

AEC 305-001 Exam I Review for Fall 2006

Recall that our first exam will be on Monday, September 25th in Seay Auditorium. I will start handing out exams at 11:50 and you will have until 1:00 to complete the exam. Exam questions will be short answer-type questions (T/F, CORRECT IF FALSE, fill in the blank, multiple choice, short answer, simple calculations and interpretation. BE THOROUGH IN YOUR ANSWERS AND SHOW ALL CALCULATIONS TO RECEIVE FULL CREDIT. You WILL NOT be allowed to use any notes or your text and without saying, cheating absolutely will not be tolerated in any manner. Please sit at least two seats away from your neighbor and no one will be allowed to sit immediately behind another student. The first exam is worth 25% of your final grade. In preparing for the exam, you need to have a good understanding of the following concepts:

- Identify and describe three *approaches* to studying agricultural marketing. (8/25/05 lecture, Chapter 1). Be sure to be able to give an example of each approach. Identify some unique characteristics of agricultural commodity and food markets.
- Briefly describe recent trends in the farm value, marketing bill, and consumer food expenditures (both at home and away from home). What factors have led to a relatively large increase in the marketing bill, retail to food price spreads, and consumer food expenditures over the past several decades? Understand the differences in interpretation and calculations between the food market basket, the marketing bill, and retail to farm price spreads. Can one analyze changes in farmer's economic well being by evaluating statistics such as the retail to farm price spreads or farm value as a percent of consumer expenditures? Why or Why not? Be sure to review calculations in Tables 2.1 and 2.2. Chapter 2)
- Be able to use the supply-to-use identity to account for the disappearance/consumption of an agricultural commodity or food item. (p. 32)
- What is the difference between nominal and real prices (or nominal and real income)? Be able to calculate and interpret changes in real prices or real income. Recall that changes in real prices or income provide an indicator of the change in producer's/consumer's purchasing power.
- Recall that an index is a unitless summary statistic that allows one to compare changes in a given variable over a given time period. What three basic items are needed to calculate an index? (p.50) What are price relatives and how does one compute/interpret price relatives? (pp. 51-52).
- Understand the difference between a simple, a Laspeyres and a Paasche price index. Note: you do not need to know the specific formulas Just be able to describe their basic differences, and how to interpret their values (pp. 54-58). Also be able to rescale an index value to a different base period. (pp. 58-59).
- Identify and discuss three different ways economists use the Consumer Price Index. (9/11/06 lecture).
- Understand the difference between a movement vs. a shift in a demand schedule. What variables cause a shift in a demand schedule? In which direction? Understand the difference between a change in quantity demanded vs a change in demand. (pp. 68-72)
- Recall that the market demand schedule is simply a horizontal aggregation of individual demand schedules.
- Be able to calculate and interpret own-price, cross-price, and income elasticities, along with the coefficient of price flexibility. How can you tell if a good is a substitute or a complementary good? Normal vs inferior good? (pp. 73-78, 82-85, class notes).
- Be sure to understand the difference between an elastic demand vs inelastic demand. What factors affect the own-price elasticity of demand? (pp. 79-81)
- Understand the relationship of price elasticity of demand to changes in total revenue. (pp. 76-77)