Agenda

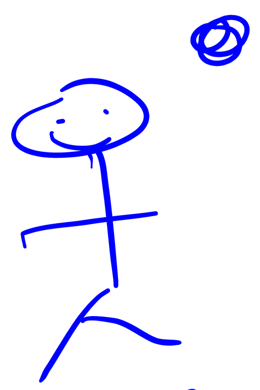
1. Quiz
2. Presentations start next Tuesday
   - I'll give sample.
3. Futures + hedging
4. Experimental Art
   - Breakout room w/ next week's presenters

Futures + Hedging (corn)

3/25: $F^{Sep20} = \$3.60/bu$

long cash corn

Ms. Long

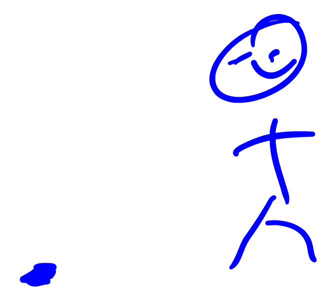


corn farmer in IA

To hedge,

Ms. Long takes a short futures position (makes $ if price falls)

short in cash corn



Mr. Short hog feeder in NC

To hedge, Mr. Short takes a long futures position.

An example

3/26/20 Ms. Long sells 1 Sep20 contract \$3.60

9/1/20 Assume $P^{NC} = F^{Sep20}$ ∴ price convergence

Scenario 1 : P = 2.50

Cash	Futures
\$2.50	gain = 3.60 − 2.50 = 1.10

Combined = 2.50 + 1.10 = 3.60

Scenario 2 : P = 5.00

Cash	Futures
5.00	loss = 5.00 − 3.60 = 1.40

combined = 5.00 − 1.40 = 3.60

Ms. Long is completely hedged :
she is indifferent to price movements.