

# 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.

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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?
- Increase in demand and no change in supply.
  - Decrease in demand and no change in supply.
  - Increase in demand and decrease in supply.
  - Decrease in demand and increase in supply.
14. Subtracting a machine's accumulated depreciation from its original cost gives:
- true value.
  - book value.
  - market value.
  - salvage or terminal value.
15. An investor would choose the investment which has the:
- lowest internal rate of return.
  - highest net present value.
  - highest risk.
  - 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 decrease in a liability account.
  - a decrease in an equity account.
  - an increase in an asset account.
  - a decrease in an asset account.
17. The U.S. Treasury borrows money by selling:
- Treasury Notes.
  - Treasury Bonds.
  - Treasury Bills.
  - 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?
- revolving credit
  - amortized
  - single payment
  - balloon

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