Texas Risk Management Education Program

MCC - 6

Marketing Club Pre-Test

Designed to assess the educational value of membership in a Marketing Club

Your participation in the pre-test is essential to the future development of the Marketing Club concept. All individual responses will remain confidential and will only be reported in summary form. If you have any questions or concerns about this survey, please call Dean McCorkle at 979-845-1861 or Emmy Williams at 979-845-8011. Your participation in this evaluation effort is greatly appreciated.

To be given to marketing club participants at their first or second club meeting.

County: ______________________________

Your Name: ______________________________

Address: ______________________________

____

Town/St/Zip : ______________________________

Today's Date: ____/___/____

Attention: Extension Agent or Club Leader

When the pre-tests are completed, please mail them to:

Emmy Williams
Texas AgriLife Extension Service
Department of Agricultural Economics
TAMU 2124
College Station, TX 77843-2124

If there are questions that you absolutely do not know the correct answer, please choose "I don't know." This helps to avoid overstating your knowledge level by sometimes guessing the correct answer.

Section I - Marketing Knowledge Questions

Circle the correct answer:

1. What is the definition of basis?

   a. Futures price minus local cash price
   b. Local cash price minus futures price
   c. Difference between the nearby futures contract and the harvest futures contract
   d. The difference between the futures price and the terminal price
   e. I don't know

2. The possible affect on the local basis if there was a very large harvest in a local area is:

   a. Basis could strengthen due to increased local supply
   b. Supply has no affect on basis
   c. Basis could weaken due to oversupply and possible storage problems
   d. None of the above
   e. I don't know

3. What is the definition of a hedge?

   a. Taking a futures position equal and opposite to one's cash market position
   b. Gives the buyer the right to buy the underlying futures contract at the strike price
   c. The difference between the cash price and futures price
   d. None of the above
   e. I don't know

4. The benefit that speculators provide to the market is to:

   a. Increase the number of potential buyers and sellers in the market
   b. Add liquidity to the market
   c. Aid in the process of price discovery
   d. All of the above
   e. I don't know

5. How are most futures transactions settled?

   a. By delivery of the commodity
   b. By offsetting the initial position
   c. After the contract expires
   d. By making a margin call
   e. I don't know

6. The purpose of margin money when trading futures contracts is:

   a. To pay for brokerage fees
   b. Serve as a down payment
   c. Serve as a performance bond
   d. Limit the use of credit in buying commodities
   e. I don't know

7. Fundamental analysis is:

   a. The study of chart formations
   b. The study of supply and demand
   c. Analyzing the financial condition of a producer
   d. Analyzing the market psychology
   e. I don't know

8. What is meant by a seasonal price trend?

   a. The tendency of cash markets to move with futures markets
   b. The tendency of markets to move relative to the seasonal nature of crop production and harvesting
   c. When a futures price closes two consecutive days above the trend line
   d. When a futures price makes a high, then trends lower
   e. I don't know

9. After buying an option, the option buyer can:

   a. Let the option expire
   b. Exercise the option
   c. Sell the option
   d. Any of the above
   e. I don't know

10. Option premiums are comprised of:

    a. Time value, if any
    b. Intrinsic value, if any
    c. The strike price and brokerage fee
    d. The sum of (a) and (b)
    e. I don't know

11. Futures prices are arrived at by:

a. Brokers
b. Written and sealed bids among exchange members
c. Open outcry of bids and offers in an exchange trading pit
d. Floor traders
e. I don't know

12. An option can be exercised by:

a. The option buyer
b. The option seller
c. Both
d. Neither
e. I don't know

13. Upon exercise, the buyer of a put option:

a. Acquires a long position
b. Acquires a short position
c. Must pay the premium
d. I don't know

14. The premise that makes hedging possible is that cash and futures prices:

a. Move in opposite directions
b. Generally move in the same direction by about the same amount
c. Move upward and downward by identical amounts
d. Are regulated by the futures exchanges
e. I don't know

15. A put option has intrinsic value if its strike price is:

a. Below the futures price
b. Is undervalued
c. Above the futures price
d. I don't know

