

Cooperative Game Challenge Study Questions
(Master Question Database)
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Introduction:

This set of study questions is designed to aid students in preparing for the Cooperative Game Challenge. Since many students are tempted to study these questions, instead of reading background material on cooperatives, the study guide is designed to be a pedagogical tool instead of just a list of questions. Many of the questions are repetitive, with slight changes, so that the students will be exposed to the important concepts. Many questions are intentionally wordy, thus giving students the opportunity to read about the concepts. Background material on how businesses are organized is included to help students understand the difference between cooperatives and other forms of businesses.

This master question database includes 211 questions and the answers; it is a Microsoft Word File that is for Tennessee Council of Cooperatives (TCC) internal use only. I humbly request that the TCC does not distribute this file so that we may protect the intellectual property contained within. In addition, I have prepared two Adobe PDF files that may be distributed however the TCC sees fit – a question list and an answer key.

Information for the questions is taken from “Cooperatives in Agriculture” a textbook edited by David Cobia and this list of websites provided by the Tennessee Council of Cooperatives:

<http://tennesseecouncilofcoops.org/level2/CoopResources/default.htm>
<http://cpa.utk.edu/level2/coopdevelopment/resources.htm>
<http://cpa.utk.edu/level2/coopdevelopment/usdapubs.htm>
<http://www.rurdev.usda.gov/rbs/pub/cooprpts.htm>
<http://www.rurdev.usda.gov/rbs/pub/research.htm>
<http://www.rurdev.usda.gov/rbs/pub/service.htm>

Section 1, Business Basics

Background material on how businesses are organized.

- 1) A user-owned and user-controlled business that distributes benefits on the basis of use.
 - a. Partnership
 - *b. Cooperative
 - c. Corporation
 - d. Sole Proprietorship

- 2) A business that has legal rights as an entity separate from its owners.
 - a. Partnership
 - b. Cooperative
 - *c. Corporation
 - d. Sole Proprietorship

- 3) A business that is not organized for the purpose of making a profit.
 - a. Partnership
 - b. Cooperative
 - c. Corporation
 - *d. Non-Profit.

- 4) A business that is not legally separated from its owner.
 - *a. Sole Proprietorship
 - b. Cooperative
 - c. Corporation
 - d. Non-Profit.

- 5) An unincorporated business in which the owners share in the profits.
 - *a. Partnership
 - b. Cooperative
 - c. Corporation
 - d. Non-Profit.

- 6) A business that is owned and controlled by individuals as opposed to the government.
 - a. Partnership
 - b. Cooperative
 - *c. Private Business
 - d. Agency

- 7) True or False: All cooperatives are partnerships
False

- 8) True or False: Most cooperatives are corporations.

True

9) True or False: In the US cooperatives are private businesses

True

10) True or False: Stockholders own corporations.

True

Section 2, Cooperative Basics

Basic Cooperative Information and Terminology

1) A person, business, or other institution that conducts business with a cooperative or other type of business.

- a. Member
- b. Director
- c. Customer
- *d. Patron

2) A business that provides returns to individuals based on investment.

- a. Cooperative
- b. Partnership
- c. Non-Profit Organization
- *d. Investor-Oriented Firm

3) A cooperative is a special case of which of the following types of business?

- a. Farm
- b. Feed Store
- c. Partnership
- *d. Corporation

4) An individual that invests in a business

- *a. Owner
- b. Employee
- c. Patron
- d. Customer

5) An individual that invests in a cooperative

- *a. Member
- b. Patron
- c. Manager
- d. Matron

- 6) An individual that holds an ownership share in a cooperative.
- a. Patron
 - b. Manager
 - c. Farm
 - *d. Member
- 7) What is the primary way that a member controls a cooperative?
- *a. Voting for the board of directors.
 - b. Yelling at the manager.
 - c. Writing letters to the editor of the local newspaper.
 - d. Purchasing goods at the cooperative.
- 8) An individual that uses a cooperative, but is not a member.
- a. Patron
 - b. Member
 - c. User
 - *d. Non-Member Patron
- 9) The most common way that votes are distributed to cooperative members is:
- *a. One-Person, One-Vote
 - b. One-Farm, One-Vote
 - c. One Share of Stock, One-vote
 - d. One purchase, One-Vote
- 10) A governing role of conduct, a general or fundamental truth, a comprehensive or fundamental law
- *a. Principle
 - b. Principal
 - c. Policy
 - d. Practice
- 11) A wise or expedient rule of conduct or management.
- a. Principle
 - b. Principal
 - *c. Policy
 - d. Practice
- 12) A usual method, customary habit, action, or convention; a frequent or usual action.
- a. Principle
 - b. Principal
 - c. Policy
 - *d. Practice

- 13) Cooperatives are different from many other forms of business, or types of corporations. Which of the following is one of these differences?
- a. Non-Profit
 - b. Managed by a Board of Directors
 - *c. Based on Principles
 - d. Sell to farmers
- 14) A cooperative that is owned by other cooperatives.
- *a. Federated Cooperative
 - b. Regional Cooperative
 - c. Centralized Cooperative
 - d. Pyramid Cooperative
- 15) A cooperative that is owned by individuals and other cooperatives.
- a. Federated Cooperative
 - *b. Mixed Cooperative
 - c. Centralized Cooperative
 - d. Pyramid Cooperative
- 16) How are cooperatives different from other businesses?
- a. The purpose, or goal, of the business.
 - b. The way a cooperative is owned and controlled.
 - c. The way benefits are distributed.
 - *d. All of the above.
- 17) The Rochdale Equitable Pioneer's Society
- a. was the first cooperative
 - b. sold inputs to farmers
 - *c. is believed to have created the first set of written cooperative principles
 - d. all of the above
- 18) Which of the following is NOT one of the three most widely recognized and practiced cooperative principles
- *a. Open membership
 - b. Users retain the benefits
 - c. Users control the cooperative
 - d. Users are owners
- 19) Earnings that are returned to patrons in the form of equity or cash
- a. Cash Rebate
 - *b. Patronage Refund
 - c. User-benefit principle
 - d. Return on Equity

