

FFA Farm Business Management Contest Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. Typically a graph of which economic concepts slopes upward and to the right when graphed in relation to quantity of output?**
 - A. Market supply**
 - B. Total variable cost**
 - C. Total costs**
 - D. All of the above**

- 2. The business expense arising from borrowing money is:**
 - A. Interest**
 - B. Dividend**
 - C. Tax**
 - D. Amortization**

- 3. A loan to buy seeds and fertilizer is generally called what?**
 - A. An operating loan**
 - B. A mortgage**
 - C. A line of credit**
 - D. A term loan**

- 4. Which of the following is NOT considered a traditional factor of production in farming?**
 - A. Land**
 - B. Labor**
 - C. Money**
 - D. Entrepreneurship**

- 5. A business expense due to borrowing money is**
 - A. Interest**
 - B. Rent**
 - C. Depreciation**
 - D. Taxes**

- 6. When a farmer pays a loan in full, the portion of the payment that represents the amount borrowed is called what?**
- A. Principal**
 - B. Interest**
 - C. Fees**
 - D. Penalty**
- 7. In business, which group is most associated with innovation and risk-taking to earn profits?**
- A. Entrepreneurs**
 - B. Employees**
 - C. Creditors**
 - D. Regulators**
- 8. Which of the following best defines basis in futures markets?**
- A. The Difference Between Cash Price And Futures Price**
 - B. The Price Of The Futures Contract**
 - C. The Difference Between Bid And Ask**
 - D. The Expected Value Of The Contract**
- 9. Working capital is defined as which of the following?**
- A. current assets minus current liabilities**
 - B. total assets minus total liabilities**
 - C. current assets plus current liabilities**
 - D. equity minus assets**
- 10. In evaluating capital sources, which factor is commonly labeled as the most important to compare across options?**
- A. Interest rate**
 - B. Collateral requirement**
 - C. Brand of lender**
 - D. Payment frequency**

Answers

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1. D
2. A
3. A
4. C
5. A
6. A
7. A
8. A
9. A
10. A

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Explanations

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1. Typically a graph of which economic concepts slopes upward and to the right when graphed in relation to quantity of output?

- A. Market supply**
- B. Total variable cost**
- C. Total costs**
- D. All of the above**

When you look at how different economic quantities change as you produce more, you typically see a positive relationship. As output rises, you need more inputs, so total variable cost climbs. Since total cost equals fixed cost plus variable cost, total cost also increases with output, and its slope is tied to marginal cost. The market supply relationship also shows more production at higher prices, so when you graph quantity on the horizontal axis, the curve moves upward and to the right. Because each of these graphs tends to rise as output increases, all of the above are correct.

2. The business expense arising from borrowing money is:

- A. Interest**
- B. Dividend**
- C. Tax**
- D. Amortization**

Interest is the cost of borrowing money. When a business borrows funds, the lender charges interest for the use of that money, and this cost is recorded as interest expense on the income statement. It directly reduces net income and often appears as a cash outflow in financing activities. If a loan has origination fees, those may be amortized over the life of the loan, but the ongoing expense tied to borrowing itself is interest. Dividends are distributions to owners and are not a borrowing cost, tax is a government levy unrelated to borrowing, and amortization relates to spreading out the cost of intangible assets (or loan fees) over time, not the regular expense of borrowing.

3. A loan to buy seeds and fertilizer is generally called what?

- A. An operating loan**
- B. A mortgage**
- C. A line of credit**
- D. A term loan**

Short-term operating capital covers seasonal inputs and other day-to-day costs needed to run the farm during a production cycle. Seeds and fertilizer are classic operating inputs, so financing them is an operating loan—designed to be repaid within the production year, typically from harvest proceeds. A mortgage is for land or buildings with a long repayment period, a term loan finances durable assets like equipment with a multi-year payoff, and a line of credit provides flexible, ongoing access to funds up to a limit rather than a fixed annual cycle.

4. Which of the following is NOT considered a traditional factor of production in farming?

- A. Land**
- B. Labor**
- C. Money**
- D. Entrepreneurship**

The concept here is the four traditional inputs used to produce farm output: land, labor, capital, and entrepreneurship. Land provides the natural resources, such as soil and water. Labor is the human effort needed to plant, tend, harvest, and manage operations. Capital covers the physical assets—machinery, buildings, tools, and technology—that actually enable production. Entrepreneurship is the management, risk-taking, and decision-making that coordinates these inputs and drives innovation. Money isn't a direct input to production in this framework. It functions as a means to acquire land, hire labor, and purchase capital, but it doesn't itself become part of the production process. Capital is the category that includes the tangible assets used to produce outputs, while money is the funding that helps you obtain those assets. That's why money is not considered a traditional factor.

