

Lesson 6
Economics
Questions and Answers

1. List one economic and one management factor that a backgrunder needs to understand.

Answer:

- a. Economic
 - i. Purchase and sale prices
 - ii. Feed prices (usually a function of corn prices)
 - iii. Interest rate
- b. Management
 - i. Genetics
 - ii. Nutritional background of the cattle
 - iii. Nutritional management
 - iv. Weather
 - v. Health

2. Pay-weight to pay-weight performance is used to assess the **economic or biologic performance** of the backgrounding operation. (choose one)

Answer: Economic performance

3. Define what expenses go into calculating yardage costs.

Answer: Non-feed, non-veterinary, or marketing expenses as they relate to costs of staying I the lot. (Fuel and oil, repairs, operating interest, and supplies) *One may also see items listed in parenthesis.*

4. If the yearling market (850-lb steers) is expected to be at \$1.00/lb, and cost of production is \$.45/lb for steers purchased weighing 550 lb, how much can a producer afford to pay for these steers and expect to break even?

Answer:

Breakeven purchase price, \$/lb = $\frac{\text{Gross return/head (\$)} - \text{Backgrounding expenses/head (\$)}}{\text{Purchase pay-weight, lb}}$

$$\text{Breakeven purchase price, \$/lb} = \frac{\$850 - \$135}{550 \text{ lb}} = \$1.30/\text{lb}$$

5. What is the proportion of feed costs in the total costs of backgrounding a steer?

Answer: 60-70%

6. If an operator backgrounds cattle at a cost of \$.45/lb and can sell those same cattle as heavy yearlings for \$1.00/lb, what is the feeding margin in that operation?

Answer: Selling Price – Cost of producing one pound of gain
 $\$1.00 - \$.45 = \$.55/\text{lb}$ or $\$55/\text{cwt}$

7. Using the equivalent values of profit determinants, explain what alternatives you may have when feeder price increases \$2/cwt so that profit remains at the same level.

Comment [g1]: Note this was labeled as \$2/lb in participants quiz

Answer: Increase sale price, or decrease feed cost

8. What two main factors impact fed steer price?

Answer: Marketing and Feed Management

9. What single factor has maintained beef prices up in the last two years?

Answer: Improved demand. (From the text one could also claim a decrease in beef production.)

10. Everything else held constant, years of high corn prices have a positive or negative impact on the price of a 750-lb vs a 550-lb steer?

Answer: Positive impact, although there are situations that prove for it to be negative.