

# **Risk Assessed Marketing I (RAM I)**

**A Workshop for Participants with Limited Experience in Futures Markets and  
Crop Insurance**

## **The John & Mary Sample Farm Corn Case Problem**

**by**

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**The purpose of this workshop is to familiarize you with the principles and practices of Risk Assessed Marketing (RAM). You will be asked to plan and implement a marketing program for the corn enterprise of a case farm. At the end of the workshop, you will have a better understanding of how farmers can employ different marketing strategies when combined with crop insurance, that can help producers minimize their financial risk and may enhance farm income.**

**Presented winter 2011- 2012**

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## Summary

You are John or Mary Sample. With your spouse, you manage a crop farm with corn and other enterprises. Your landlords are demanding higher cash rents but you intend to retain those crop acres. There are several bank notes outstanding for land and machinery. You have budgeted your corn operation and you expect to have sufficient income to cover production costs, scheduled principal and interest payments, and living expenses.

Your financial situation, however, is sensitive to changes in crop yields and market prices. So you are willing to consider some alternative pricing strategies to manage your price risk exposure. You are also willing to consider the purchase of crop and/or hail insurance. You may purchase YP, RP, RP-HPE, CAT or no crop insurance. If you wish, you may add supplemental private hail coverage to your crop insurance purchase.

Your assignment is to manage the production and marketing risk for the 2013 corn crop. Beginning on April 7, you will have 4 opportunities to forward price any portion of your expected crop by forward cash contracts or by purchasing put options (a form of "price insurance"). You may not sell more than 100,000 bushels of corn before harvest using any combination of the various marketing alternatives offered.

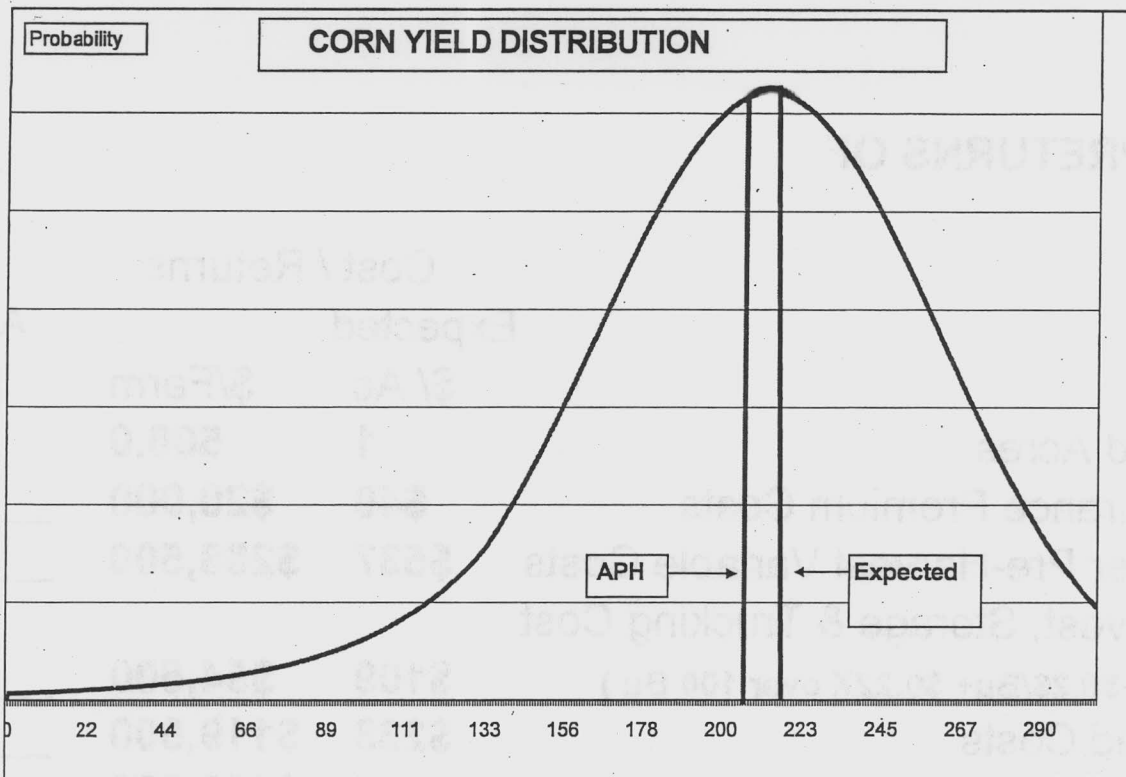
If you change your mind, you may buy back any put options you purchased -- in effect "cancel" your "price" insurance. However, you may not cancel forward cash contracts but you may cover those sales with call options. All corn sales will be completed before harvest or shortly after harvest (October 25). Also at harvest, all forward contracts will be met even if you have to buy grain on the cash market and any futures contracts and/or put options will be offset. Any grain not under contract will be sold at harvest for the cash price.

