March 7, 2006

Name:______________________Participant #:______________

2006
North Carolina FFA
Farm Business Management Career Development Event

Section I: Multiple Choice (100 points)

There are 25 questions on this section of the event. Please check carefully to see that you have **five** pages including this cover page.

Read each question carefully. **Circle the letter for the one best answer.** Each question is worth four (4) points. You have **25 minutes** to complete this section of the event.

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Southern States Cooperative, Inc

1. The Farm Security and Rural Investment Act passed by the US Congress in 2002 is also called:

A. The Farm Bill
B. The Farmers Full Employment Act
C. The Homeland Security Bill
D. The Tobacco Buyout Bill

2. A farm business which is described as being highly leveraged is one where:

A. total liabilities are high relative to net worth.
B. total liabilities are low relative to net worth.
C. net farm income is high relative to total assets.
D. net farm income is low relative to total assets.

3. A farmer was late getting soybeans planted and an early frost hit the crop before the crop had matured. The harvest costs are $40 per acre and the returns would be $60 per acre. Prior to the frost, $106 per acre was invested in operating expenses. The farmer should:

A. abandon the crop because the farmer cannot cover all variable expenses.
B. rent the field to a neighbor for $10 per acre to use as cattle grazing, instead of harvesting the crop.
C. harvest the soybeans and sell the soybeans for $60 per harvested acre.
D. plant corn next year instead of beans.

4. The financial progress being made in a farm business from one year to the next year is best shown by a change in:

A. total assets.
B. net worth.
C. liabilities.
D. cash available.

5. The advantage of leasing a combine rather than buying it is that:

A. a leased combine can be depreciated more rapidly than a purchased one.
B. leasing the combine may require less "up-front" money.
C. a leased combine qualifies for investment credit while a purchased one does not.
D. leasing a combine will always be less expensive in the long run.

6. To produce in the short run (one growing season for a farm business), which costs must be covered?

A. Variable costs.
B. Fixed costs.
C. Total costs.
D. Opportunity costs.

7. The major subdivisions of a balance sheet are:

A. assets, liabilities and net worth.
B. income, expenses, and net profit.
C. cash received, cash paid, and cash remaining.
D. amount borrowed, amount paid off, and balance outstanding.

The Oblingers are planning to review the enterprise budgets they prepared at the beginning of the year. Before reviewing the farm business' enterprise budgets, the Oblingers feel it is important to review some enterprise budgeting concepts and definitions. Answer questions 8 thru 12.

8. An enterprise budget is:

A. a record of past production performance.
B. a tool used in analyzing only changes in the farm operations and the potential change in net income.
C. a physical and financial plan for the entire farm business for a specific period of time.
D. a statement of projected costs and returns associated with one production process, usually for one production period.

9. As the Oblingers' farm business plants more acres of peppers, which of the following costs is <u>least</u> likely to change?

A. total variable costs
B. average fixed costs per acre
C. average variable costs per acre
D. average total costs per acre

10. What value should the Oblingers' farm business use on the farrow-to-finish hog enterprise budget for the value of homegrown feeds such as corn?

A. cash invested in the growing corn crop.
B. net selling price (opportunity cost) of the corn.
C. actual purchase cost of similar commercial feeds
D. actual production costs of the corn.

11. The Oblingers have decided that renting land for cash rather than shares of production results in:

A. more risk for both the landlord and the tenant.
B. less risk for both the landlord and the tenant.
C. more risk for the landlord and less risk for the tenant.
D. less risk for the landlord and more risk for the tenant.

12. When considering the production information for the strawberry enterprise, the Oblingers' farm business is trying to get the maximum returns above variable costs. You, as a farm management consultant, should recommend that the Oblingers' farm business perform where:

A. marginal cost is equal to marginal revenue
B. marginal cost is equal to average total revenue
C. marginal revenue is equal to average variable cost
D. average total cost is equal to average total revenue

13. The process of finding the future value of a dollar to be received in the future is known as:

A. futuring
B. compounding
B. discounting
C. amortizing

14. By adding a strawberry and blackberry crops to a corn and soybean farm a producer becomes more

A. diversified
B. specialized
C. integrated
D. motivated

15. The “best” economic benefit to owning farmland that makes it a good investment for farmers is

A. that the investment has long-term capital gains potential.
B. great cash flow.
C. that it’s a beautiful place to live.
D. that there is lots of flexibility in the investment.

16. You just bought a new pick-up truck for use with your farm business. You realize that part of the cost of your truck will be depreciation. Depreciation on the truck begins:

A. after you finish making monthly payment on the truck.
B. the first time you use the truck for the farm business
C. after one year of using the truck
D. as soon as the truck is purchased.

17. Today’s trend in farm businesses is moving more toward:

A. the small family farm.
B. farming as a part-time or hobby operation.
C. larger farms that produce a great and diverse amount of agriculture.
D. both B and C.

18. Brett and Melanie are reviewing their family farm business. Their business advisor tells them… “one advantage of incorporating their farm business is that it will:

A. mean they face double taxation.
B. mean they have fewer rules and regulations to follow.
C. reduce their record keeping.
D. limit their liability.

19. From a North Carolina farm business perspective, the most significant provisions of the American Jobs Creation Act passed by the US Congress in 2004 was that it:

A. contained the latest version of the Farm Bill.
B. contained the Farmers Full Employment provisions.
C. created and funded the federal Homeland Security Agency.
D. repealed the federal tobacco quota program and funded “the tobacco buyout.”

20. The Wallace's produce strawberries and cantaloupes on their North Carolina farm. They are considering some direct marketing opportunities… in other words, selling direct to the food consumer. A **trade-off** to the Wallace's using direct marketing for strawberries and cantaloupes is:

A. earning a greater return per acre for strawberries and cantaloupes.
B. learning what the customer wants
C. spending more time, work, and resources on marketing.
D. spend less time, work, and resource on production.

21. Of the following, which is the most **liquid** asset?

A. farm machinery
B. balance in checking account
C. breeding livestock
D. feeder livestock

22. A depreciable asset's **book value** will equal its **salvage value**

A. only on the purchase date.
B. only at the mid-point of its useful life.
C. only at the end of its useful life.
D. every year of its useful life.

23. One advantage that **owning farm land** has over **leasing farm land** is

A, labor and machinery are used more efficiently.
B. owner equity could increase if land values go up.
C. the number of acres farmed is more flexible.
D. less capital is tied up in long-term investments.

24. A net present value of zero means the investment has an internal rate of return

A. greater than the discount rate.
B. less than the discount rate.
C. equal exactly the discount rate.
D. equal to zero.

25. One advantage of custom hiring machinery operations over owning your own machine is

A. it is more convenient.
B. it requires less capital investment.
C. depreciation deductions reduce your taxes.
D. you have more control over the quality of work performed.

End of the *multiple choice section* of the 2006 NC FBM CDE