

Lesson 3 Simulation Balance Sheet

Name(s): _____ Business Structure: _____ Commodity: _____

Beginning questions:

- Considering Lesson 2's simulation, what are some ways to manage risk in your business?
- What are the key factors you will look at in determining how to use the futures market?

| Decision/situation | Action | (Expense)/revenue | Balance |
|---|---|--|---|
| Example: Beginning balance | — | — | \$300,000 |
| Example: It is now May and you will sell your crop in November. You see that November futures prices are higher than usual right now and are expected to go down. | Sell November futures at \$3.90/bushel. | Your farm is 200 acres, and you expect 160 bushels/acre. $160 \times 200 = 32,000$ bushels. Sell 32,000 bushels at \$3.90 = \$124,800. | $\$300,000 + \$124,800 = \$424,800$ <i>***Note***</i> <i>You will have to offset (sell) this position at the end of the simulation. Your yield might not be the same.</i> |
| Example: A drought affects your state. Your yield decreases by 10 bushels/acre. | Lose yield. L | When it comes time to sell my crop, I will have to sell 10 bushels \times 200 acres = 2,000 fewer bushels on the market. | \$424,800 For now, balance is unaffected. Will change in November. |
| Decision/situation | Action | (Expense)/revenue | Balance |
| Round 1: Beginning balance | — | — | |
| | | | |
| | | | |
| | | | |
| | | | |

