

AREC 408: Agricultural Finance

Instructor:

James Pritchett

B-327 Clark Building

James.Pritchett@ColoState.edu

Class Times: MWF 8:00 to 8:50

Location: Clark C-248 MW, Shepardson 218 Friday

Phone: 491-5496

Office Hours:

Monday and Tuesday from 9:00 am to 10:00 am

Wednesday from 2:00 to 3:00 pm

Drop-ins and setting appointments are welcome!

Prerequisite: AREC 305/EA 305 Enterprise Analysis

References: William R. Lasher, *Practical Financial Management*, 5th edition

<http://www.thomsonedu.com/finance/lasher/>

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

Lecture notes, homework and other information will be posted at the AREC 408 RamCT site.

If you do not check your RamCT account on a regular basis please be sure to forward your emails from RamCT as class announcements are made through this system.

General Overview: What financial tools are necessary for the manager of a sole proprietorship or a medium-sized agribusiness? This course focuses attention on the tools of managerial finance: analysis of financial statements, ratio analysis and benchmarking, profitability analysis, debt management, strategic and tactical growth decisions, capital budgeting and risk management. We'll emphasize problem solving, critical decision making and interpretation of information with homework and lab assignments.

Key Objectives

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

Explore how a firm's financial information (line items, statements and ratios) are indicators of 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 growth and solvency.

Confront investment issues by understanding opportunity costs, tax implications and decision rules in capital budgeting.

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

In-Class Work, Assignments, Exams:

Three opportunities are offered in order to reinforce skills and competencies discussed in a class:

In-Class Exercises: Periodic exercises will be used in class to apply agribusiness finance concepts. The in-class exercises are graded and may be individual or group projects. In-class exercises will also include problems and readings from the textbook. Short quizzes may also be given without warning.

Lab Assignments: Lab will be held in 218 Shepardson, on Friday from 8 – 8:50 am. A set of lab assignments will be completed using Excel. Importantly, lab assignment grades will require both successful completion of the lab objectives and the student's ability to effectively communicate and interpret answers to questions. Effective written communication will be important in your future career!

Exams: Exams are a terrific opportunity to display your skills. Exams are tentatively scheduled for the following days, but may be rescheduled by the instructor if it enhances learning opportunities:

Exam I:	February 18	8 to 8:50 am
Exam II:	April 7	8 to 8:50 am
Final Exam:	May 9	8 to 8:50 am

Exams may be rescheduled if you will be absent due to a University approved activity or job interview. Lab assignments and in-class exercises will have assigned due dates, and late assignments will not be accepted. If you plan to miss class or lab, please make appropriate arrangements with the instructor.

Grades: Final grades will be assigned based on weighted point accumulations as follows: A = 90-100%; B = 80-89%; C = 70-79%; D= 60-69%; F = <60%. Pluses and minuses will be awarded within each category at the instructors' discretion. The weighting of course activities is:

In-Class Exercises and Quizzes	25%
Lab Assignments	25%
<u>Exams</u>	<u>50%</u>
Total	100 %

If you have questions regarding the class, assignments or instruction don't hesitate to ask. I look forward to working with you! Good luck in Spring 2008.

AREC 408 Agricultural Finance Course Outline

- I. Introduction and US Agriculture's Financial Position
 - a. What financial issues are important to managers?
 - b. US Agriculture and Finance
- II. Financial Analysis of Agribusiness
 - a. Financial Statements
 - b. 3 C's Analysis
 - c. DuPont Models, Activity Ratios and Profitability
 - d. Liquidity, Solvency and Benchmarking
- III. The Lender's View of the Business
 - a. Term Debt Coverage, Repayment Capacity
 - b. Collateral, Credit Evaluation and Credit Scoring

Exam I

- IV. Risk
 - a. 5 Types of Risk
 - b. How do we describe risky events?
 - c. General principles of risk management
 - d. Risk diversification and portfolios
- V. Financial Intermediation
 - a. Institutions/History of Ag Finance

Spring Break

- VI. Sources of Credit/Cost of Financing
 - a. Cost of Debt Financing vs. Equity Financing
 - b. Calculating Payment Schedules
 - c. Real Interest Rates
- VII. Time Value of Money
 - a. Discounting, Uniform and Nonuniform Series
- VIII. Capital Budgeting
 - a. Net Present Value, Internal Rate of Return
 - b. Financial Feasibility
 - c. Comparing multiple investments, different life spans

Exam II

- IX. Asset Replacement
 - a. Risk and asset replacement
 - b. Buying vs. Leasing Assets
- X. Land Valuation
 - a. Basic Land Appraisal Methods
- XI. Estate Transfer and Succession Planning
 - a. Estate Planning, Business Organizational Forms
 - b. Bankruptcy

Final Exam