



## **AGSC 340**

### **Agricultural Futures and Options Markets**

**Fall Semester, 2003; 3 credit hours**  
**Monday, Wednesday, Friday, 9:30-10:20 p.m., Violette Hall 1232**

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Office Hours:  
**M,W,F 10:30-11:30**  
**T 1:30-2:30 & TH 2:30-3:30**  
Other times by appointment or stop by.

#### **Course Overview**

This course examines the history, mechanics, and economic functions of futures and options markets, focusing on their use as risk management tools. Both fundamental and technical analysis are used to examine price behavior in agricultural futures markets.

**Prerequisites:** AGSC 102 (Intro. to Ag. Business); ECON 130; or ECON 201 (Micro.)

#### **Objectives**

1. To introduce to students the history and organization of agricultural futures markets, and the economic principles underlying their operation.
2. To acquaint students with the use of both fundamental and technical analysis as means of interpreting and predicting price movements in futures markets.
3. To illustrate the practical usage of futures and options as hedging and risk management tools for the producer and agribusiness firm.
4. To help students develop a better understanding of the forces affecting agricultural commodity prices by having them follow, analyze, and interpret the price fluctuations in a particular agricultural commodity over the course of a semester.

#### **Required Text**

Wayne D. Purcell and Stephen R. Koontz. Agricultural Futures and Options: Principles and Strategies, Upper Saddle River, NJ: Prentice Hall. 1999 (Second Edition) or later.

This text will also be supplemented with materials from the Chicago Board of Trade and a variety of web sites, linked from the course web site. Reading assignments by day are given under the course outline. This schedule represents approximately the pace at which we should move through this material, but is subject to modification as the semester proceeds. **Readings assigned for a particular day should be done before class that day, because this is the material that will be discussed in class that day. Occasional readings quizzes will test comprehension of assigned readings.**

## **Course Outline**

<b>Wk</b>	<b>Begins</b>	<b>Topic</b>	<b>Readings</b>	<b>Due</b>
1	8/25	Introduction to the Course Commodities and Exchanges Online Resources	Ch. 1	Read/discuss market commentaries
2	9/1	Mon. 9/1—NO CLASS Futures Basics Supply and Demand Basics	Ch. 1 Ch. 3	Commodity Selections Due
3	9/8	Crop Fundamentals	Ch. 3	
4	9/15	Livestock Fundamentals	Ch. 3	
5	9/22	Cash, Futures, and Basis	Ch. 2	
6	9/29	Technical Analysis	Ch. 4	Exam 1
7	10/6	Technical Analysis Fri. 10/10—NO CLASS	Ch. 4, 5	Begin Trading Game
8	10/13	Technical Analysis	Ch. 5	Supply/Usage Report
9	10/20	Advanced Technical Analysis	Ch. 6	Notebook Pres. #1
10	10/27	Options Basics	Ch. 7	Exam 2
11	11/3	Options Strategies	Ch. 7	
12	11/10	Options Strategies	Ch. 7	
13	11/17	Options-Cash-Futures	Ch. 7	End Trading Game
14	11/24	Combined Risk-Management Strategies W 11/26 & F 11/28—NO CLASS	Ch. 11	
15	12/1	Criticisms of Futures and Wrapup	Ch. 12 & 13	Commodity Notebook Notebook Pres. #2
16	12/8	Monday—Last Class: Review Wednesday—Reading Day Fri. 12/12, 9:30-11:20 a.m.—Final		Final Exam

## **CourseInfo Web Site**

Because we will use the Internet extensively to find current prices, bar charts, and market analyses for agricultural commodities, I have put together a course web site using the CourseInfo software. This web site will contain links to relevant web sites, important announcements and assignment information, and will allow you to submit assignments electronically. To reach the course web site, go to <http://cinfo.truman.edu> and scroll down to the AGSC 340 link. Click on this link and, when prompted, enter your Truman e-mail I.D. (i.e. a111) as your logon I.D. and your Social Security Number (with no dashes) as your password. You can change your password after you are logged onto the system.

