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 2016 Exam #2**

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

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

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

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

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

6. \_\_\_\_\_\_\_\_

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

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

the target price is $4.00/bu

the marketing loan rate is $2.50/bu

the direct payment rate is $0.50/bu

market price for corn of $2.25/bu

If the market price increases by $1.00/bu to $3.25/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.** (9 pts.) Why would consumers of commodities and the U.S. government prefer the nonrecourse marketing loan more than the nonrecourse loan? What is the primary factor discussed in class that will determine whether the U.S. government prefers paying MLGs/LDPs versus purchasing stocks off the market?

**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 are critics of agriculture trying to cut crop insurance spending?  What is National Crop Insurance Services (NCIS) doing to combat its vocal critics?

**2c.** (8 pts.) What were the primary reasons the 1996 farm bill was called a watershed change in agricultural policy? Why is it considered a success and failure?

**3a.** (6 pts.) The 2008 Farm Bill gave producers a choice of farm programs. Name the choice options. If a producer was extremely risk adverse which option would they choose and why?

**3b.** (6 pts.) Why was the 2002 farm bill considered a step back from decoupling?

**3c.** (6 pts.) Evaluate this statement by answering true or false and providing support. “farming in the U.S. is easy… anybody can do it.”

**4a.** (6 pts.) Define parity prices and describe how they are related to making sure that a new farm bill gets passed when the old one is about to expire.

**4b**. (6 pts.) In 2011, Texas had a loss ratio of 2.5.  Define what this number means.  For 7 out of the last 10 years in Texas, losses have been greater than premiums collected.  How can crop insurance companies afford to write multiple peril policies in Texas facing such risk?

**4c**. (4 pts.) Why did Mr. Nunley with South Texas Cotton and Grain say that the drought greatly reduced the amount of money his association brought in?

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

\_\_\_\_\_\_\_5**a.** (3 pts) Which Farm Bill was the last to have production controls?

1. 1996
2. 2002
3. 1990
4. 2008
5. None of the above had production controls

\_\_\_\_\_\_\_5**b**. (3 pts) If a target price and nonrecourse loan program are in effect for corn which of the following HAS to be true?

1. There will be an effective price floor in place
2. There will be CCC purchases
3. There will be a deficiency payment paid to producers
4. All of the above
5. None of the above

\_\_\_\_\_\_\_5**c**. (3 pts) If an ARP of 5% is in place for cotton, which of the following HAS to be true?

1. This refers to a 1996 farm bill policy
2. There will be slippage
3. Commodity prices will be higher without the ARP
4. All of the above
5. None of the above

\_\_\_\_\_\_\_**5d.** (3 pts) Which of the following programs is the least liked by our international competitiors?

1. ARP program
2. Direct payments
3. Nonrecourse Marketing loans
4. Recourse loans
5. None of the above

\_\_\_\_\_\_\_**5e.** (3 pts) What is the basic difference between the target price and loan rate?

1. The target price can be used for both price and income support while the loan rate is only used for income support
2. The loan rate can be used for both price and income support while the target price is only used for price support
3. Under certain circumstances each can be both price and income support
4. None of the above

\_\_\_\_\_\_\_**5f.** (3 pts) In Ag Policy it is important to remember that whether a policy is good or bad:

1. Depends on whether it is favored by the part in control of the White House
2. Depends on how much money is provided to farmers
3. Is in the eye of the beholder
4. All of the above
5. None of the above

\_\_\_\_\_\_\_5**g.** (3 pts) What was one of the main things farmers had to consider before signing up for ACRE?

1. Whether the potential ACRE payments made up for the loss of the marketing loan
2. Whether the potential ACRE payments made up for the loss of certain support
3. Whether the potential ACRE payments made up for having to idle base acres
4. None of the above

\_\_\_\_\_\_\_**5h.** (3 pts) In farm policy the term safety net refers to providing protection against fluctuations in prices, production, and incomes through:

1. Income supports
2. Price supports
3. Risk management programs
4. All of the above
5. None of the above

Place a T (for True) or F (for False) in the space provided based on your assessment of each statement below.

1 point each)

**6a. \_\_\_\_\_\_** The ACRE program had a dual trigger that had to be met before farmer received a payment.

**6b.** \_\_\_\_\_\_ The adjusted gross income (AGI) test in the 2002 Farm Bill is referred to as the Scottie Pippen Rule.

**6c**. \_\_\_\_\_\_ The biofuel era began in the 1970s when OPEC shorted the market.

**6d.** \_\_\_\_\_\_ The livestock industry has historically directly benefited from farm programs.

**6e**. \_\_\_\_\_\_ Foreign and U.S. consumers benefit from the U.S. marketing loan.

**6f**. \_\_\_\_\_\_ A nonrecourse loan rate below the competitive equilibrium has no effect on price stability.

**6g. \_\_\_\_\_\_** For a farmer, the government provides a subsidy of about 80 cents for every dollar of premium he/she pays.

**6h**. \_\_\_\_\_\_ When returns fall, resources quickly move out of agriculture.

**6i**. \_\_\_\_\_\_ Participation in the ACRE program was high among Texas producers.