- 20) Interest paid to owners of cooperative equity
- a. Cash Rebate
 - b. Patronage Refund
 - c. Owner-Benefit Principle
 - *d. Return on Equity
- 21) Why do cooperatives limit return on equity?
- a. Federal statutes limit returns on equity to 8%
 - b. Limiting returns on equity is consistent with the User-Benefits Principle
 - c. To discourage outside investors from taking over the cooperative and running it like and IOF
 - *d. All of the above
- 22) According to the User-Owner Principle:
- a. The board of directors is responsible for financing the cooperative
 - *b. The people that use the cooperative are responsible for financing the cooperative
 - c. Owners exercise control through voting.
 - d. Users exercise control through voting.
- 23) According to the User-Benefits Principle:
- a. The board of directors is responsible for financing the cooperative
 - b. The people that use the cooperative are responsible for financing the cooperative
 - *c. Users benefit by sharing the earnings of the cooperative.
 - d. Members exercise control through voting.
- 24) According to the User-Control Principle:
- a. The board of directors is responsible for financing the cooperative
 - b. The people that use the cooperative are responsible for financing the cooperative
 - c. Users benefit by sharing the earnings of the cooperative.
 - *d. Users exercise control through voting.
- 25) Patronage refunds are distributed based upon:
- *a. The amount of business that each patron conducted with the cooperative.
 - b. The investments made by the owners of the cooperative.
 - c. The investments made by the users of the cooperative.
 - d. The number of votes that each user has.
- 26) Why do many small cooperatives work with other cooperatives through federated cooperatives or joint ventures?
- a. Because they are too small to gather the resources needed to serve their members.
 - b. Because large cooperatives have a monopoly on feed and fertilizer production.
 - c. In order to pool personnel and assets so that they may better serve members.
 - *d. a and c

- 27) Users of cooperatives are typically called:
- a. Stockholders.
 - *b. Patrons.
 - c. Shareholders.
 - d. Cooperators.
 - e. None of the above.
- 28) Control of a cooperative is typically democratic, which means:
- a. Patrons vote according to the volume of business they do with the co-op.
 - b. Members can only vote on the Board of Directors, not on other issues facing the cooperative.
 - *c. 1 member/1 vote.
 - d. The co-op manager makes all decisions.
- 29) Which of the following is not a characteristic of a Federated Cooperative?
- a. A co-op owned by other cooperatives.
 - b. The local co-op members elects the federated co-op board.
 - *c. Members are farmers.
 - d. All of the above are characteristics of a Federated co-op.
- 30) In a cooperative, patronage refunds are:
- a. direct investment of money by the patrons into the cooperative.
 - *b. the distribution of the cooperative's net income among patrons.
 - c. an investment of 1 unit of equity capital for each unit of business transacted with the patron.
 - d. None of the above.
- 31) Who were the Rochdale Pioneers?
- a. A group of people from Rochdale, Ireland who formed a consumer co-op in the late 1800s.
 - b. A group of firemen who formed a cooperative in Philadelphia in the 1750s.
 - c. A group of people who developed a set of cooperative principles, and moved to the western U.S. in covered wagons.
 - *d. A group of tradespeople in England in the 1850s that formed a cooperative and are credited with defining co-op principles.
- 32) True or False: Members own and control a cooperative.
True
- 33) True or False: Cooperatives are required by law to give owners a minimum 8% return on equity investments
False
- 34) True or False: There is no universally accepted definition of a cooperative.
True

35) True or False: All patrons of cooperatives are also members.
True

36) True or False: All members of cooperatives are also patrons.
False

37) True or False: A mixed cooperative is a cooperative that provides services and supplies to farmers in addition to marketing farmer products.
False

Section 3: Federal Legislation

Background material on federal laws that are relevant to agriculture and cooperatives.

1) The cornerstone act that allows farmers to organize into marketing cooperatives is the:

- a. Sherman Antitrust Act of 1890.
- *b. The Capper Volstead Act of 1922.
- c. The Morrill Act of 1865.
- d. The Packers and Stockyard Act of 1936.

2) Which law made monopolies illegal?

- a. The Capper Volstead Act of 1922
- *b. The Sherman Antitrust Act of 1890
- c. The Agricultural Marketing Agreement Act of 1937
- d. The Hatch act of 1922.

3) Which law is commonly referred to as “The Magna Carta of Agricultural Marketing Cooperatives?”

- a. The Hatch act of 1922.
- b. The Sherman Antitrust Act of 1890
- c. The Agricultural Marketing Agreement Act of 1937
- *d. The Capper Volstead Act of 1922

4) Which law created the cooperative extension service?

- *a. The Smith Lever Act of 1914
- b. The Sherman Antitrust Act of 1890
- c. The Agricultural Marketing Agreement Act of 1937
- d. The Capper Volstead Act of 1922

5) The Capper Volstead Act lists four requirements that marketing cooperatives must satisfy in order to be immune from antitrust laws. Which of the following is NOT one of the four requirements?

- a. Members must be agricultural producers.
- *b. No member has more than one vote, or the return to equity must be less than 10%.
- c. Nonmember business cannot exceed 50%.
- d. Market prices cannot be unduly enhanced.

