

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 Final Exam**

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

4. \_\_\_\_\_

5. \_\_\_\_\_

**Total** \_\_\_\_\_

**1a.** (5 pts.) Evaluate the following statement. “The 2008 farm bill made significant strides in limiting farm program payments.” Your evaluation should include whether you agree or disagree and provide support for your answer.

**1b.** (5 pts.) It was mentioned in class that Senators often have a broader perspective on policy issues than members of the House of Representatives? Why?

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

\_\_\_\_\_ **2a.** (2 pts.) Why has the use of revenue insurance policies increased so much in recent years?

- A. Higher subsidies from the government
- B. Lack of a permanent disaster program
- C. Prices of commodities have increased
- D. Both A and C
- E. Both B and C

\_\_\_\_\_ **2b.** (2 pts.) The Delaney Clause:

- A. Proved unworkable due to improved technology
- B. Sets a “de minimus” level of cancer risk tolerance
- C. Sets a zero tolerance level of cancer risk
- D. Both A and C
- E. Both B and C

\_\_\_\_\_ **2c.** (2 pts.) Which of the following groups would likely support the reduction in CRP acreage?

- A. National Cattleman’s Beef Association
- B. National Association of Fertilizer Dealers
- C. Renewable Fuels Association
- D. All of the Above
- E. None of the Above

\_\_\_\_\_ **2d.** (2 pts.) A lot of the controversy surrounding crop insurance relates to:

- A. The loss ratios
- B. Its viability as a private good
- C. The amount of subsidies
- D. Both A and C
- E. Both B and C

\_\_\_\_\_ **2e.** (5 pts) One of the characteristics of agricultural and food policy is?

- A. Changes are made in small increments
- B. Changes are drastic from farm bill to farm bill
- C. There are very few changes
- D. None of the Above
- E. All of the above

\_\_\_\_\_ **2f.** (2 pts.) Changes to which of the following would cause movement along a demand curve, rather than a change (shift) in demand?

- A. Income
- B. Population
- C. Own Price
- D. Taste and Preferences

\_\_\_\_\_ **2g.** (2 pts) Which commodity directly benefits from U.S. commodity programs?

- A. Milk
- B. Pork
- C. Beef
- D. Fruits and Vegetables

\_\_\_\_\_ **2h.** (2 pts.) Current payment limit laws do not appreciably reduce payments because:

- A. Most farms are not large enough to trigger limits
- B. Direct attribution works well
- C. No limit on marketing loan benefits
- D. Both A and C
- E. None of the Above

\_\_\_\_\_ **2i.** (4 pts.) Which of the following is false regarding crop insurance:

- A. Lenders don't care about crop insurance
- B. Crop insurance keeps people farming in marginal areas
- C. Midwest producers feel their premiums subsidize producers in marginal areas
- D. Ad hoc disaster assistance serves as a disincentive to purchase insurance
- E. Many farmers feel crop insurance doesn't pay

\_\_\_\_\_ **2j.** (2 pts.) Which of the following is NOT one of the functions of Congress?

- A. Oversight of the Executive Branch
- B. Authorization of Legislation
- C. Appropriation of Spending dollars
- D. Execution of Laws

\_\_\_\_\_ **2k.** (2 pts) If an ARP of 5% is in place for cotton, which of the following has to be true?

- A. There will be slippage
- B. Commodity prices will be higher than without the ARP
- C. This refers to a 1990 farm bill policy
- D. All of the above
- E. None of the above

\_\_\_\_\_ **2l.** (2 pts) Who are the major players in agriculture's iron triangle?

- A. Interest groups, Farmers, Legislative Branch
- B. Lobbyists, Legislative Branch, Executive Branch
- C. Farmers, USDA, Legislative Branch
- D. None of the Above
- E. All of the above

\_\_\_\_\_ **2m.** (2 pts) Which of the following policy tools discussed in class are counter-cyclical?

