

AGRICULTURAL ECONOMICS 452/852

**Agricultural Finance
University of Nebraska-Lincoln**

**Dr. Ronald J. Hanson, Instructor
Department of Agricultural Economics**

Course Description

PURPOSE OF THE COURSE

The purpose of this course is to develop an understanding and proficiency in applying the various economic principles and concepts of financial management for analyzing alternative investment decisions and solving financial problems in a farm business operation. Various strategies for acquiring and financing capital resources in the farm business operation are explored. Characteristics of the financial institutions providing credit to farmers and their particular lending programs will be studied.

OBJECTIVES OF THE COURSE

1. Identify and interpret the current financial structure of both the U.S. and Nebraska farming sector and the trends in real estate and nonreal estate farm debt among farmers.
2. Understand the concept and impact of increased debt leverage to a farming operation and recognize the financial risks involved from being over-leveraged.
3. Identify the financial management principles necessary to develop a better working relationship with farm lenders.
4. Prepare a complete and accurate Balance Sheet, Income Statement (accrual basis accounting), and Cash Flow Budget projection for a farming operation.
5. Solve both compounding and discounting problems relating to the time value of money among various investment decisions/options.
6. Calculate the various financial ratios that measure liquidity, solvency, profitability, capital use efficiency, and debt servicing for a farm operation as well as correctly interpret ratio values that analyze the farm's financial position.
7. Develop a written loan approval recommendation for a case farm loan problem situation and present an oral report to class (power point). Students will be formed into loan committees (team project) to complete this assignment.
8. Utilize spread sheet analysis to examine and identify the financial trends for a farm business operation.
9. Measure the actual debt repayment capacity for a farming operation.
10. Calculate the percentage growth rate in equity capital for a farm business and the degree of financial leverage necessary for expanding the operation.
11. Identify various financial strategies to cope with financial stress in a farming operation and to improve liquidity management and debt repayability.
12. Evaluate alternative farm investment decisions by solving capital budgeting problems respectively for net present value, annuity equivalent, and internal rate of return.
13. Calculate the effective interest rates or real cost of borrowing for farm loans handled under various repayment conditions by lenders.
14. Estimate the after-tax cash outflow for various alternatives when financing additional land purchases and machinery investment through a financial lease or credit transaction.
15. Identify the various financial institutions or lenders providing credit to farmers. Specific operational characteristics of each lending institution and their respective lending requirements to farmers will be examined.

COURSE REQUIREMENTS

Grades in this course are largely based on three hour examinations in addition to a required final examination. Both will be supplemented by five announced quizzes and written homework assignments.

Three Hour Examinations	300 points
Five Quizzes (announced)	200 points
Final Examination.	200 points
Loan Committee Case Problem.	100 points
Homework Exercises.	100 points
Class Attendance Quizzes (not announced)	100 points

GRADING POLICIES OF THE COURSE

Student grades in this course are determined by the following guidelines listed below. No curving of individual exam grades will be done. Final grade averages for the class may be curved but only at the end of the semester and at the discretion of the instructor.

<u>Grade Average Percentage/Course Grade</u>			
100 - 97%	A+	78 - 76%	C+
96 - 92%	A	75 - 72%	C
91 - 89%	A -	71 - 69%	C -
88 - 86%	B+	68 - 66%	D+
85 - 82%	B	65 - 62%	D
81 - 79%	B -	61 - 59%	D -

PASS/NO PASS OPTION

Students electing to take this course Pass/No Pass will be expected to perform satisfactorily and earn a grade average of 72% or better in the course in order to earn a grade of PASS for the course. Students may change from a graded registration to Pass/No Pass (or vice versa) through Friday, March 2. You may drop this course and remove it from your academic record through Friday, January 19. From January 20 through April 6, you may withdraw from this course with a grade of W on your academic record.

CLASS ATTENDANCE

Attendance to class is important. Regular class attendance is encouraged and required.

Each student is responsible for the material presented during lectures. It is the responsibility of the student to acquire lecture notes, handouts, or exercises for missed class periods. An extended illness or excused absence (i.e. judging trip, family situation) from class will be handled on an individual basis.