6) The Capper Volstead Act lists four requirements that marketing cooperatives must satisfy in order to be immune from antitrust laws. Which of the following is NOT one of the four requirements?

- a. Members must be agricultural producers.
- b. No member has more than one vote, or the return to equity must be less than 8%.
- *c. Nonmember business cannot exceed 75%.
- d. Market prices cannot be unduly enhanced.

7) The Capper Volstead Act lists four requirements that marketing cooperatives must satisfy in order to be immune from antitrust laws. Which of the following is NOT one of the four requirements?

- a. Members must be agricultural producers.
- b. No member has more than one vote, or the return to equity must be less than 8%.
- c. Nonmember business cannot exceed 50%.
- *d. The flavor of food products cannot be unduly enhanced.

8) The Capper Volstead Act lists four requirements that marketing cooperatives must satisfy in order to be immune from antitrust laws. Which of the following is NOT one of the four requirements?

- *a. Members must be married to an agricultural producer.
- b. No member has more than one vote, or the return to equity must be less than 8%.
- c. Nonmember business cannot exceed 50%.
- d. Markets cannot be unduly enhanced.

9) According to the Capper Volstead Act an agricultural producer

- a. Must be a grain farmer
- b. Must be a livestock farmer
- c. Must produce at least \$1,000 worth of agricultural commodities
- *d. None of the above

10) The Capper Volstead Act

- *a. protects consumers from monopolies.
- b. created the first cooperative.
- c. permits supply cooperatives to operate without violating anti-trust laws.
- d. none of the above.

11) True or False: The cooperative extension service is a government agency that only serves agricultural cooperatives.

False

12) True or False: The Capper Volstead Act makes it possible for marketing cooperatives to operate without violating federal antitrust laws.

True

13) True or False: The Capper Volstead Act allows cooperatives to collude with third parties in order to fix prices.

False

14) True or False: According to the Capper Volstead Act all marketing cooperatives must have a one-member one-vote policy.

False

15) True or False: According to the Capper Volstead Act marketing cooperatives cannot provide a return on equity that is greater than 8%

False

16) True or False: According to the Capper Volstead Act a marketing cooperatives' nonmember business cannot exceed 50%.

True

17) True or False: According to the Capper Volstead Act a marketing cooperative's members must all be farmers.

True

Section 4. 2006 Agricultural Cooperative Statistics

Statistics taken from the most recent year that they are available, 2006, this section will give students an overall picture of current cooperative trends.

1) How many agricultural marketing cooperatives were headquartered in Tennessee in 2006?

- *a. 7
- b. 66
- c. 73
- d. None

2) How many agricultural service and supply cooperatives were headquartered in Tennessee in 2006?

- a. 7
- *b. 66
- c. 73
- d. None

3) How many agricultural cooperatives were headquartered in Tennessee in 2006

- a. 7
- b. 66
- *c. 73
- d. None

- 4) How many agricultural marketing cooperatives were headquartered in the US in 2006?
- *a. 1,280
 - b. 1,395
 - c. 2,675
 - d. 50
- 5) How many agricultural service and supply cooperatives were headquartered in the US in 2006?
- a. 1,280
 - *b. 1,395
 - c. 2,675
 - d. 48
- 6) How many agricultural cooperatives were headquartered in the US in 2006?
- a. 1,280
 - b. 1,395
 - *c. 2,675
 - d. 4000
- 7) How many farmers were members of Tennessee's seven agricultural marketing cooperatives in 2006?
- *a. 64,100
 - b. 52,000
 - c. 12,500
 - d. 42,100
- 8) In 2006 what was the gross business volume for Tennessee's seven agricultural marketing cooperatives?
- a. \$114.5 thousand
 - b. \$31.7 million
 - *c. \$114.5 million
 - d. \$31.7 thousand
- 9) In 2006 what was the gross business volume for all US agricultural marketing cooperatives?
- a. \$70.4 million
 - b. \$76.5 million
 - c. \$70.4 billion
 - *d. \$76.5 billion

- 10) In 2006 what was the gross business volume for Tennessee's 65 agricultural supply cooperatives?
- *a. \$1.4 billion
 - d. \$1.4 million
 - c. \$0.8 billion
 - d. \$0.8 million
- 11) In 2006 what was the gross business volume for all US agricultural supply cooperatives?
- a. \$45.8 million
 - *d. \$45.8 billion
 - c. \$1.4 billion
 - d. \$1.4 million
- 12) Total gross business volume of all US farm marketing, farm supply, and farm related-service cooperatives for 2006 was:
- a. \$1.5 billion
 - b. \$1.5 million
 - c. \$126.5 million
 - *d. \$126.5 billion
- 13) How many total farm marketing, farm supply, and farm related-service cooperatives were operating in the US in 2006.
- a. 1,675
 - *b. 2,675
 - c. 3,675
 - d. 4,675
- 14) In 2006, 66 percent of the farmer cooperatives in the US accounted for _____ percent of the total gross dollar volume of sales
- a. 10
 - b. 94
 - c. 66
 - *d. 6
- 15) In 2006, 3 percent of farmer cooperatives in the US accounted for _____ percent of the total sales.
- a. 90
 - *b. 65
 - c. 3
 - d. 97

16) Farm supply cooperatives provide a wide variety of inputs to farmers. Which of the following inputs was the largest sales category for farm supply cooperatives in 2006?