- F. Marketing loan gains/LDPs
- G. Deficiency payments
- H. Dairy price support purchases
- I. All of the above
- J. None of the above

\_\_\_\_\_ **2n.** (2 pts) Which of the following are true about policy and programs:

- A. Programs implement policy.
- B. A policy is a broad guiding principle for action.
- C. It is not important whether the Congress shares the President's policy vision.
- D. All of the above
- E. None of the above

**3a. (5 pts.)** If the price of corn in equilibrium is \$4.00 per bushel and the quantity supplied equals quantity demanded at 500 bushels. What would happen to quantity demanded if the price fell by 50% to \$2.00 per bushel assuming the demand elasticity is  $-0.8$ ? Show your work.

**3b. (6 pts.)** Answer the following question as it relates to corn payments in the 2002 Farm Bill assuming:  
the target price is \$5.00/bu  
the marketing loan rate is \$3.00/bu  
the direct payment rate is \$0.50/bu  
market price for corn of \$2.00/bu

If the market price increases by \$1.50/bu to \$3.50/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)

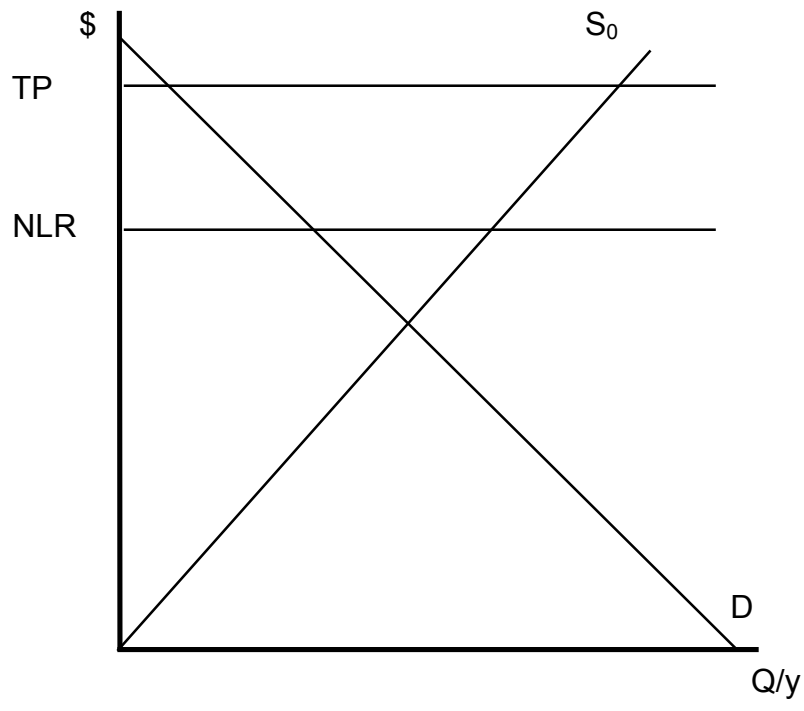
CCPs –

DPs –

MLG/LDPs -

**3c. (10 pts.)** The policy process has been described as a lot like making sausage. Why? Why is it so important to understand how policy is made? What is the most important factor that determines whether a person supports a particular policy or not?

- 4a.** (6 pts.) What is meant by the term omnibus farm bill? What is the connection between this term and the structure of USDA?
- 4b.** (6 pts.) In crop insurance terms, what does a loss ratio of .25 mean? Are these farmers being subsidized by farmers in other states or are they subsidizing other states' farmers?
- 4c.** (10 pts.) Given the initial situation of a target price and nonrecourse loan rate. Indicate where the market price, quantity supplied and demanded, government stocks and farmer payments would be on the graph below. Now convert the loan to a nonrecourse marketing loan and indicate where the market price, quantity supplied and demanded, government stocks and farmer payments would be on the graph below.



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 quota is employed

- label the resulting prices in each country PIQ
- label the resulting quantities supplied and demanded in each country as QDIQ and QSIQ
- indicate the prices and quantity traded in the trade sector as PIQ and QIQ

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

- Exporting country producers
- Exporting country consumers
- Importing country producers
- Importing country consumers

