On my honor, as an Aggie, I have neither given nor received unauthorized aid on this academic work.

Signature: ________________________________ Seat #: ________________

Printed Name: ______________________________

Agricultural Economics 429
Fall 2010 Exam #2

1. ________

2. ________

3. ________

4. ________

5. ________

Total ________

1a. (6 pts.) Answer the following question as it relates to corn payments in the 2002 farm bill assuming:

the target price is $3.00/bu
the marketing loan rate is $2.00/bu
the direct payment rate is $0.25/bu
market price for corn of $1.75/bu

If the market price increases by $1.00/bu to $2.75/bu, what would be the impact on counter-cyclical payments, direct payments, and marketing loan gains/loan deficiency payments? (i.e. CCPs go from xx to xx, etc)

CCPs –

DPs –

MLG/LDPs -

1b. (4 pts.) Why did Texas farmers choose not to update their base acres when given the opportunity under the 2002 farm bill even though there was a coverage gap?

1c. (5 pts.) Why would our international competitors dislike the nonrecourse marketing loan more than the nonrecourse loan?

2a. (4 pts.) In the 1990 Farm Bill the carrot and stick approach were used. What were the carrot and stick that were used and why were they used?

2b. (6 pts.) Why was the 2002 farm bill considered a step back from decoupling?

2c. (12 pts.) What were the primary reasons the 1996 farm bill was called a watershed change in agricultural policy? Why is it considered a failure?

2d. (3 pts.) What exactly is a loan deficiency payment/marketing loan gain?

Write the letter corresponding to the most appropriate answer in the blank provided:

________**3a**. (4 pts.) If the 2002 Farm Bill expires without another bill in its place, U.S. farm policy would revert back to:

A. The 1933 Agricultural Adjustment Act
B. The 1949 Agricultural Adjustment Act
C. Prices supported at parity levels
D. Both A and C
E. Both B and C

________**3b.** (4 pts) Which Farm Bill was the first to allow planting flexibility?

A. 1990
B. 1996
C. 2002
D. All of the above
E. None of the above

________**3c.** (4 pts) Which Farm Bill utilized the nonrecourse marketing loan?

A. 1990
B. 1996
C. 2002
D. All of the above
E. None of the above

________**3d**. (4 pts) If a target price and nonrecourse marketing loan program are in effect for corn which of the following has to be true?

A. The market will clear
B. There will be CCC purchases
C. There will be a deficiency payment paid to producers
D. All of the above
E. None of the above

________**3e**. (4 pts) What are the reasons why farmers have resisted government program changes?

A. The fear of the unknown
B. Program changes affect land values through capitalization
C. Adjustments in farm operations arising from program changes tend to be costly
D. All of the above
E. None of the above

________**3f**. (4 pts) If a target price and nonrecourse loan program are in effect for corn and CCC stocks are being accumulated, what is the level of the market price?

A. The market price is higher than the loan rate
B. The market price is lower than the loan rate
C. The market price is equal to the loan rate
D. None of the above

_______**3g.** (4 pts) What is the basic difference between the target price and loan rate?

A. The loan rate can be used for both price and income support while the target price is only used for income support

B. The target price can be used for both price and income support while the loan rate is only used for income support

C. The loan rate can be used for both price and income support while the target price is only used for price support

D. None of the above

_______**3h.** (4 pts) Which commodity indirectly benefits from U.S. commodity programs?

A. Milk

B. Honey

C. Beef

D. Fruit and Vegetables

_______**3i.** (4 pts) What makes a good safety net policy?

A. All producers both domestic and international are better off

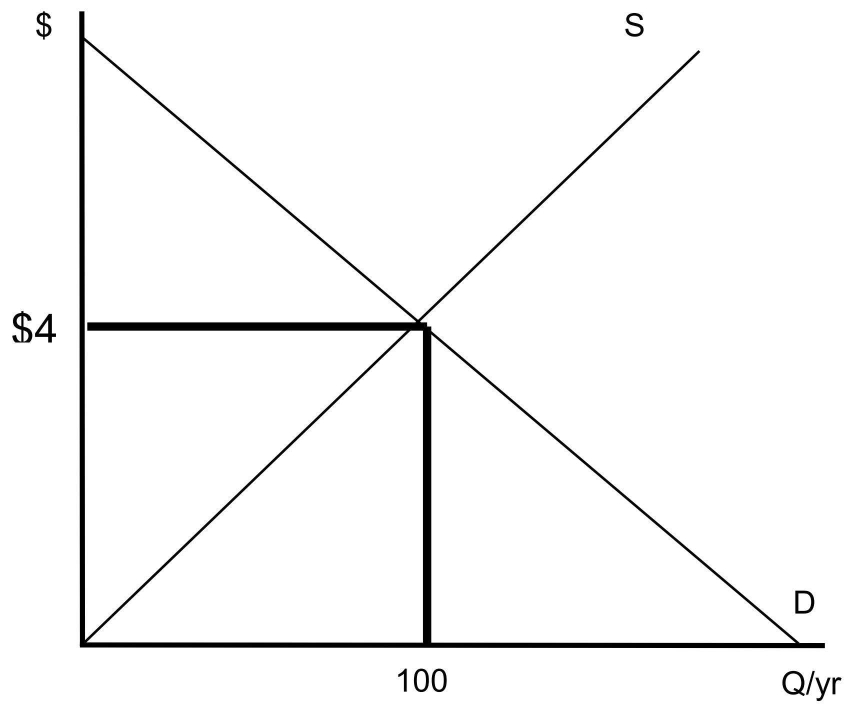
B. At least domestic producers are better off

C. Domestic consumers and producers are better off

D. Whether a safety net policy is good is in the eyes of the beholder

4a. (6 pts.) Given the initial situation of no government programs and price $P_0 = \$4$ and quantity demanded and supplied at $Q_0=100$. If the government wanted producers to receive \$5 per unit of production but did not want to burden taxpayers what policy tool would be most appropriate? ______________________________

Indicate how your suggested policy tool would work on the graph below.



4b. (2 pts.) How would your answer above change if you wanted to make domestic consumers happy and government spending was not constrained?

5. (19 pts.) Label the exporting and importing countries below.

A. On the graph below indicate the:

- the free trade quantities supplied and demanded in each country as QDFT and QSFT

B. Now assume that an effective import tariff is employed

- label the resulting prices in each country PES
- label the resulting quantities supplied and demanded in each country as QDES and QSES
- indicate the prices and quantity traded in the trade sector as PES and QES

C. Relative to the free trade situation indicate whether the effect imposing an export subsidy would have on:

- Exporting country producers

- Exporting country consumers

- Importing country producers

- Importing country consumers