- a. Feed
- b. Seed
- *c. Petroleum Products
- d. Fertilizer

17) In 2006 there were 2,675 farmer cooperatives in the US. The largest category was:

- a. Marketing Cooperatives
- b. Electric Cooperatives
- *c. Supply Cooperatives
- d. Service Cooperatives

18) In 2006 there were 2,675 farmer cooperatives in the US. The smallest category was:

- a. Marketing Cooperatives
- b. Electric Cooperatives
- c. Supply Cooperatives
- *d. Service Cooperatives

19) In 2006 there were 2,675 farmer cooperatives in the US. How many of these were federated cooperatives:

- *a. 48
- b. 22
- c. 1,525
- d. 2,675

20) In 2006 there were 2,675 farmer cooperatives in the US. How many of these were mixed cooperatives:

- a. 48
- *b. 22
- c. 1,525
- d. 2,675

21) Ranked by membership, which category of farmer cooperative is the largest?

- a. Service
- b. Marketing
- c. Dairy
- *d. Farm Supply

22) Ranked by membership, which category of farmer marketing cooperative is the largest?

- a. Dairy
- b. Cotton
- *c. Grain and Oilseed
- d. Wool and Mohair

23) Ranked by the number of cooperatives, which category of farmer marketing cooperative is the largest?

- a. Dairy
- b. Cotton
- *c. Grain and Oilseed
- d. Wool and Mohair

24) True or False: Petroleum products have always been a major product provided by farm service cooperatives. However, the dollar value of sales dramatically decreased between 2005 and 2006

False

25) True or False: The value of farmer cooperative assets in 2006 was approximately \$47.9 billion.

True

26) True or False: Farmer cooperative net worth in 2006 was approximately \$19.9 billion.

True

27) True or False: Total farmer cooperative membership in 2006 was approximately \$2.6 million.

True

28) True or False: In 2006 farmer cooperatives employed approximately 123 thousand full time employees and 57 thousand part-time and seasonal employees.

True

29) True or False: In 2006 the majority of the farmer marketing cooperatives in Tennessee were grain and oilseed cooperatives.

False

Section 5. Cooperative Finance

Advanced Material on how Cooperatives are Financed

1) On a balance sheet the funds contributed by the owners of a firm, plus any earnings retained by the firm is called:

- a. Assets
- b. Liabilities
- c. Net Worth
- *d. Equity

2) A firm's financial assets, or the value of those assets. Usually including equipment, land, buildings and cash.

- *a. Capital
- b. Headquarters
- c. Equity
- d. Net Worth

3) What are the two primary ways that firms can raise capital?

- a. Begging and stealing
- *b. Accumulating net worth and Borrowing
- c. Borrowing and begging
- d. Accumulating net worth and stealing

4) In a cooperative net worth is usually called:

- a. Member net worth
- b. Member investment
- c. Member property
- *d. Member equity

5) When a firm borrows to generate capital this capital is called:

- *a. Debt capital
- b. Loan capital
- c. State capital
- d. Ownership capital

6) When a firm accumulates net worth to generate capital this capital is called

- a. Debt capital
- b. Equity capital
- c. State capital
- *d. Ownership capital

- 7) In a cooperative, money that is raised in order to purchase assets without a legal obligation to repay the money is called:
- a. Debt capital
 - *b. Equity capital
 - c. State capital
 - d. Ownership capital
- 8) In a cooperative allocated equity is:
- a. Capital that is assigned to a specific use
 - b. Capital that has already been spent
 - c. Capital that cannot be used to purchase equipment or supplies
 - *d. Capital that is assigned to a specific member
- 9) How is allocated equity assigned to members?
- a. Based on the amount of money the member invested in the cooperative
 - *b. Based on how much business the member does with the cooperative
 - c. Based on the number of voting shares the member owns.
 - d. Based on the age of the member
- 10) What is a per-unit capital retain?
- *a. Equity collected by a cooperative based on the amount of a patron's product handled by the cooperative.
 - b. Equity collected by a cooperative based on the amount of a patron's investment in the cooperative.
 - c. Equity collected by a cooperative based on the number of times a member votes.
 - d. All of the above.
- 11) Net income allocated to members based upon the amount of business, also known as patronage, they have conducted with the cooperative.
- a. Patronage credits
 - b. Patronage refunds
 - c. Per-unit capital retains
 - *d. Per-unit patronage retains
- 12) Net income that is allocated to members based upon patronage with the cooperative that is not paid to members as cash.
- a. Retained patronage credits
 - b. Patronage refunds
 - *c. Retained patronage refunds
 - d. None of the above
- 13) Equity that is not designated or assigned to specific member accounts.
- a. Allocated Equity
 - *b. Unallocated equity
 - c. Retained patronage refunds
 - d. All of the above

- 14) How might unallocated equity be generated?
- a. Profit from the sale of an asset.
 - b. Nonmember business.
 - c. A merger.
 - *d. All of the above
- 15) The primary disadvantage to holding unallocated equity is:
- *a. Unallocated equity breaks the link between an individual member's ownership of the cooperative and the cooperative's equity base.
 - b. Unallocated equity must be returned to the government at the end of the fiscal year
 - c. The board of directors has the legal right to spend unallocated equity on their own salaries.
 - d. All of the above.
- 16) How do cooperatives generate allocated equity?
- a. By selling shares of capital stock.
 - b. Per-unit capital retains.
 - c. Retained patronage refunds.
 - *d. All of the above
- 17) A program commonly used by cooperates to raise capital that uses features of per-unit retains and retained patronage refunds, but is a more reliable way to raise capital.
- a. Revolving fund plan
 - b. Equity redemption plan
 - *c. Base capital plan
 - d. Membership drive
- 18) An equity redemption plan where the cooperative gradually returns equity to members within a specific period of time.
- *a. Revolving fund plan
 - b. Base capital plan
 - c. Special event plan
 - d. None of the above
- 19) An equity redemption plan where the cooperative returns equity based on something that happens to the member.
- a. Revolving fund plan
 - b. Base capital plan
 - *c. Special event plan
 - d. None of the above

