2012
North Carolina FFA
JUNIOR Farm Business Management Career Development Event

Section I: Multiple Choice (100 points)

There are 20 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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1) At the present output level, a perfectly competitive firm is in the following position: output, 4500 units; market price is $0.80 per unit; fixed costs are $1,200; variable costs are $2,000 and marginal cost is $1.00 per unit. The firm should:

a) expand output.
b) leave output unchanged.
c) reduce output.
d) close down.

2) The real interest rate is:

a) the observed interest rate plus the rate of inflation.
b) the nominal interest rate minus the observed interest rate.
c) the observed interest rate minus the nominal interest rate.
d) the observed interest rate minus the rate of inflation.

3) A capital investment that an investor is considering has an internal rate of return of 8%, the investor’s discount rate or cost of capital is 12%. The investment:

a) should be rejected.
b) is profitable.
c) has a positive net present value.
d) none of the above.

4) A tool used in analyzing only changes in the farm operations and the potential change in net income is called the:

a) cash flow projection
b) enterprise budget
c) total farm budget
d) partial budget

5) A statement of projected costs and returns associated with one production process, usually for one production period is called the:

a) cash flow projection
b) enterprise budget
c) total farm budget
d) partial budget
6) As the Brouwer Farm Business plants more acres of onions, which of the following costs is least likely to change?
   
   a) total variable costs  
   b) **average variable costs per acre**  
   c) average fixed costs per acre  
   d) average total costs per acre

7) When an increase in the level of production of one enterprise causes a reduction in the level of production of another enterprise, these two enterprises are said to be:

   a) independent  
   b) supplementary  
   c) complementary  
   d) **competitive**

8) When considering the production information for the cantaloupe enterprise, the Harding farm business is trying to get the maximum returns above variable costs. You as a farm management analyst, should recommend that the Harding farm business produce where:

   a) marginal revenue is equal to average variable cost.  
   b) average total cost is equal to average total revenue.  
   c) marginal cost is equal to average total revenue.  
   d) **marginal cost is equal to marginal revenue.**

9) The percent change in quantity divided by percent change in price is:

   a) Demand  
   b) Utility  
   c) **Elasticity**  
   d) Margin

10) The difference in the future’s price and local price is called:

    a) **Basis**  
    b) Strike price  
    c) Net price  
    d) Premium
11) A decrease in the value of the U.S. dollar relative to other countries currency should:
   a) Have no effect on imports or exports to the U.S.
   b) Increase exports from other countries to the U.S.
   c) Less costly imports to the U.S.
   d) **More costly imports to the U.S.**

12) Which of the following would not appear on a cash flow statement?
   a) Interest paid on a loan for a tractor
   b) Principal paid on a loan for a tractor
   c) **Depreciation expense on a tractor**
   d) Rental payment received from the neighbor who used the tractor.

13) A farmer is solvent if
   a) she has sufficient current assets to cover current debts.
   b) she has sufficient equity to cover debts.
   c) **She has more assets than all debts.**
   d) she can pay all debts with all equity.
   e) All of the above

14) The difference between net worth and total assets is:
   a) capital gain
   b) capital loss
   c) **total liabilities**
   d) net profit

15) The law of supply states that, holding other things constant:
   a) As price rises, supply will rise
   b) As price rises, supply will decline
   c) As price falls, quantity supplied rises
   d) As price falls, quantity supply declines

16) A principal payment on a loan is normally included as:
   a) An expense on an income statement
   b) **A use of cash on a cash flow statement**
   c) A source of cash on a cash flow statement
   d) All of the above
   e) None of the above
17) A _______________ gives the seller the right, but not the obligation to purchase the underlying futures at the _______________.
   a) Hedge-to-arrive contract, strike price.
   b) Put option, strike price
   c) Put option, opening bell
   d) Call option, daily closing price
   e) Call option, strike price

18) For purposes of deducting expenses when preparing income taxes, which assets are not normally depreciated?
   a) Raised breeding livestock
   b) Crops in the field
   c) Livestock purchased for resale
   d) Land
   e) All of the above

19) When conducting a capital budgeting investment analysis, a higher discount rate will:
   a) Increase the NPV of the investment
   b) **Decrease the NPV of the investment**
   c) Make the investment more profitable
   d) Not change the results of the analysis
   e) None of the above

20) Which of the following is normally included on a cash flow statement but not on the income statement?
   a) **Principal payments on loans**
   b) Cash payments for operating inputs
   c) Interest payments
   d) All of the above
   e) None of the above