5. A business expense due to borrowing money is

- A. Interest**
- B. Rent**
- C. Depreciation**
- D. Taxes**

Interest is the cost a business pays for using someone else's money. When a company borrows funds, the lender charges interest, and that amount appears as interest expense on the income statement. This distinguishes it from other costs: rent is the price paid to use property, depreciation is a non-cash allocation of an asset's cost over its useful life, and taxes are government charges. So the expense tied specifically to borrowing money is interest.

6. When a farmer pays a loan in full, the portion of the payment that represents the amount borrowed is called what?

- A. Principal**
- B. Interest**
- C. Fees**
- D. Penalty**

The main idea here is understanding what part of a loan payment actually reduces the amount you owe. The portion that represents the amount borrowed is called the principal. Interest is the price you pay for borrowing, charged on the remaining balance, while fees are extra charges and penalties are separate charges for terms violations. When you make a payment that lowers the loan balance, that portion is the principal. If you pay off the loan in full, you're paying the remaining principal plus any interest due. In farming financing, this distinction shows up any time you're repaying equipment or operating loans—the principal is the original loan amount, and the interest is what covers the cost of borrowing the money.

7. In business, which group is most associated with innovation and risk-taking to earn profits?

- A. Entrepreneurs**
- B. Employees**
- C. Creditors**
- D. Regulators**

Entrepreneurship centers on spotting opportunities, creating new products or services, and organizing resources while accepting uncertainty and risk to earn profits. This willingness to innovate and take calculated risks is what ties them most closely to profit-seeking in business. Employees provide labor within established systems and typically receive fixed pay, so they're not primarily defined by pursuing high-risk, high-reward ventures. Creditors supply capital and earn returns through interest, not by driving innovation themselves. Regulators focus on enforcing rules and maintaining fair, safe markets rather than chasing profits through new ventures.

8. Which of the following best defines basis in futures markets?

- A. The Difference Between Cash Price And Futures Price**
- B. The Price Of The Futures Contract**
- C. The Difference Between Bid And Ask**
- D. The Expected Value Of The Contract**

Basis in futures markets is the difference between the cash price of the commodity and the price of the futures contract for the same commodity and delivery month. In formula form, $\text{Basis} = \text{Cash price} - \text{Futures price}$. This tells you how the spot market and the futures market relate at a given time. It can be positive or negative. For example, if the cash price is 100 and the futures price is 105, the basis is -5 . If the cash price is 110 and the futures price is 105, the basis is $+5$. The sign indicates whether futures are trading above or below the current cash market, which helps explain conditions like contango (futures above cash) or backwardation (cash above futures). Understanding basis helps hedgers manage risk because changes in the basis can affect the effectiveness of a hedge. The other concepts listed describe the futures price itself, the bid-ask spread, or an expected value, none of which define basis.

9. Working capital is defined as which of the following?

- A. current assets minus current liabilities**
- B. total assets minus total liabilities**
- C. current assets plus current liabilities**
- D. equity minus assets**

Working capital measures liquidity—the ability to cover short-term obligations with assets that can be converted to cash soon. It is calculated by subtracting current liabilities from current assets. Current assets are items like cash, accounts receivable, and inventory; current liabilities are obligations due within a year, such as accounts payable and short-term debt. For example, if current assets are 50,000 and current liabilities are 30,000, working capital is 20,000, meaning there are 20,000 available to meet near-term needs. The other ways of framing the numbers don't reflect this short-term liquidity concept. Total assets minus total liabilities gives the owner's equity, a longer-term measure of financial position, not immediate liquidity. Adding current assets and current liabilities mixes assets and obligations and doesn't indicate net available resources. Equity minus assets equals negative liabilities, which also isn't working capital.

10. In evaluating capital sources, which factor is commonly labeled as the most important to compare across options?

- A. Interest rate**
- B. Collateral requirement**
- C. Brand of lender**
- D. Payment frequency**

When you compare different sources of capital, the most important thing to look at is the interest rate because it directly sets how much you'll pay each year and over the life of the loan. A lower rate reduces both annual payments and the total interest, so it's the primary driver of the true cost of borrowing across options. Collateral requirements matter for risk and eligibility and can influence the terms you're offered, but they don't determine the ongoing cost as clearly as the rate does. Payment frequency mainly affects how cash flows are scheduled and can influence the timing (and sometimes the present value) of payments, but it doesn't change the total amount paid as much as the interest rate. The lender's brand might matter for service or familiarity, but it doesn't affect the financial terms of the borrowing.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://ffafarmbusinessmgmtcontest.examzify.com>

We wish you the very best on your exam journey. You've got this!

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