## **Basis of Student Evaluations**

<b>Item</b>	<b>Points Possible (650 total)</b>
In-class exams (2)	100 pts. x 2 = 200
Final Exam	100
Commodity Notebook	100
Supply & Usage Report for Comm. Notebook	25
Commodity Notebook Presentations	50
Homework and Quizzes	75
Trading Game	50
Attendance and Participation	50

All deadlines and examination dates must be met unless you make prior arrangements with the instructor. Material covered during class discussion periods is integral to the content of the course. Therefore, **attendance at and participation in class sessions is expected and required**. Final grades will be calculated on a straight scale (A= 90%+, B=80-89.9%, C=70-79.9%, D=60-69.9%, F=Below 60%).

### **Attendance**

Each unexcused absence after the first one will result in a 5-point deduction from the student's attendance/participation score.

## **Commodity Notebook**

### **Notebook**

By the end of the second week of the semester, you will select an agricultural commodity that is traded on one of the major futures exchanges. Over the balance of the semester, you will research this commodity and carefully follow its price movements. By immersing yourself in the day-to-day cash and futures price movement of the commodity you will gain a better perspective on the sometimes significant, sometimes trivial, factors which cause commodity prices to fluctuate.

You will compile a notebook on the commodity, which will include charts, news and wire-service clippings, and other relevant information dealing with this commodity. For your notebook, you must check the markets for your commodity on a daily basis and update the notebook each day, similar to the way in which you would keep a daily journal.

- ❖ Information that should go into your notebook on a **daily basis** includes open, high, low, and close prices of the nearby futures contract, cash price(s) at one or more pre-selected significant markets, and market commentary on that day's price movement published by the exchange or a commodity brokerage.
- ❖ Information that should go into the notebook on a **weekly basis** includes daily and weekly bar charts of futures price, analyses of price direction in the commodity by professional traders or analysts, and your own thoughts and comments on price

direction in the commodity.

At the end of each week, make a written entry in your notebook stating whether you would buy or sell the nearby contract of your commodity at its closing price for the week and predicting the price level at the close of the following week. At the end of the following week, report on the accuracy of your prediction and explain why actual price movement varied from your expectations.

- ❖ Information that will go into the notebook on an **occasional basis** includes USDA production reports and professional analysts' comments on these reports, as these reports are published (usually monthly or quarterly). I will collect and provide feedback on your notebooks periodically over the course of the semester.

Your final notebook should be organized into these sections:

- ❖ Futures prices and predictions
- ❖ Cash Price
- ❖ Charts and analysis
- ❖ Analysts' commentaries
- ❖ USDA reports and fundamentals

### **Supply and Usage (S/U) Report**

As part of your notebook, you will analyze the supply and usage (demand) for your commodity. You will submit a S/U report and then place the graded report in the "USDA reports and fundamentals" section of your notebook. Include major producing areas for the commodity in the United States (what states) and the world, current supply and usage information for the commodity (from USDA supply and usage tables), major USDA production and inventory reports dealing with the commodity, comparison of the current price level to historical price ranges for the commodity (over approximately the last 10 years), current price trends (over the previous 12 to 18 months), and analysts' expectations for price direction over the next few months.

### **Commodity Notebook Presentations**

Twice during the semester you will make a formal presentation to the class, reporting on and explaining to them price movement in the commodity and forecasting future price direction. Class members documenting the same commodity will plan, prepare, and execute their presentations together.

### **Trading Game**

Students will also participate in a trading game. Each student will begin with a trading account containing a certain amount of (*imaginary*) money. Students will submit buy and sell orders for agricultural commodities and gains/losses will be calculated and accumulated. Students should keep a written record of the reasoning behind their trades. Scores will be based on a) making regular trades (minimum of 2 per week); b) total gain or loss; and c) explanation of trading strategy.