



# Final Exam Review

AAE 320

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# Final Exam

Saturday Dec 17, 2022

10:05 AM – 12:05 PM

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1120 BIOCHEMISTRY

THE USUAL CLASSROOM

# Goal

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Explain what to expect for final exam

Overview new topics since last exam

Idea of how to study

# Course Overview

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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

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Introduction to Federal Support of US Agriculture

Commodity Programs

Crop Insurance

# Intro to Federal Support of US Ag

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- 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
- COVID support compared to “regular” Farm Bill support?

# Commodity Support Programs

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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

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- Eligibility: What makes you eligible to even apply/enroll?
  - What agency?
- What triggers payments?
  - Given facts, calculate payment (Prob Set #7)
- What changes payments?
  - How payments change under different circumstances (Prob Set #7)



# Commodity Support Programs

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- 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

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## 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

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- 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

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Where do you buy crop insurance?

Crop insurance subsidies and premiums

- What does 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
- Don't worry about DRP, MPP, WFRP, CAT, PRF, ...

# Key Concepts to Know: Exam 1

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- 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

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## 1) Depreciation Methods

- Straight Line, IRS Method

## 2) Financial Analysis

- Read a Balance Sheet and Income Statement and 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

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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

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## Types of Business Arrangements

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



# Exam Study

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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 Sets #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