

Check for Understanding  
Chapter 4

1. T F When hedging with LRP, producers are guaranteed an ASP equal to the coverage price.
2. Changes in the relationship between \_\_\_\_\_ and a producer's local cash price represent changes in LRP basis.
3. When hedging with LRP, changes in actual LRP basis from expected can result in an ASP that is \_\_\_\_\_.
  - a) higher than expected
  - b) lower than expected
  - c) changes in LRP basis have no effect on ASP
  - d) both a & b
4. T F On average, fed cattle LRP basis for Nebraska has been positive meaning Nebraska cash prices are typically higher than AEV.
5. T F Because hogs from different parts of the country vary considerably in quality, LRP basis varies substantially for the different regional price series.
6. T F Compared to fed cattle and swine AEV, feeder cattle cash sale prices from Nebraska are weighted heavily into the LRP feeder cattle AEV.
7. T F Feeder cattle LRP users in Nebraska do not benefit from a large reduction in basis risk compared to futures hedgers.
8. Futures and LRP basis are typically \_\_\_\_\_ in Nebraska for most weights of feeder steers.
  - a) positive
  - b) negative
  - c) about equally variable
  - d) both a & c
9. Forecasting basis correctly is important with hedging because \_\_\_\_\_.
  - a) basis changes can affect indemnity payments
  - b) basis changes affect actual sale prices
  - c) basis changes are more variable than changes in price
  - d) It is not important to forecast basis correctly.
10. T F Positive basis changes are beneficial to producers selling livestock.

## Answers to “Check for Understanding”—Chapter 4

1. False. Producers are still exposed to LRP basis risk which can affect ASP.
2. AEV.
3. D. Basis can increase or decrease relative to expectations causing ASP to be higher or lower.
4. True.
5. False. Hog prices are relatively uniform across different geographic areas resulting in similar basis levels.
6. False. Feeder cattle AEV includes prices from all over the country.
7. True.
8. D.
9. B. Basis changes have no affect on indemnity payments. Basis change is generally less variable than price level change.
10. True.