



Final Exam Review

AAE 320

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Final Exam

Saturday Dec 18, 2021

2:45 PM – 4:45 PM

2317 ENGINEERING HALL

USUAL CLASSROOM

Goal

Explain what to expect for final exam

Overview new topics since last exam

Idea of how to study

Course Overview

Introduction **Exam 1**

Production Economics **Exam 1**

Farm Finance **Exam 2**

Taxes and Business Arrangements **Exam 2**

Ag Policy

Commodity Programs

Crop Insurance

New

New Topics: Ag Policy

Introduction to Federal Support of US Agriculture

Commodity Programs

Crop Insurance

Intro to Federal Support of US Ag

- Introductory lecture
- Stylized Facts about US government spending
 - Good for true false or short answer
- Where does agricultural support fit into overall spending
- Farm Bill
 - Major spending categories and relative size
- What about COVID support?

Commodity Support Programs

Know basic idea of how each program works

- Price Loss Coverage (PLC)
- Agriculture Risk Coverage (ARC)
- Marketing Assistance Loans (MAL)
- Loan Deficiency Payments (LDP)
- Dairy Margin Coverage (DMC)
- **Problem Set #7**

Commodity Support Programs

- Eligibility: How do you get these payments?
 - What agency?
- What triggers payments?
 - Given facts, calculate payment (Prob Set #7)
- What changes payments?
 - How payment changes under different circumstances (Prob Set #7)

Commodity Support Programs

- Terms to know:
 - Base Acres, Payment Yield, Reference Price, County Revenue Guarantee, Loan Rate, National Marketing Year Average Price, Posted County Price, Milk Margin Guarantee
- Problem Set # 7 a good guide to the types of problems
- See slides for general facts to know, especially on MFP & CFAP
- For ARC, do not worry about how to calculate county revenue guarantee, just how it works once the guarantee is known

Crop Insurance

Crop Insurance Programs

- Yield vs. Revenue Insurance Coverage
- Individual vs. Area-wide Coverage
- YP, RP, AYP, ARP
- How RP-HPE (harvest price exclusion) works differently than “regular” RP policy

Farmer choices

- Coverage Level, Price Election, Unit Structure

Crop Insurance

- Given the facts, know how to calculate indemnities
- What triggers payments?
- What circumstances change payments?
- **Problem Set #8** for type of problems to expect
- Typical Wisconsin practices (stylized facts)
 - Farmer participation rates in crop insurance
 - What policy type, coverage level, price election, and unit structure do most Wisconsin farmers use?

Crop Insurance

Where do you buy crop insurance?

Crop insurance subsidies and premiums

- What subsidization of premiums means for farmer returns

Policy options: RP-HPE, SCO and ECO

Crop insurance stylized facts

- Good for true/false & short answer questions

Key Concepts to Know: Exam 1

- 1) Overview of WI Ag, The US Food System: Stylized facts
- 2) Partial Budget Analysis: Simple case
- 3) Single Input Optimality
 - How much input to use: Value of Marginal Product = Input Price
 - Able to apply in table and calculus formats
 - **No multiple input production problem in table or calculus**
- 4) Cost Economics: Stylized facts
 - Old exams have Average Cost, Marginal Cost, Supply Curve: we did not cover
- 5) Nitrogen in Agriculture, The More-on Principle: Stylized facts

Key Concepts to Know: Exam 2

1) Depreciation Methods

- Straight Line, IRS Method

2) Financial Analysis

- Read a Balance Sheet and Income Statement and to calculate and interpret current ratio, debt to asset ratio, returns and rates of return, profit margins
- Issues: cost vs market basis, cash vs accrual accounting

3) Dairy Farming in Wisconsin, Inelasticity in Agriculture

Stylized facts for True/False or short answer

Key Concepts to Know: Exam 2

Focus on the issues that stay the same, not details that vary

- Don't worry about % rates, annual/lifetime exclusion amounts

Types of Taxes: Ordinary income, self-employment, capital gain, gift

Basic idea of how taxes work: Revenue minus Costs

- Benefit of Section 179 Depreciation

Gain = Sale Price – Basis

- What triggers recognition of gain?
 - Sell/buy or give/receive assets?
 - Contribute to or remove from LLC or Corporation
- Why does Basis change? (Death, Depreciation)

Key Concepts to Know: Exam 2

Types of Business Arrangements

- Sole proprietor, partnership, corporation (C or S), limited liability company (LLC)
- Main differences: Formation, Taxation, Liability

Exam Study

Use old exams to understand what to expect

- Some have material we did not cover (e.g., AC, MC)

New material an important focus

- Problem Set #7 and #8
- See slides above for key concepts and stylized facts

Comprehensive Exam

- Focus on Key Concepts; Big picture, not details
- Basic things to remember 5 years from now