



www.agmanager.info
abarnaby@agecon.ksu.edu
(785) 532.1515 (phone)
(785) 532.6925 (fax)

G.A. "Art" Barnaby Jr.

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Is There an Error in Your 10% ACRE Cap? ¹

Dear Art,

It looks like you interpret the 10% year-to-year limit on the ACRE revenue guarantee as being based on the previous year's uncapped value (in the 'Benchmark Revenue' column) rather than on the capped value (in the '10% Cup/Cap on Benchmark' column). I bring this up because it seems like the text of the Farm Bill could be interpreted as the later.

For example, according to your table, the ACRE revenue guarantee for Kansas sorghum for 1998 is \$272.58. If the 10% limit is based on the previous year's ACRE guarantee, then it should be \$245.32 (0.9 times \$272.58) for 1999 instead of \$226.94.

I was just curious about your interpretation of the 10% limit.

Dr. T.

Dear Dr. T.

We have the same understanding that there is a cap of 10% and a cup of 10% of the prior year ACRE guarantee. After reviewing the results my 10% cap formula had a "bug" in it.

¹Prepared by G. A. (Art) Barnaby, Jr., Professor, Department of Agricultural Economics, K-State Research and Extension, Kansas State University, Manhattan, KS 66506, May 26, 2007, Phone 785-532-1515, e-mail – barnaby@ksu.edu.

I have corrected the formula and re-tested. I think it is now correct and I re-ran all of the ACRE analysis and posted the results on AgManager.Info.

There were only minor changes in the results but the cap does “slightly” reduce the ACRE historical payments. Therefore the cap increases the incentive to signup only when the ACRE “option” is in-the-money.

On 1999 Kansas grain sorghum the cap is 110% of the prior year of $\$248.04 \times 110\% = \272.84 . The cap is 90% of the prior year of $\$248.04 \times 90\% = \223.23 . The calculated value was $\$226.94$ and it exceed the cup but was below the cap, so the calculated value was used for 1999 in the corrected analysis.

After I changed the cap formula, it changed the numbers from your calculations. I am assuming the current yield is used in the calculation of the Olympic yield. NASS will publish the state yield for the current year before signup. However, that will leave very little time for getting all the correct values to the FSA office, so it is possible that a one year lag will be used. One of the many USDA program rules that will need to be published in the Federal Registry.

Thanks for the email calling this problem to my attention.

I have also added analysis for Colorado, Indiana, Minnesota, Michigan, and Ohio. I have requests for more states but they probably will not be posted until the end of the week.

The menu on AgManager.info with all of the current ACRE analysis is:
http://www.agmanager.info/crops/insurance/risk_mgt/default.asp

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