

## AEC 305-001 Exam I Review for Fall 2009

Recall that our first exam will be on Tuesday, September 29<sup>th</sup>. Exam questions will be short answer-type questions (i.e., define or describe certain marketing terms, multiple choice, true/false (correct if false), short answer, simple calculations and interpretation.) There will not be many calculations on the exam, but calculators will be available. No one will be allowed to use their phones, blackberries, etc. We are very tight in our classroom so we may move some of you to CEB 341. I'll remind each of you that any cheating will result in an automatic E for the course and potentially other serious consequences. The first exam is worth 20% of your final grade. Be sure to review Schrimper Chapters 1-3, journal entry answers, web materials, and the non-powerpoint handouts from class .. don't just study the powerpoint slides!. Old exams are on the class website, but remember the first exam prior to 2008 included Chapter 4 on demand, which will not be on this exam. 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. Be sure to be able to give examples of each approach as it relates to food and agricultural marketing. Be able to distinguish between a micro versus macro analysis of agricultural marketing. Identify some ways that ag marketing is different from the marketing of other consumer goods.
- What do producers (farmers) and consumers want from our food marketing system? Define consumer sovereignty? How does it apply to the performance of food and ag markets?
- Describe some major changes that have occurred in the U.S. food marketing system over the past 20 years. Briefly describe how changing demographics in the U.S. population are affecting the food marketing system.
- Define market power and economies of size. Apply it today's food marketing system (e.g. are firms getting larger ... is that a concern for both producers and consumers? How does this trend impact their per unit cost structure? Does that mean there are some potential benefits to consumers?
- Recall some of the criticisms of our food production/marketing system outlined in the magazine article on "The Real Cost of Cheap Food", along with some criticisms of the article.
- Briefly describe trends in the U.S. farm value, marketing bill, and consumer food expenditures (both at home and away from home) over the past couple of decades. Recall that food products add "value" as they move along the marketing chain, with the farm value only accounting for around 20 cents of the aggregate retail food dollar. – Labor being the largest component.
  - What factors have lead 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 farm to retail price spreads.
  - Can one analyze changes in farmer's economic well being (e.g. profitability) or food company's profits by just evaluating statistics such as farm to retail price spreads, marketing bill, or farm value as a percent of consumer expenditures? Why or Why not?
  - Recall that "consumption" is measured as a residual using the supply/use identity. Remember what comprises "supply" and what comprises "use."
- 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? What are price relatives and how does one compute/interpret price relatives? Be able to interpret an index value and how to use an index value to derive a price of a given commodity or food item.
- Understand the basic difference (don't memorize formulas) between a simple, a Laspeyres and a Paasche price index.
- Identify and discuss three different ways economists use the Consumer Price Index (CPI). **Be able to** interpret price index values relative to the base year and previous periods.

- What has been the general trend in retail food and farm prices in recent years and recall some of the factors that have impacted these trends.