

AREC 408: Agricultural Finance

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Class Web Site: RamCT available by first day of course.

Textbook: Barry et al. *Financial Management in Agriculture*. 6th edition.

Course Objective: To develop an understanding of how to use financial statements, ratios and capital investment and valuation methods to make decisions and enhance the financial performance of a firm. Also, to better understand current trends and forces shaping the agricultural, national and global finance sectors.

Understanding financial concepts and the practical applications of finance is essential for anyone interested in pursuing a career in the agribusiness or agricultural production sectors. Many of the important managerial problems in agriculture involve finance. However, most agricultural production firms are significantly different from corporations, and more closely resemble small, owner-operated businesses. This class focuses on the essentials of financial management with special consideration of those issues where smaller operations must be treated separate from corporations, but some corporate finance principles are also covered in this course. The financial institutions, lending programs and other financial issues affecting agriculture will also be covered.

Key Objectives

Consider the institutional laws and framework of agribusiness finance, and become better acquainted with the current financial position of Colorado and US agribusiness, farms and ranches.

Explore how a firm's financial information (line items, statements and ratios) are indicators of their current position and performance, and how changes in performance result from the manager's allocation of resources or factors beyond the firm's control.

Explore the role that debt financing plays in a firm's repayment capacity, growth and solvency.

Consider investment issues by understanding important elements in the decision, opportunity costs, tax implications and decision rules in capital budgeting. Investigate the special issues related to land values and investment decisions and understand their importance to the farm sector's balance sheet.

Characterize financial risk in a firm, and understand how balancing production and financing activities might lead to risk mitigation via diversification.

Finally, please use the instructors as educational resources if you have questions or need help in understanding a concept or method for analyzing financial decisions.

GRADING:	Homeworks/Labs	200 points
	Quizzes	100 points
	Issue Summaries	75 points
	Midterms, 2 @ 100	200 points
	Final Exam	<u>125 points</u>
		700 points

AREC 408 Agricultural Finance Course Outline

- I. Introduction and US Agriculture's Financial Position –Readings on RamCT
 - a. What financial issues are important to managers?
 - b. What is the role of the financial sector in agriculture?

Part One: Financial Statements and Performance-Weeks 2-6

- II. Financial Analysis of Agribusiness-Chapters 3-4
 - a. Financial Statements and 3 C's Analysis
 - b. DuPont Models, Activity Ratios and Profitability-Dr. Frasier
 - c. Liquidity, Solvency and Benchmarking
- III. The Lender's View of the Business-Chapters 5-7
 - a. Term Debt Coverage, Repayment Capacity
 - b. Collateral, Credit Scoring and Sources of Capital
 - c. Nontraditional Lenders

Midterm I

Part Two: The Principles of Financing/Risk-Weeks 7-9 (Spring Break)

- IV. Risk-Dr. Frasier-Chapter 8
 - a. 5 Types of Risk
 - b. General principles of risk management
 - c. Risk diversification and portfolios
- V. Time Value of Money-Chapters 9, 14
 - a. Discounting,
 - b. Cost of Financing
 - c. Payment Schedules

Part Three: Capital Budgeting and Investment Analysis-Weeks 10-13

- VI. Capital Budgeting-Chapters 10-11
 - a. Net Present Value, Internal Rate of Return
 - b. Financial Feasibility
 - c. Comparing multiple investments, different life spans
- VII. Land Valuation and Asset Investments-Chs. 12-13, Dr. Dalsted
 - a. Basic Land Appraisal Methods
 - b. Buying vs. Leasing Assets

Midterm II

- VIII. Managing Ag Firms in the Broader Finance Environment –Chs. 19-22 Readings on RamCT
 - a. The Changing Dynamics of the Finance Sector
 - b. Tax Policies, Estate Planning, Business Organizational Forms-Dr. Dalsted
 - c. Bankruptcy-Dr. Dalsted

Final Exam