

## Glossary

**Base acreage**—A farm’s crop-specific acreage of wheat, feed grains, upland cotton, rice, oilseeds, or peanuts eligible to participate in commodity programs under the 2002 Farm Act.

**Call option**—A contract that gives the buyer the right, but not the obligation, to buy a specified quantity of a commodity, a futures contract, or other financial instrument (regardless of its market price) at a price called the strike price.

**Contract market**—A board of trade or exchange designated by the Commodity Futures Trading Commission to trade futures contracts and option contracts under the Commodity Exchange Act.

**Decoupled payments**—Government program payments to producers that are not linked to the current levels of production, prices, or resource use. When payments are decoupled, producers make production decisions based on expected market returns rather than expected government payments.

**Deficiency payments**—Government payments to producers who prior to the 1996 Farm Bill, participated in an annual commodity program for wheat, feed grains, rice, or cotton. The crop-specific payment rate for a particular crop year was based on the difference between an established target price and the higher of the commodity loan rate or the national average market price for the commodity during a specified time period. A deficiency payment to a producer was calculated as the product of the payment rate, the farm’s eligible payment base acreage, and the farm’s established program payment yield.

**Futures contract**—A contract traded on a contract market to purchase or sell a commodity or financial asset in the future at a market price that is determined at initiation of the contract. All terms of a futures contract, except price, are specified by the contract market.

**Hedge**—A transaction intended to reduce or eliminate an existing risk.

**Hedge ratio**—Ratio of hedging instrument quantity to the quantity of the financial asset or commodity being hedged.

**Intrinsic value**—The amount by which the market price for the underlying commodity or futures contract is above the strike price of a call option or below the strike price of a put option.

**Market loss assistance payments**—Producer payments authorized by emergency legislation in 1998-2001.

**Marketing year**—The 12-month period starting with the month when the harvest of a specific crop typically begins. The 1998 wheat crop year, for example, is June 1, 1998, through May 31, 1999. The amount harvested during this time is then considered the “1998 crop.”

**Option premium or price**—The market price of an option.

**Payment yield**—Farm commodity per acre yield (as determined by legislation) used in calculating direct and counter-cyclical payments.

**Put option**—A contract that gives the buyer the right, but not the obligation, to sell a specified quantity of a commodity, futures contract, or other financial instrument (regardless its market price) at a price called the strike price.

**Strike price**—The price, specified in an option contract, at which the underlying commodity, futures contract, or other financial instrument can be purchased or sold.

**Target price**—Prices established in the 2002 Farm Act used for calculating counter-cyclical payments for wheat, corn, grain sorghum, barley, oats, rice, upland cotton, oilseeds, and peanuts. Target prices are fixed for 2002-03 and then raised to fixed levels for 2004-07, except for soybeans and rice, which remain at the 2002-03 levels. Prior to 1996, target prices were used to calculate deficiency payments.

**Time value**—That portion of an option's premium or price that exceeds the intrinsic value.

**Volatility**—Standard deviation of the rate of price change of a futures contract or other financial instrument.