

Spot price equals
futures price (Basis = \$0)

Price increases from planting to harvest

	Spot (cash) Market	Futures Market
April (planting)		Sell December futures contract at \$2.60 per bushel
December (harvest)	Sell corn to local buyer at \$3.30 per bushel	Offset: Buy December futures contract at \$3.30 per bushel
Net Price = Spot Price _{Dec} – (Futures Sell Price – Futures Buy Price) = \$3.30 – (\$2.60 – \$3.30) = \$2.60 per bushel		

Price decreases from planting to harvest

	Spot (cash) Market	Futures Market
April (planting)		Sell December futures contract at \$2.60 per bushel
December (harvest)	Sell corn to local buyer at \$2.40 per bushel	Offset: Buy December futures contract at \$2.40 per bushel
Net Price = Spot Price _{Dec} – (Futures Sell Price – Futures Buy Price) = \$2.40 – (\$2.60 – \$2.40) = \$2.60 per bushel		

Spot price not equal to
futures price (Basis ≠ \$0)

	Spot (cash) Market	Futures Market
April (planting)		Sell December futures contract at \$2.60 per bushel
December (harvest)	Sell corn to local buyer at \$3.30 per bushel	Offset: Buy December futures contract at \$3.40 per bushel
Basis = \$3.30 – \$3.40 = –\$0.10 Net Price = Spot Price _{Dec} – (Futures Sell Price – Futures Buy Price) = \$3.30 – (\$2.60 – \$3.40) = \$2.50 per bushel		

	Spot (cash) Market	Futures Market
April (planting)		Sell December futures contract at \$2.60 per bushel
December (harvest)	Sell corn to local buyer at \$2.40 per bushel	Offset: Buy December futures contract at \$2.50 per bushel
Basis = \$2.40 – \$2.50 = –\$0.10 Net Price = Spot Price _{Dec} – (Futures Sell Price – Futures Buy Price) = \$2.40 – (\$2.60 – \$2.50) = \$2.50 per bushel		

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Figure 8.6

46p0 wide X 26p0 High (Landscape)