- 20) Cooperatives that use a special event plan to return equity will return equity when something happens to the member. Which of the following are typical special events?
- a. Death
 - b. Retirement
 - c. Bankruptcy
 - *d. All of the above
- 21) Why do cooperatives return equity to members?
- a. To prevent members from becoming over invested.
 - b. The equity belongs to the member, and it should be returned to them.
 - c. So that the current owners of the cooperative are also the current users of the cooperatives.
 - *d. All of the above
- 22) Which of the following is an example of an over-invested member?
- a. A member owns 2% of the cooperative and makes up 5% of the cooperatives patronage.
 - b. A non-member patronizes the cooperative.
 - *c. A retired farmer that no longer patronizes the cooperative owns one share of the cooperative.
 - d. None of the above
- 23) Which of the following is an example of an under-invested member?
- *a. A member owns 2% of the cooperative and makes up 5% of the cooperatives patronage.
 - b. A non-member patronizes the cooperative.
 - c. A retired farmer that no longer patronizes the cooperative owns one share of the cooperative.
 - d. None of the above
- 24) Why does it matter if a cooperative has over-invested members?
- a. Over-invested members have more than one vote, so the cooperative is no longer democratic.
 - *b. It violates the user-owner principle.
 - c. It violates the user-control principle.
 - d. It violates the user-benefit principle.
- 25) Cooperatives are frequently limited to only providing only an 8% return on equity. Why do farmers invest in cooperatives when the return on the investment is limited?
- *a. Members may gain access to markets, thus making their farm more profitable.
 - b. Investments with cooperatives are FDIC insured and guaranteed to yield 8%.
 - c. Farmers are not good with money, so they don't realize they are getting a bad return.
 - d. Because 8% is a good return.

- 26) Cooperatives are frequently limited to only providing only an 8% return on equity. Why do farmers invest in cooperatives when the return on the investment is limited?
- a. Investments with cooperatives are FDIC insured and guaranteed to yield 8%.
 - *b. Members get better prices, thus making their farm more profitable.
 - c. Farmers are not good with money, so they don't realize they are getting a bad return.
 - d. Because 8% is a good return.
- 27) Cooperatives are frequently limited to only providing only an 8% return on equity. Why do farmers invest in cooperatives when the return on the investment is limited?
- a. Investments with cooperatives are FDIC insured and guaranteed to yield 8%.
 - b. Because 8% is a good return.
 - c. Farmers are not good with money, so they don't realize they are getting a bad return.
 - *d. There are intangible, non-monetary, benefits to joining a cooperative.
- 28) Corporations are required to pay income tax on any corporate profits. Then when the corporation pays dividends to shareholders the shareholders pay income tax. What is this called?
- a. Corporate welfare
 - *b. Double-tax
 - c. Single tax
 - d. None of the above.
- 29) Which of the following best describes how patronage refunds are taxed?
- a. Cooperatives must pay income tax on qualified patronage refunds.
 - *b. Patrons must pay income tax on qualified patronage refunds
 - c. Both a and b
 - d. Neither a nor b
- 30) True or False: Cooperatives are required to return 100% of all net income to members as a patronage refund in the year the income is generated
False
- 31) True or False: Retained patronage refunds is not the most reliable way for a cooperative to generate equity because net income is not stable.
True
- 32) True or False: Unallocated equity decreases the flexibility that a cooperative has in returning allocated equity to members.
False

33) True or False: Unallocated equity can be used as a capital reserve for times when other capital accumulation methods fall short.

True

34) True or False: If a cooperative has unallocated equity any business losses must be charged to allocated equity before the losses it is charged to unallocated equity.

False

35) True or False: In a cooperative the members own all unallocated equity. It is just not allocated to any individual member.

True

36) True or False: When a cooperative retains allocated equity the equity belongs to the cooperative and it will never be returned to the member.

False

37) True or False: Cooperatives are not legally obligated to return allocated equity to members within a specific time period.

True

38) True or False: Cooperatives are required to pay taxes.

True

Section 6, Is it a Cooperative?

A fun section, intended to encourage students to learn more about cooperatives.

Are the following firms cooperatives (Yes or No)

- 1) Sunkist Y
- 2) Sunsweet Y
- 3) Sunny Delight N
- 4) Blue Diamond Y
- 5) Pepsi N
- 6) Riceland Y
- 7) Kellogs N
- 8) Post N
- 9) Ace Hardware Y
- 10) Ocean Spray Y
- 11) Florida's Natural Y
- 12) Land O' Lakes Y
- 13) Google N
- 14) Meriwether Lewis Electric Cooperative Y
- 15) Home Depot N
- 16) Tennessee Farmers Cooperative Y
- 17) Tractor Supply Corporation N
- 18) American Crystal Sugar Co. Y
- 19) Lipton N

- 20) Nabisco N
- 21) Dairy Farmers of America Y
- 22) Purity Dairies N
- 23) Piggly Wiggly Alabama Y
- 24) Bush Beans N
- 25) Farm Credit Services of Mid-America Y
- 26) CoBank Y
- 27) Little Debbie Foods N
- 28) Nebraska Rural Radio Association Y
- 29) Whole Foods Market N
- 30) Middle Tennessee Electric Membership Corporation Y

Section 7, Benefits of joining a cooperative and cooperative limitations

Advanced material covering economic and non-economic incentives to joining a cooperative.