16. In March, a corn farmer purchased a September corn put option with a strike price of \$2.40/bu. The cost (premium) of the option was \$0.15. What is the producer's net price received if the September futures price is \$2.60 and the basis is -\$0.10/bu. on the day the hedge is lifted and the corn is sold?

    a. \$2.65
    b. \$2.15
    c. \$2.35
    d. \$2.50
    e. I don't know

17. Which of the following is true for a hedger:

    a. A hedger can only sell futures contracts
    b. A hedger either owns a cash commodity or intends to at some future date
    c. A hedger does not own, and does not intend to own, a cash commodity
    d. A hedger deals with options only
    e. I don't know

18. Which of the following demonstrates a weakening basis?

    a. The cash price decreases <u>more</u> relative to the decrease in the futures price
    b. The cash price decreases <u>less</u> relative to the decrease in the futures price
    c. Cash price holding constant while the futures price increases
    d. All of the above
    e. Both (a) and (c)
    f. I don't know

19. A producer of a commodity strictly trying to protect against declining prices could:

    a. Buy a futures contract or sell a put option
    b. Sell a futures contract or buy a put option
    c. Use a forward contract
    d. Either (b) or (c)
    e. Either (a) or (c)
    f. I don't know

20. A rancher is hedging the purchase of feeder cattle by buying a call option with a strike price of \$84.00/cwt. The premium cost is \$2.00/cwt. On the day the rancher lifts the hedge and purchases the cattle, the futures price is \$81.20/cwt. The net price paid (including gain/loss on the option) is \$79.20. What was the basis?

    a. -\$2.80
    b. +\$4.80
    c. \$0.00
    d. -\$4.00
    e. +\$0.80
    f. I don't know

Section II - Current Marketing Practice

	(circle one)	
1. Do you have a marketing plan?	Yes	No
2. Do you have a written marketing plan?	Yes	No
3. Do you share your marketing plan with someone else?	Yes	No
4. Do you determine costs of production for different commodities and use those costs to set price targets?	Yes	No
5. Do you build profit and/or growth needs into your price targets?	Yes	No

Section III - Risk Management Tools and Strategies

1. How would you rate your knowledge of <u>fundamental analysis</u> in developing your personal market outlook? (please answer both questions) Poor 1 2 3 4 5 6 7 Excellent		
Do you know when the use of this tool is appropriate?	Yes	No

2. How would you rate your knowledge of <u>technical analysis</u> in developing your personal market outlook? (please circle one) Poor 1 2 3 4 5 6 7 Excellent		
Do you know when the use of this tool is appropriate?	Yes	No

3. How would you rate your knowledge of <u>forward cash contracting</u>? (please circle one) Poor 1 2 3 4 5 6 7 Excellent		
Do you know when the use of this tool is appropriate?	Yes	No

4. How would you rate your knowledge of <u>basis contracts</u>? (please circle one) Poor 1 2 3 4 5 6 7 Excellent		
Do you know when the use of this tool is appropriate?	Yes	No

5. How would you rate your knowledge of <u>minimum price contracts</u>? (please circle one) Poor 1 2 3 4 5 6 7 Excellent		
Do you know when the use of this tool is appropriate?	Yes	No

6. How would you rate your knowledge of <u>hedging with futures</u>? (please circle one) Poor 1 2 3 4 5 6 7 Excellent		
Do you know when the use of this tool is appropriate?	Yes	No

7. How would you rate your knowledge of <u>hedging with options</u>? (please circle one) Poor 1 2 3 4 5 6 7 Excellent		
Do you know when the use of this tool is appropriate?	Yes	No

Section IV - Profile information

What is your age?	_____years
How long have you been a principal farm operator?	_____years

What is your highest education level completed? (please check one)	
Some high school	_____
High school graduate	_____
Vocational/technical school	_____
Some college	_____
Bachelor's degree	_____
Some graduate school	_____
Advanced or professional degree	_____

On average, what percent of your work time do you spend on: *(percentages should add to 100%)*	
Production	_____ %
Farm/ranch management	_____ %
Marketing	_____ %
Off-farm employment	_____ %
Other	_____ %
Total	*100%*

What is the structure of your farm business? (please check all that apply)	
Sole proprietorship	_____
Partnership	_____
Corporation	_____
Estate	_____
Trust	_____