

Answers to “Check for Understanding”

Chapter 1

1. True.
2. False. LGM can be purchased 12 times a year for both cattle and swine.
3. False. Target marketings cannot be insured in the first month after the sales closing date.
4. True.
5. True.
6. True. To insure cattle in different states, a policy must be obtained in each applicable state, and one agent can be used as long as the agent is licensed to sell LGM in both applicable states.
7. False. The maximum number of head insurable through LGM for Cattle in a crop year is 10,000 head, while the maximum number of head insured per insurance period is 5,000 head.
8. False. Producers can insure any number of head with LGM, up to program limits.
9. True.
10. True.

Chapter 2

1. True.
2. False. An indemnity is paid when the GMG is greater than the total AGM.
3. 8; 5.
4. True.
5. March.
6. True. When calculating the cattle AGM/EGM for fed cattle, feeder cattle, or corn, (or the swine AGM/EGM for lean hogs, soybean meal, or corn) the weighted average of the two surrounding months is used if the commodity is suppose to be priced in a month that does not offer a commodity contract on the CBOT or CME.
7. True.
8. False. Premiums decrease as higher deductibles are chosen.
9. True. Premiums must be paid in full at the time the application for coverage is due, otherwise protection will not be provided.
10. False. A producer must provide a marketings report and packer sales receipt to prove that the insured live-stock were sold in order to receive an indemnity.

Chapter 3

1. True.
2. False.
3. True.
4. True.
5. False. Calculation of an indemnity is based on the planned target marketing month.
6. True.
7. False.
8. True. Although LRP and LGM cannot be used together, they can be used at separate times to insure the same livestock.
9. False. LGM cannot be lifted prior to expiration (similar to a European option).
10. True. LGM does not protect against changes between the LGM adjusted futures price and the local cash price the producer receives.

Chapter 4

1. False. LGM basis margin and futures basis are not the same. LGM basis margin is the difference between the local cash selling or purchase price and the adjusted futures prices (that include a state- and month-specific LGM basis). Futures basis is the difference between the local cash selling or purchase price and the futures price.
2. True.
3. False. Price moves are generally larger than basis changes, making price level more variable.
4. True. LGM protects against feeding and finishing margins and leaves producers open to LGM basis margin risk.
5. True.
6. False. The EGM changes from sales closing date to sales closing date. Therefore, even if everything else was the same (i.e., number of target marketings in a month and deductible), the EGMs will be different if LGM is purchased in different months.
7. False. If the GMG is greater than the total AGM for the insurance period an indemnity will be paid.
8. True.

Chapter 5

1. True.
2. False. With LGM, a producer's minimum expected margin is equal to the GMG plus the expected LGM basis margin.
3. False. The net margin can be lower than the minimum expected margin if the actual LGM basis margin weakens relative to the expected LGM basis margin.
4. True.
5. True.
6. False. A producer's net margin is generally higher when no indemnity is paid because there are higher cash gross margins available.
7. D.
8. True.

UNL Extension publications are available online at <http://extension.unl.edu/publications>.