

# FFA Farm Business Management Career Development Event

## State Preliminary

### January, 2006

#### ##### 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. The branch of economics that deals with the economic behavior of individuals, either producers or consumers is:
  - a.\* microeconomics.
  - b. macroeconomics.
  - c. freakonomics.
  - d. unit economics.
  
2. The real interest rate is estimated by taking:
  - 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. An amortized loan with equal total payments will have:
  - a.\* an increasing amount of principal paid in each successive payment.
  - b. the same amount of principal paid in each payment.
  - c. the same amount of interest in each payment.
  - d. an increasing amount of interest paid in each successive payment.
  
4. A projection of the expected cash inflows and outflows for a business over a future period of time is a:
  - a. partial budget.
  - b.\* cash flow budget.
  - c. cash flow account.
  - d. cash flow enterprise budget.
  
5. A capital investment that an investor is considering has an internal rate of return of 14%, the investor's discount rate or cost of capital is 12%. The investment:
  - a.\* should be made.
  - b. is unprofitable.
  - c. has a negative net present value.
  - d. none of the above.
  
6. The price of one country's currency in terms of another country's currency is:
  - a. balance of payments.
  - b.\* exchange rate.
  - c. comparative advantage.
  - d. tariff.

7. Which of the following will not change the current ratio for a firm:
- a. payment of accrued taxes.
  - b.\* transfer of cash to a savings account.
  - c. using cash to purchase equipment.
  - d. none of the above.
8. When a farm is insolvent it will have:
- a.\* negative net worth
  - b. current liabilities greater than current assets
  - c. a debt to asset ratio less than one
  - d. both b and c
9. Which is not a factor that would shift demand for a food product:
- a. Unemployment.
  - b.\* Cost of farm level production.
  - c. Price of a substitute food product.
  - d. Population.
10. Which of the following is NOT a decision faced by a firm in a perfectly competitive industry?
- a. How much to produce?
  - b.\* What price to charge?
  - c. How to produce?
  - d. How much of each input to use?
11. The return to unpaid labor, management and equity is:
- a. average profit.
  - b.\* net farm income.
  - c. return to capital.
  - d. change in net worth.

12. The process of discounting is the inverse of:
- a. amortizing.
  - b.\* compounding.
  - c. present value.
  - d. annualizing.
13. Which one of the following would be expected to lead to the largest decrease 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 total allowable depreciation from its original cost gives:
- a. true value.
  - b. book value.
  - c. market value.
  - d.\* salvage or terminal value.
15. The capital structure of a firm is:
- a.\* the mix of liabilities and equity of the firm.
  - b. working capital minus current liabilities.
  - c. the ratio of variable costs to fixed costs.
  - d. another name for capital rationing.
16. Which of the following is NOT considered a current liability?
- a.\* contributed capital by the owners.
  - b. the interest and principal due this year on the real estate mortgage.
  - c. accounts payable.
  - d. taxes due this year.
17. The annual interest payment promised by the U.S. Treasury to buyers of Treasury Bonds is:
- a. yield to maturity.
  - b. current yield.
  - c. bond rate.
  - d.\* coupon rate.

18. The income or return that could have been received from an input had it been used in its most profitable alternative is the:
- a.\* opportunity cost.
  - b. return to management.
  - c. marginal cost.
  - d. net revenue.
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. Which of the following is an incorrect statement about average total cost (ATC)?
- a.  $ATC = (TVC + TFC)/Q$ .
  - b.  $ATC = TC/Q$ .
  - c.\*  $ATC = MC$  if  $MC$  is at a minimum.
  - d.  $ATC = AVC + AFC$ .
21. A price and quantity pattern that repeats every 5 to 8 years is an example of:
- a. a seasonal pattern.
  - b.\* a cycle.
  - c. a trend.
  - d. a technical.
22. The difference between what consumers pay for food and the amount that producers receive is:
- a.\* the marketing margin.
  - b. the farm value.
  - c. mostly profit for the middleman.
  - d. decreasing over time.

23. Your firm has lowered its price by 10% and, as a result increased the amount it can sell by more than 10%. The demand for your company's produce is:
- a. perfectly elastic.
  - b. perfectly inelastic.
  - c.\* elastic.
  - d. inelastic.
24. A not for profit business organization that is owned and controlled by the people it serves is a:
- a. partnership.
  - b. limited partnership.
  - c. corporation.
  - d.\* cooperative.
25. Cwt is:
- a. cost weight.
  - b. commodity working tax.
  - c.\* 100 pounds.
  - d. 100 acres.

**END OF PART I**