today, expecting to sell them in May.
 - Buy August soybean meal futures contracts.
 - Sell May soybean meal futures contracts today, expecting to buy them back in August.
 - Sell August soybean meal futures contracts today, expecting to sell them in May.

**KEY FOR THE
2004 STATE FARM MANAGEMENT CDE
MULTIPLE CHOICE (2 POINTS/EACH)**

1	B
2	B
3	B
4	A
5	B
6	B
7	C
8	B
9	D
10	D
11	D

26	D
27	D
28	B
29	D
30	B
31	A
32	A
33	B
34	B
35	D
36	B

12	E
13	A
14	D
15	A
16	A
17	C
18	D
19	B
20	B
21	A
22	D
23	A
24	C
25	A

37	A
38	C
39	C
40	B
41	B
42	B
43	B
44	C
45	B
46	A
47	A
48	B
49	B
50	A