

CLASS EXERCISE

At harvest, a corn producer has storage facilities and a vacant dirt lot available for his use. He is considering the purchase of some feeder pigs to feed out to market hog weight. Given the information below, should this producer CONSIDER the purchase of feeder pigs; OR sell his corn at harvest

Cost of corn produced = \$.05/lb.

Current market price of corn = \$.04/lb. (this is a net price)

E(price of market hogs) = \$.60/lb.

E(price of other feed ingredients) = \$..10/lb. delivered

Interest on corn = \$.0012/lb (if not sold at harvest)

$$\text{Feed efficiency} = \frac{\text{lb of gain}}{\text{lb of feed}} = \frac{1}{4}$$

(HINT: Determine the economic efficiency of feeding hogs and make your decision)

Cost of feeding corn = \$_____ per lb.+ \$_____ per lb. = \$_____ per lb.

(BE CAREFUL ABOVE !!)

The hog ration you plan to feed consists of 90 percent corn and 10 percent "other feed ingredients

Total feed cost = (.90 X \$_____ per lb.) + (.10 X \$_____ per lb.)
= \$_____ per lb. of feed.

$$\text{Economic efficiency of feed} = \frac{(\text{_____} \times \text{_____})}{(\text{_____} \times \text{_____})} =$$

Should he CONSIDER buying feeder pigs to finish out as an alternative market channel for his corn ?

Before making a final decision regarding the feeder pig alternative, what other factors must he consider ?

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(HINT: Determine the economic efficiency of feeding hogs and make your decision)

Cost of feeding corn = \$.04 per lb.+ \$.0012 per lb. = \$.0412 per lb.

(BE CAREFUL ABOVE !!)

The hog ration you plan to feed consists of 90 percent corn and 10 percent "other feed ingredients

Total feed cost = (.90 X \$.0412 per lb.) + (.10 X \$.10 per lb.)
= \$.0471 per lb. of feed.

$$\text{Economic efficiency of feed} = \frac{(\text{1} \times \text{.60})}{(\text{4} \times \text{.0471})} = 3.185$$

Should he CONSIDER buying feeder pigs to finish out as an alternative market channel for his corn ?

Before making a final decision regarding the feeder pig alternative, what other factors must he consider ?

CLASS EXERCISE

Illustrated below are surveyed sales and overhead expenses for three sizes of floriculture firms in the mass marketing channel. Which size of firm is the most economically efficient with respect to sales and overhead?

Size of firm:	Small	Medium	Large
Sales:	\$135,600	\$539,000	\$1,888,000
Salaries	26,600	82,710	307,000
Payroll taxes	1,926	5,393	9,101
Unemp. Ins.	326	951	3,638
Workmen's Comp.	375	1,034	4,055
Utilities:			
Fuel oil	10,794	40,425	117,622
Electricity	2,888	5,983	13,782
Telephone	1,370	7,977	9,251
Depreciation	9,994	32,771	141,978
Interest	3,282	6,252	36,250
Insurance	2,631	9,810	28,886
Repairs	3,214	17,841	88,358
Prop. taxes	475	3,288	5,475
Advertising	420	593	5,098
Dues & subsc.	81	539	2,454
Travel & ent.	298	1,940	12,083
Office expenses	271	1,348	5,664
Professional fees	475	1,401	7,174
Truck exp & eq rent	6,170	16,386	99,686
Land Rental	217	4,474	11,138
Contributions	14	1,833	2,832
Miscellaneous	475	162	19,824
Bad debts	800	323	4,720
Total	73,096	243,434	936,069
 Economic Efficiency	 _____	 _____	 _____

Once you have determined the economic efficiency of each size category above, how would you interpret the figures?

If you had \$1,000,000 to invest, which one of these firms would you invest in?

Brumfield, Robin et.al., "Overhead Costs of Greenhouse Firms Differentiated By Size of Firm and Market Channel", NCARS Technical Bulletin No. 269., 1982

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Total	73,096	243,434	936,069
Net Return	62,504	295,566	951,931
Economic Efficiency	1.8551	2.2142	2.01695

Once you have determined the economic efficiency of each size category above, how would you interpret the figures?

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