

Questions and answers from Session 1
Managing Margin Risk

1. Talked about Machinery cost. Do you list what you paid for it? or what it is worth now, being depreciated so many years?

You need to use what you paid for the piece of machinery times the percentage given to you in the homework. For more information, look at the end of this document: http://www.agecon.purdue.edu/topfarmer/documents/B21_InputGB.pdf

2. Flexible rent.... Base rate.... A person can come up with average yield to determine some base rate. But what do you use for price of corn or beans? What is a fair way for both parties to use? What price do you use to determine that you might sell at if you haven't sold the grain yet to figure flexible rent rate? A farmer markets grain all year basically to get the high. Do you take average price of previous year or years? Some price from a certain month? Do you use new crop price? Futures on some given month?

I think that the base rate should be more based upon the current market for cash rent rather than something else, but if you want to look at how it would look like using some kind of a budget approach then use corn or beans futures.

For the bonus, that depends on what both parties want. A landowner may not want to be dependent on your marketing strategy, or he may not want to wait until the average market price for the year is known or until you have sold all of your grain. But if he does, then that is great and probably better for the tenant. This being said, what seems to be commonly done is to agree on a few places where to get prices, let's say the three closest elevator and then agreeing on a time period, you can choose a 3 months average if you wanted to or agree that you will get the price of the first Wednesday of the three first months after harvest... This is definitely an important piece of information and the critical part is to have it specifically laid out in the contract how price is going to be determined.