- 1) As a general introduction statement to cooperative benefits and limitations, farmers have found that a major benefit of a cooperative business is to give them an assured source of _____ and a market for their _____.
 - a.* Supplies, products
 - b. Products, supplies
 - c. Crop, products
 - d. Supplies, income

- 2) Under Ownership and Democratic Control, cooperatives enable farmers to own and control, on a democratic basis, business enterprises for procuring their supplies and services (_____), and marketing their products (_____).
 - a. Outputs, inputs
 - b. Yield, inputs
 - c. Inputs, expenses
 - d. *Inputs, outputs

- 3) Cooperatives increase farm income in a number of ways. Which one of the following is NOT a way that cooperatives can help increase farm income?
 - a. Raising the general price level for products marketed or lowering the level for supplies purchased.
 - b. *Increasing per-unit handling or processing costs by assembling large volumes, i.e. economies of size or scale.
 - c. Distributing to farmers any net savings made in handling, processing, and selling operations
 - d. Developing new markets for products

4) One basic objective of cooperatives is improved member service. They do this by _____ not available or by improving existing services.

- a. *Providing services
- b. Providing goods
- c. Providing relief
- d. Providing harvest

5) Farm supply cooperatives have been noted for providing supplies giving the greatest value-in-use to the farmer. Their objectives have been to provide feed, seed, and fertilizer that give the farmer maximum gains or yields rather than those that returned the largest net margins to the cooperatives. This statement is best described as a what?

- a. Improved Service
- b. Assured Sources of Supplies
- c. *Quality of Supplies and Products
- d. Expanded Markets

6) By assuring sources and supplies cooperatives provide members with a dependable source of reasonably priced supplies, especially during shortages or emergencies. This may require cooperatives to forego larger profits that would be available to the cooperative if the cooperative marketed to supplies to a different group. An example of this would be?

- a. Supplying tractors to farmers when theirs is in the shop
- b. Supplying farmers with free land when free land is available
- c. Supplying farmers with animals if they don't have enough
- d. *Supplying farmers with petroleum and fertilizer during a shortage

7) Cooperatives operated as pacesetters in the public interest in helping farmers (by providing assured sources of supplies) in the 1970's. Specifically, cooperatives did ONE of the following.

- a. Denied sale of supplies to member-patrons to enable farmers to expand production
- b. Made special purchases at extremely high costs
- c. *Expanded refining and manufacturing capacity
- d. Withdrew extra storage and transport equipment to acquire or store products

8) Cooperatives expand markets through pooling products of specified grade or quality; many marketing cooperatives can meet the needs of large-scale buyers better than individual farmers. In many cases, cooperatives have expanded or acted to retain markets by processing members' products into different forms or foods. An example of this would be:

- a. *Pacific Coast Producers, formed to process growers' fruits and vegetables after a large cannery closed
- b. American Sheep Federation sheared sheep for only half price for all new members
- c. Quarter Horse Association of America bred horses for those who could not do it themselves
- d. Pacific Coast Producers bought out the cannery, closed the plant and then sold the stock off

9) Cooperatives develop local leaders, which of the following best describes this cooperative benefit?

- a. Successful, growing cooperatives often weaken leaders among directors, managers, and other employees. And members by participating in business decisions on a democratic basis, become more self-reliant and informed citizens in their communities.
- b. Successful, growing cooperatives do not often develop leaders among directors, managers, and other employees. And members by participating in business decisions on a democratic basis, become more self-reliant and informed citizens in their communities.
- c. Unsuccessful, growing cooperatives often develop leaders among directors, managers, and other employees. And members by participating in business decisions on a democratic basis, become more self-reliant and informed citizens in their communities.
- d. * Successful, growing cooperatives often develop leaders among directors, managers, and other employees. And members by participating in business decisions on a democratic basis, become more self-reliant and informed citizens in their communities.

10) One benefit of cooperatives is family farmer control of agriculture this means that credit and supply cooperatives help the family farmer enlarge his/her production units more efficiently on an independent basis. The marketing and processing cooperatives provide members market access and help them sell their products to their _____, either in the original state at harvest or later following storage, or in the processed form.

- a. Disadvantage
- b. *Advantage
- c. Inconvenience
- d. Convenience

11) Cooperatives benefit the economy of rural areas in a number of ways. Which of the following is NOT a benefit to a rural community?

- a. Added community Income
- b. Stronger Rural Communities
- c. *Non-quality products
- d. Varied services

12) Most of the additional income farmers get through cooperatives is spent with hometown stores for goods and services. Successful cooperatives also have substantial payrolls and their employees' support of local businesses adds to the economic well-being of the community. The cooperatives also spend money for supplies, utilities, insurance and local taxes. This BEST describes which of the following?

- a. Overview of Benefits to Rural Communities
- b. Benefits to Consumers
- c. *Added Community Income
- d. Goods and Services to Nonfarmers

13) Which of the following best describes a limitation of cooperatives?

a. *Cooperatives are subject to the same economic forces, laws, and human relationships that contribute to the success or failure of other types of businesses. Cooperatives, however, have various intrinsic limitations. Some relate to the agricultural industry and others pertain to their objectives and the inherent nature of cooperatives organizations.

b. Cooperatives are not subject to the same economic forces, laws, and human relationships that contribute to the success or failure of other types of businesses. Cooperatives, however, they do not have various intrinsic limitations. Some relate to the agricultural industry and others pertain to their objectives and the inherent nature of cooperatives organizations.

c. Cooperatives are subject to different economic forces, laws, and human relationships that contribute to the success or failure of other types of businesses. Cooperatives, however, have different various intrinsic limitations. Some relate to the agricultural industry and others pertain to their objectives and the inherent nature of cooperatives organizations.

d. Cooperatives are subject to the same economic forces, laws, and human relationships that contribute to the success or failure of other types of businesses. Cooperatives, however, have no intrinsic limitations. Some relate to the agricultural industry and none pertain to their objectives and the inherent nature of cooperatives organizations.