Missed hour examinations and quizzes must be cleared with the instructor ahead of time. No make-up exams or quizzes will be given at anytime during the 2007 Spring Semester for this course.

ACADEMIC DISHONESTY

Any student involved in any form or type of academic dishonesty during the semester will automatically receive zero credit for that requirement or assignment (i.e. quiz, hour examination, final examination, written paper, team project report).

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2007 Spring Semester

AECN 452/852 COURSE OUTLINE

CLASS DATE	CLASS DISCUSSION TOPIC
Jan. 8	Course Introduction
Jan. 10-12	Understanding the Role and Importance of Ag Finance and the Concepts of Farm Financial Management
Jan. 15	Martin Luther King Day (no class)
Jan. 17	Developing Financial Management Objectives for a Farm Business Operation
Jan. 19	Financial Structure of the U.S. Farming Sector and the Current Ag Finance Outlook
Jan. 22	Farm Real Estate and Nonreal Estate Farm Debt Structure and Lender Debt Distribution
Jan. 24	Developing Better Working Relationships With Farm Lenders
Jan. 26	Impact of Time on Farm Financial Investment Decisions Using the Concepts of Compounding and Discounting
Jan. 29	Using Coordinated Financial Statements
Jan. 31-Feb. 9	Double Column Balance Sheet Analysis to Measure Earned Equity Growth and Retained Earnings in the Farm Business
Feb. 12-19	Income Statement Analysis to Measure Profitability of the Farm Business
Feb. 21	FIRST HOUR EXAMINATION
Feb. 23-26	Cash Flow Budget Projections for Operating Credit Needs and Loan Repayability of the Farm Business
Feb. 28	Improving Cash Flow Management Strategies for Financial Survival of the Farm Business
March 2-7	Understanding and Using Farm Financial Ratio Analysis to Spot Potential Problems in a Farming Operation
March 9	Farm Financial Spread Sheet Analysis Case Problem Financial Analysis (Guest Speaker)
March 12-16	UNL Spring Break Vacation
March 19	Measuring the Capital Debt Repayment Capacity and Margin for Losses in a Farm Business

CLASS DATE**CLASS DISCUSSION TOPIC**

March 21	Measuring the Impact of Financial Leverage on the Liquidity Management and Debt Structure of a Farm Business in Order to Expand
March 23	Refinancing as a Solution to Financial Problems or as a Stay of Execution to the Farm Business
March 26	Developing and Analyzing Risk Management Strategies for a Farm Business
March 28	SECOND HOUR EXAMINATION
March 30-April 9	Applying Capital Budgeting Procedures for Analyzing Farm Investment Alternatives
April 11-13	Using Effective Interest Rates to Determine the Cost of Debt Capital in Investment Decisions
April 16	Analyzing Financial Leases as an Alternative for Financing Machinery/Equipment Purchases
April 18	Analyzing Land and Machinery Investment Decisions for Expansion
April 20	THIRD HOUR EXAMINATION
April 23	Farm Credit Services of America (Guest Speaker)
April 24	Student Loan Committee Reports/Case Problem (evening student class presentations)
April 25	Commercial Banking in Nebraska (Guest Speaker)
April 27	Course Review for Final Examination

FINAL COURSE EXAMINATION (Wednesday, May 2 at 10 A.M. to 12 noon)

- COURSE TEXTS:**
1. Barry, Ellinger, Hopkin, and Baker, **Financial Management in Agriculture**, Fifth Edition, Interstate Printers and Publishers, Inc.
 2. Penson and Lins, **Agricultural Finance**, Second Edition, Prentice-Hall, Inc.
 3. Nelson, Lee, and Murray, **Agricultural Finance**, Sixth Edition, Iowa State University Press.

COURSE INSTRUCTOR: Professor Ron Hanson **Email address:** rhanson1@unl.edu

OFFICE LOCATION: 204A Filley Hall **OFFICE PHONE:** 472-2055 **HOME PHONE:** 483-2445

**Spring Semester Office Hours: 2 to 5 p.m. Monday Wednesday Friday
(Tuesday and Thursday by appointment)**

