

FFA Farm Business Management Career Development Event

State Preliminary

January, 2005

PART I

100 Points
1 Hour

For each question choose the best answer. All answers are rounded off to two decimal places. Because of rounding errors and/or alternative computational techniques, your answer may be a penny or two different from the choice given. Don't let this bother you--choose the best answer. Each question is worth 4 points.

Your test packet should include questions 1-25.

Prepared by

Drs. Evan Drummond & Richard Weldon
Department of Food & Resource Economics
University of Florida
(352) 392-1826 ext. 212 & 216

1. At the present output level, a perfectly competitive firm is in the following position: output, 5000 units; market price is \$1.10 per unit; fixed costs are \$2,000; variable costs are \$1,000 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 level stream of cash flows that lasts forever is:
 - a.* a perpetuity.
 - b. an annuity.
 - c. an asset.
 - d. earnings.

4. A change in demand cannot be caused by a change in:
 - a. population.
 - b.* price of the good.
 - c. price of a substitute.
 - d. tastes and preferences.

5. 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.

6. The basis of a futures contract reflects:
 - a. only time differences.
 - b. only location differences.
 - c. only quality differences.
 - d.* all the above.

7. The Return on Equity (ROE) and the Return on Assets (ROA) will be the same for a firm when:
- a. * the firm has no debt.
 - b. total debt is the same as total equity.
 - c. the firm has debt.
 - d. both b and c.
8. Which of the following is a useful way of evaluating the liquidity of the firm?
- a. debt to asset ratio.
 - b. return on equity.
 - c. * current ratio or quick ratio.
 - d. return on assets.
9. The "law of supply" implies that as:
- a. price falls, quantity supplied increases.
 - b. * price rises, quantity supplied increases.
 - c. price rises, quantity supplied decreases.
 - d. price falls, quantity supplied decreases.
10. A government tax on imported products (such as oranges from Brazil into the U.S.) that has the effect of reducing imports is a(n) :
- a. dumping.
 - b. embargo.
 - c. quota.
 - d. * tariff.
11. A payment to the stockholder of a corporation from after-tax earnings is.
- a. interest income.
 - b. * a dividend.
 - c. a covenant.
 - d. none of the above.
12. The process of compounding is the inverse of:
- a. amortizing.
 - b. * discounting.
 - c. present value.
 - d. annualizing.

13. Which one of the following would be expected to lead to the largest increase in market price, all other things the same?
- a. Increase in demand and no change in supply.
 - b. Decrease in demand and no change in supply.
 - c. * Increase in demand and decrease in supply.
 - d. Decrease in demand and increase in supply.
14. Subtracting a machine's accumulated depreciation from its original cost gives:
- a. true value.
 - b. * book value.
 - c. market value.
 - d. salvage or terminal value.
15. An investor would choose the investment which has the:
- a. lowest internal rate of return.
 - b. * highest net present value.
 - c. highest risk.
 - d. lowest risk.
16. The Statement of Cash Flows shows a firm's uses of cash and sources of cash for a period of time. An example of a source of cash is:
- a. a decrease in a liability account.
 - b. a decrease in an equity account.
 - c. an increase in an asset account.
 - d. * a decrease in an asset account.
17. The U.S. Treasury borrows money by selling:
- a. Treasury Notes.
 - b. Treasury Bonds.
 - c. Treasury Bills.
 - d. * all of the above.
18. A citrus farmer borrowed \$100,000 with a 10-year loan at 8 per cent annual interest. He will repay the loan with equal monthly payments. What type of loan is this?
- a. revolving credit
 - b. * amortized
 - c. single payment
 - d. balloon

19. The additional satisfaction that a person receives from consuming an additional unit of a product is:
- a. utility.
 - b.* marginal utility.
 - c. marginal product.
 - d. marginal returns.
20. A production function indicates the relationship between;
- a. input costs and level of output.
 - b. input costs and output dollar value.
 - c. input prices and output prices.
 - d.* input levels and output levels.
21. A price and quantity pattern that repeats each year due to the biological nature of agricultural production is:
- a.* a seasonal pattern.
 - b. a cycle.
 - c. a trend.
 - d. a technical pattern.
22. An approach to marketing where consumers are given a strong promotional effort to buy a product is:
- a. direct marketing.
 - b. push marketing.
 - c.* pull marketing.
 - d. niche marketing.
23. The proportion of total sales in a market accounted for by the sales of the four largest firms is a:
- a. market conduct.
 - b.* concentration ratio.
 - c. contribution margin.
 - d. all the above.
24. The most common and least complex form of business organization is the:
- a. cooperative.
 - b.* sole proprietorship.
 - c. partnership
 - d. corporation.

25. In finance, IPO stands for:
- a. Investment Portfolio Outflow.
 - b. Investment Price Orders.
 - c.* Initial Public Offering.
 - d. International Placement Office.

END OF PART I