

AEC 305 (Fall 2008)
Exam I (20%)

Name _____

1. Identify whether the following studies would be examples of either an institutional, functional or behavioral approach in analyzing various ag marketing issues. (3 points each)
- A. a study analyzing transportation sources and storage costs for moving grain to the Gulf Coast over a twelve month period. _____ approach
 - B. a study examining whether or not the recent increase in fertilizer prices was justified based on supply and demand conditions. _____ approach
 - C. a study reviewing the market participants (farmers, processors, retailers, consumers) in the U.S. peanut industry _____ approach
 - D. a study identifying the sources of market information and financing available to both buyers and sellers in the U.S. tobacco industry. _____ approach
 - E. a study investigating if poultry companies are abusing their market power in establishing marketing contracts with ag producers. _____ approach
2. As a food marketing economist, how would you assess the impact of the recent consolidation in the food marketing system in terms of market power and economies of scale? Discuss how market power and economies of scale could affect the prices consumers pay for food and the variety of food product choices. Also discuss how consumer sovereignty affects the marketing system. (10 points)
3. You have been asked to respond to a group of concerned farmers who are citing various statistics indicating that they are receiving a smaller share of the consumer food dollar. Provide some of your main talking points to these producers to indicate that these trends are not necessarily having a negative impact on their ability to earn an adequate return on their farming investment. (5 points)

4. What does the Consumer Price Index measure? Identify three ways that agricultural economists could use the CPI in analyzing food and ag markets. (Note that you need to do more than just list the three uses of the CPI --- list and then give a specific example of each use that is applicable to food and ag markets. (10 points)

5. a. Define the food marketing bill. (3 points)

b. Which one of the following would NOT increase the food marketing bill (3 points) _____

- a. an increase in the farm price of wheat
- b. an increase in advertising costs describing the health benefits of eating almonds
- c. an increase in food marketing firm profits
- d. an increase in the price of fuel
- e. all of the above increase the marketing bill

6. Which of the following is TRUE about the farm-to-retail price spread (3 points) _____

- a. it shows that marketing costs too much.
- b. it is relatively less for fresh milk than for a more highly processed item such as bread.
- c. it is normally the same as the farm value
- d. it has been steadily rising (over the past several decades) as a percentage of retail value
- e. none of the above

7. Suppose the retail price of a food product is \$4.00 per pound and that the price of the agricultural ingredient required for that retail product is \$1.00 per pound at the farm level. If 2 pounds of the farm product is required to produce each one pound of the retail product, what is the farmer's share of the retail expenditures on this food product? (Show your calculations for full credit) (4 points)

8.a. You have been asked to derive a price index for vegetables. Without presenting any formulas, briefly outline your assumptions (i.e, components) and data you would have to collect in developing your price index. (7 points)

Assume you determine the following annual price index levels for vegetables during the 2005 to 2008 period

	1990 (base year)	2005	2006	2007	2008
Vegetable Price Index	100	140	143	149	157
CPI (1990 = 100)	100	130	133	137	145

b. Interpret the vegetable price index value for 2008 (3 points)

c. Based on this index value what was the percentage change in vegetable prices in 2008 vs 2007? (Show your calculations for full credit – roundoff to the nearest 1/10th of 1%) (3 points)

d. Based on these index values have vegetable prices in 2008 increased more or less than the overall inflation rate since the base year? How can you tell? (3 points)

e. Based on these index values have vegetable prices in 2008 increased more or less than the overall inflation rate since 2007? (Show your calculations for full credit – roundoff to the nearest 1/10th of 1%) (3 points)

9. The following table presents fertilizer prices from 2005 to 2008.

	2005	2006	2007	2008	2009 estimates
Nominal Fertilizer price (\$/ton)	300	321	400	830	(A)_____
CPI (1990 = 100)	130	133	137	145	151
Nominal Price Index	164	176	219	454	500
Real Fertilizer Price (\$/ton)	(B)_____				(C)_____

a. What is the difference between a nominal and a real price? Why do agricultural economists prefer analyzing prices in real terms and not nominal terms? (4 points)

b. Based on the projected change in the nominal price index from 2008 to 2009, fill in the blank (A) for the estimated nominal price of fertilizer for 2009. (Show your calculations below for full credit) (3 points)

c. Fill in the blanks B and C for the real price of fertilizer for 2005 and an estimated real price for 2009. (Show your calculations below for full credit) (3 points)

d. What can you conclude based about the relative changes in nominal prices versus real prices from 2005 to your estimated values for 2009? (3 points).

10. Answer the following True/False questions. Circle if the statement is either True or False: If False, correct the statement to make it true. (3 points each)

True or False: If the farm price of hogs declines in the current year compared to their price in a selected base year, its corresponding price relative will be negative (i.e., less than zero).

True or False: A Laspeyres price index can be solved by summing the product of all the price relatives for the commodities in the index times their respective weights, which are determined by the base quantities.

True or False: A decline in a corn farmer's costs of production (e.g. seed, fertilizer, chemicals, etc.) will cause the farm to retail price spread for food products that use corn to increase.

True or False: The farmer's share of the food marketing bill will always be lower than the farmer's share of the food market basket?

True or False: A food market basket index will decline if the quantity of food items purchased in the market basket declines.