

FINANCE MODULE
Problem Set #1
December 2011

The problem below requires the use of four farm management guides. MF-570 represents a non-irrigated soybean budget for northeast Kansas. MF-571 represents a non-irrigated corn budget for northeast Kansas. MF-572 represents a non-irrigated wheat budget for northeast Kansas. MF-1013 presents short-run and long-run price projections. These farm management guides are attached.

Use the medium yield columns of MF-570, MF-571, and MF-572 to compute returns for corn following soybeans or wheat, soybeans following corn, and wheat following soybeans. To compute returns for continuous corn you will need to make the following adjustments: increase miscellaneous cost by \$20 per acre and reduce corn yield by 10 percent. Use a formula to compute drying costs (\$0.13 per bushel) and the interest on non-land costs.

Problem #1

Using the prices (short-run prices) in the guide, compute returns over total costs for the following rotations: continuous corn, corn/soybean, and corn/soybean/wheat. Which rotation is preferred?

Problem #2

Using the long-run prices for northeast Kansas presented in MF-1013, compute returns over total costs for the same rotations as in the first problem. Which rotation is preferred?

Problem #3

Corn following wheat may have higher fertilizer costs than corn following soybeans. Would your answer to the second problem change if fertilizer cost for corn following wheat was \$10 per acre higher?