Econ 337 Agricultural Marketing, Spring 2020
In Class Activity 2, January 28, 2020

Basis and the ability to hedge wheat					
	Action	**Date**	**Cash Price**	**Futures Price**	**Basis**
Scenario 1 **Price levels rise basis increases**	Plant crop Sell futures	April 15	$7.50	$8.00	-$0.50
	Sell crop and offset futures	October 15	$8.00	$8.25	-0.25
	Profit/bu				
		Effective Price Received			
Scenario 2 **Price levels fall basis increases**	Plant crop Sell futures	April 15	$7.50	$8.00	-$0.50
	Sell crop and offset futures	October 15	$7.00	$7.25	-$0.25
	Profit/bu				
		Effective Price Received			
Scenario 3 **Price levels rise basis decreases**	Plant crop Sell futures	April 15	$7.50	$8.00	-$0.50
	Sell crop and offset futures	October 15	$8.00	$8.75	-$0.75
	Profit/bu				
		Effective Price Received			
Scenario 4 **Price levels fall basis decreases**	Plant crop Sell futures	April 15	$7.50	$8.00	-$0.50
	Sell crop and offset futures	October 15	$7.00	$7.75	-$0.75
	Profit/bu				
		Effective Price Received			

In order to hedge using futures a farmer takes a short position in the futures market at the time he wants to lock in his price. Unfortunately, variation in the basis reduces the effectiveness of his hedge.

1. Fill in the shaded cells to indicate the profit (per bushel) he receives in the cash market, the profit he receives on his futures position, and his effective price received.

2. Farmers who have hedged are said to be long in the basis. Explain why this is true.