14) Cooperative farming usually refers to a cooperative enterprise where a number of farmer-members pool their land, capital, equipment, and _____, and share in the _____ on the basis of their labor _____.

- a. Labor, returns, output
- b. Labor, expenses, input
- c. *Labor, returns, input
- d. Labor, expenses, output

15) Not all cooperatives acquire the leadership and financial abilities to deal effectively with other firms in the marketplace. They may acquire sufficient size and strength to influence the level of service and margins and thus return higher proceeds to members, but have little or no influence on the basic price level for a farm product or supply item. The heavy dependence on member-patron equity capital is a critical limiting factor in acquiring size and diversification. This is an example of what?

- a. Middlemen Functions
- b. Influence of Prices and Services
- c. Frailties of Human Nature
- d. *Market Power

16) True or False: Frailties of Human Nature is a subsection of Restrictions by Inherent Characteristics.

True

17) True or False: Under the Limited Objections section, members may NOT organize a cooperative to market only one specific product or to handle only specified kinds of farm supplies.

False

18) The voluntary nature is a strength of some cooperatives, especially those not using annual marketing or purchasing agreements with members in the Member Attention and Support section.

False

19) True or False: Patronage Refund Policy is best described as understandably some members may need considerable cash for payment of income taxes, they often do not understand their cooperative's needs for retaining patronage refunds to finance additional facilities, and how such actions could improve services or income to members.

True

20) True or False: Upgrading the quality of supplies or farm products handled is one way that cooperatives increase farm income.

True

21) True or False: Rural Electric cooperatives and artificial inseminations associations are outstanding examples of making a new service available in rural areas. This falls under the Quality of Supplies and Products section.

True

22) True or False: Strong successful cooperatives introduce desirable competition that raises the going market prices for farm products, the type of services provided, and the quality of supplies farmers purchase. This is a statement that describes Enhanced Competition.

True

23) True or False: Another financial benefit, very easily measured, is the legislative support cooperatives provide for their members.

False

24) True or False: A new type of cooperative approach also is being used in some areas of the United States to combine features of the traditional marketing cooperatives with some aspects of production cooperatives is an example of Family Farm Control of Agriculture.

True

25) True or False: Under the Goods and Services to Nonfarmers section, Rural Electric cooperatives serve only rural farm residents.

False

Section 8. Cooperative Member Responsibilities and Control

Advanced material covering the responsibilities of cooperative members

1) The requirements for membership in local or centralized farmer cooperatives usually consist of one of the following:

- a. *Members must be producers of farm products
- b. Members must own at least 100 acres
- c. Members must produce at least \$1000/yr
- d. Members are obligated to defame their cooperative

2) Farmer members form cooperatives to obtain needed services and improve their farm's earnings rather than to realize a high return on their investment is best described as which of the following?

- a. Member Oath
- b. *Member Objectives
- c. Member Services
- d. Member Support

3) Members are responsible for understanding their cooperative-its purpose, objectives, _____, limitations, operations, finances, and _____ - _____ plans.

- a. Benefits, short-term
- b. Potential, long-range
- c. Potential, short-term
- d. *Benefits, long-range

4) Member responsibilities start with the conception of the cooperative and remain throughout its life to assure successful organization, sound management, and operation. Members' role in management differs from investor-oriented corporations because they both own and use the cooperative. This is a summary statement of Members Responsibilities. Which of the follow is NOT a member responsibility?

- a. Understanding the Cooperative
- b. Adopt Legal Papers
- c. Provide Necessary Capital
- d. *Nonparticipation in Affairs

5) Members should select and evaluate directors, which of the following BEST describes this member responsibility?

- a. Members should be intimately familiar with the cooperative and as owners assume a negative, slim role in its management. Although the cooperative is a socially controlled form of business, members can make all decisions directly. They elect directors from their membership to represent them in most affairs of management.
- b. Members should be intimately familiar with the cooperative and as co-owners assume a positive, broad role in its management. Although the cooperative is a democratically controlled form of business, members cannot make all decisions directly. They do not elect directors from their membership to represent them in any affairs of management.
- c. * Members should be intimately familiar with the cooperative and as owners assume a positive, broad role in its management. Although the cooperative is a democratically controlled form of business, members cannot make all decisions directly. They elect directors from their membership to represent them in most affairs of management.
- d. Non-members should be intimately familiar with the cooperative and as owners assume a positive, broad role in its management. Although the cooperative is a members only, democratically controlled form of business, non-members can help make all decisions directly. They can help elect directors from their non-membership to represent everyone in most affairs of management.

6) Members must supply an adequate volume of business if the cooperative is to operate efficiently and successfully, in other words members should use and support the cooperative. Through membership or marketing agreements, they should commit most or all of their marketing or supply purchases to the cooperative each year. Cooperative leaders have suggested ways to strengthen member support. Which of the following is a way to strengthen the member support?

