

## AREC 408: Agricultural Finance

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**Class Web Site:** Available by student account through RamCT  
**If your course takes longer than one semester, please request audit status in the subsequent semester, as Blackboard makes courses available one semester at a time.**

**Textbook:** Barry et al. *Financial Management in Agriculture*. 6<sup>th</sup> edition. Various linked readings

**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 sector, with a particular emphasis on farmland markets and the ag credit sector.

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 mid-size, owner-operated businesses. This class focuses on the essentials of financial management with special consideration of those issues where independent farm and 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 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 decisions and factors beyond the firm's control.

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

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

Finally, please use the instructor as an educational resource if you have questions or need help in understanding a concept or method for analyzing financial decisions. Online courses are challenging because they are done without a high level of engagement or interaction. But, that does not mean you cannot reach out with questions and for feedback when needed.

GRADING:	Homeworks (2)	50 points
	Quizzes(online)	50 points
	Issue Summaries (with HW 1 and 2)	75 points
	Midterms, 2 @ 100	200 points
	Final Exam	<u>125 points</u>
		500 points

**AREC 408 Agricultural Finance Course Outline  
(Numbered as they appear in the Lecture folder of Blackboard)**

- I. Introduction and US Agriculture's Financial Position
  - a. What financial issues are important to managers?
  - b. US Agriculture and Finance

**Part One: Financial Statements and Performance**

- II. Financial Analysis of Agribusiness
  - a. Financial Statements
  - b. 3 C's Analysis
  - c. DuPont Models, Activity Ratios and Profitability-Take Quiz 1
  - d. Liquidity, Solvency and Benchmarking
- III. The Lender's View of the Business
  - a. Term Debt Coverage, Repayment Capacity
  - b. Collateral, Credit Scoring and Sources of Capital

**Midterm I (covers I-III Sections in Lecture Notes)**

**Part Two: The Principals of Financing/Risk**

- IV. Time Value of Money
  - a. Discounting,
  - b. Cost of Financing
  - c. Payment Schedules
- V. Risk
  - a. 5 Types of Risk
  - b. General principles of risk management
  - c. Risk diversification and portfolios-Take Quiz 2 online
- VI. Financial Intermediation
  - a. Institutions/History of Ag Finance
  - b. Nontraditional Lenders and Credit

**Part Three: Capital Budgeting and Investment Analysis**

- VII. Capital Budgeting
  - a. Net Present Value, Internal Rate of Return
  - b. Financial Feasibility
  - c. Comparing multiple investments, different life spans
- VIII. Land Valuation and Asset Investments
  - a. Basic Land Appraisal Methods
  - b. Buying vs. Leasing Assets

**Midterm II (covers Sections IV-VIII in Lecture Notes)**

- IX. Estate Transfer and Succession Planning
  - a. Estate Planning, Business Organizational Forms
  - b. Bankruptcy

**Final Exam (cumulative, but fewer work problems and more short answers on concepts learned)**