Check for Understanding: Chapter 5

1. T F Gross margins are dependent on commodity price moves relative to one another.

2. T F To calculate a minimum expected margin using LGM, the cash gross margin and the expected basis margin must be used.

3. T F The minimum expected margin for an LGM hedge is the lowest possible net margin a producer can receive.

4. T F If there is no indemnity paid, the net margin will be equal to the cash gross margin.

5. T F If an indemnity is paid, the difference between the net margin and minimum expected margin is due to a change in the actual and expected LGM basis margins.

6. T F A producer almost always receives a lower net margin when no indemnity is paid.

7. What conditions can cause suspension of LGM sales?
   a) an input commodity's futures price has increased or the live cattle or lean hog futures price insured under LGM decreases by the daily limit for two consecutive days
   b) an event occurs that RMA deems as able to significantly change market conditions
   c) underwriting capacity is exceeded
   d) all of the above

8. T F LGM insurance has advantages and limitations relative to other hedging strategies that must be considered when deciding if it is a useful program for a given operation.

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