- a. Know the groups functions and make them successful through providing opportunities to initiate ideas and discuss proposed actions
- b. Run the business efficiently
- c. Provide up-to-date service
- d. *All the above
- e. None of the above

- 7) Members' participation in affairs of their association _____ the feeling of ownership and _____ for success according to the Participate in Affairs section.
- *Increases, responsibility
 - Decreases, responsibility
 - Increases, lacks
 - Decreases, lacks
- 8) A cooperative must continually replace members who move away, quit farming or die. In some cases, additional members may be needed to financially strengthen the association or increase its volume. Present members can help by encouraging their neighbors to patronize the cooperative and become members. How should this member obligation be classified?
- Member Control
 - Voting Methods
 - *Help Obtain New Members
 - Provide Information
- 9) Which of the following is NOT a statement that can describe the cooperative principle of member control?
- Democratic control means authority to control the cooperative's affairs; it rests with the members using it
 - Members exercise the authority by voting at annual meetings and other meetings called when decisions are needed
 - The democratic characteristic is steadfastly maintained by relating voting power to use of the cooperative's services.
 - None of the above
 - *All of the above
- 10) Most cooperatives apparently believe nominating committees are effective in assuring democratic selection of directors because surveys show 80 to 90 percent use them. Suggested guidelines for selecting a nominating committee are listed below. Which one listed below IS TRUE?
- *Limit it to members-no directors, manager, or staff
 - Exclude former directors
 - Select members who are not familiar with the bylaws and State statutes
 - None of the statements are true

11) Most cooperatives elect directors at their annual meeting. This is a democratic practice if a high percent of members attend and exercise their right to vote. Careful planning, good publicity, and a strong member relations program are effective. What would a hazard (problem) be with this system?

- a. A temptation for some members to propose that the system turn to a socialist system
- b. A temptation for some members to propose that the nominations be closed as soon as the minimum number be nominated to avoid an election
- c. A temptation for some members to propose that the present board be reinstated
- d. Both a and c
- e. *Both b and c

12) In cooperatives, members as owners make a number of broad management decisions. Some of these are required by State Statutes; others by the cooperative's bylaws. Still others are subject to the general policy of the cooperative and the judgment of its current board of directors. Statutes pertaining to cooperatives only and those pertaining to all businesses impose limitations and specify actions that members can and must take to comply with the law. An example of this would be which of the following?

- a. Homestead Act of 1841 was a United States Federal law that gave an applicant freehold title to 160 acres (one quarter section or about 65 hectares) of undeveloped land outside of the original 13 colonies
- b. Land Grant Act of the U.S. Congress (1862) that provided grants of land to states to finance the establishment of colleges specializing in "agriculture and the mechanic arts." It granted each state 30,000 acres (12,140 hectares) for each of its congressional seats. Funds from the sale of the land were used by some states to establish new schools
- c. *Capper-Volstead Act of 1922, a federal law that recognizes the rights of producers to act together in associations without being in restraint of trade.
- d. All qualify
- e. None qualify

13) Development and Challenges section has that internal growth, mergers and acquisitions have rapidly expanded many agricultural cooperatives. New multi-State and national cooperatives have been created to help existing cooperatives _____ economic efficiencies and _____ market power nationally and internationally.

- a. Loose, increase
- b. *Gain, increase
- c. Gain, decrease
- d. Loose, decrease

14) As cooperatives grow in scope and operation, the Attention to Member Concern section has members often feel excluded from the decision making processes. In more recent years, extend efforts have been made to determine member concerns and to communicate with them. An example of this would be?

- a. Farmers Union Oil Co., meeting members face to face
- b. Southern States Co-op directors holding community meetings
- c. Indiana Farm Bureau Co-op Association hold co-op couple dinners
- d. Only a and c
- e. *All the above

15) Large v. Medium and Small Farmer-Members section states that cooperatives are characterized as being organized by large numbers of small farmers to deal with firms few in number and relatively large in size. As cooperatives have come of age in the past decade to efficiently serve farmers' needs for supplies, credit, marketing and related services, and so have their farmer-member become more diverse in size. Some cooperative leaders feel that a conflict of interest between the members with large or small farm operations can be a serious problem. Which one of the following statements IS TRUE based on the information given?

- a. *Efficient smaller dairy farmers, poultry raisers and produce growers in many areas will continue to represent a sizable share of cooperative business in supply and market
- b. Non-efficient smaller dairy farmers, poultry raisers and produce growers in many areas will continue to represent a sizable share of cooperative business in supply and market due to their inability but actual numbers of people
- c. Efficient smaller dairy farmers, poultry raisers and produce growers in many areas will continue to represent a small share of cooperative business in supply and market but will eventually die out
- d. None of the above

16) True or False: In the Member Equity Retirement section, grave concern sometimes arises regarding new members getting unfair advantage of old members' capital in financing the cooperative's fixed and operating needs.

True

17) True or False: Members may not cease to patronize their cooperative because of death, retirement, disability, change of occupation or type of production, moving from the trade area, or for many other reasons.

False

18) True or False: Cooperative members are person-individuals, partnerships, corporations and association-holding membership in a cooperative organized without capital stock or holding stock in a cooperative with capital stock.

True

19) True or False: Members may provide a wide range of other services through their cooperative regardless of where they live-in rural areas or in the city. An example of this would be telephone service through telephone associations

True

20) True or False: Member responsibilities start with the conception of the cooperative and remain throughout its life to assure unsuccessful organization, unsound management and non-existing operations.

True

21) True or False: Under the Provide Information section members do not have to be provided with any information/facts about the cooperative that they are wanting to be associated with.

False

22) Generally, most cooperatives limit each member to one vote. However there are some special situations that would allow for more.

True

23) Democratic election of director is not vital to democratic member control based on the information from the Nominating and Electing Directors section

False

24) Mail voting or secret ballot voting at the annual meeting does not help avoid situations like re-electing the present board. It actually makes the process worse.

False

25) Cooperatives both small and large effectively use advisory members for contact and communication between management and members.

True