Currently there is no commodity program for 2013, including Direct Payments. It is assumed there will be a reduced program for 2013 but it is not included in the case study. There will be no post-harvest storage or ownership.

You will not know what your "actual" yield will be until harvest. At that time you will "draw" one of four possible yields. If you suffer a crop loss it will be due either to "other causes" (insured under YP, RP, RP-HPE, or CAT) or to "hail". The probability of suffering a crop loss will be provided at the time crop insurance is purchased, i.e sales closing date.

# COST/RETURNS OF Corn

	Cost / Returns		Actual
	Expected		
	\$/ Ac	\$/Farm	
Planted Acres	1	500.0	
A. Insurance Premium Costs	\$40	\$20,000	_____
B. Other Pre-Harvest Variable Costs	\$537	\$268,500	_____
C. Harvest, Storage & Trucking Cost (\$35/ac+\$0.26/Bu+ \$0.22X over 100 Bu )	\$109	\$54,500	_____
D. Fixed Costs	\$238	\$119,000	_____
E. Total Costs per Planted Acre	\$924	\$462,000	_____
F. Yield per Acre (bu. )	200.0	100,000	_____
G. Variable Cost/Bu [A+B+C/F]	\$3.43		_____
H. Fixed Cost/Bu [D/F]	\$1.19		_____
I. Total Cost/Bu [E/F]	\$4.62		_____
J. Market Price/bu.	\$5.00	\$5.00	_____
K. Market Income/Acre [J X F]	\$1,000	\$500,000	_____
L. Net Returns/Ac [L-E]	\$76	\$38,000	_____
Returns/Bu	\$0.38		_____
N. Direct Payment \$0.35 X 83.3% X 110 Bushel Program Yield	\$0	\$0	_____
M. Counter Cyclical Payment Strike- Max (Market, Loan) X 83.3% X 145 Bushel Program Yield	\$0.00	\$0	_____
O. Net Return Plus Gov Payment	\$76	\$38,000	_____



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## APH Corn Yields

Year	Farm	County (plant)
Current	184 88	121.8 Yr 11 162.2
Year 2	204	162.1 Yr 12 170.1
Year 3	210	162.3 Yr 13 182.9
Year 4	225	188.1 Yr 14 177.9
Year 5	202	167.9 Yr 15 182.1
Year 6	173	144.0 Yr 16 182.9
Year 7	207	181.5 Yr 17 163.1
Year 8	200	193.7 Yr 18 173.7
Year 9	198	170.9 Yr 19 125.3
Year 10	197	164.3 Yr 20 182.1
<b>Avg Yield</b>	<b>190.4</b>	<b>165.7 170.2</b>
<b>APH Yield</b>	<b>200.0</b>	
<b>SURE</b>	<b>199.3</b>	
<b>7Yr Oly Avg \</b>	<b>201.3</b>	