

What Are Commodities? | Worksheet



Matching

Match the definition in Column A with the term in Column B.

Column A

- _____ Traders betting on futures for profit.
- _____ Raw materials sourced from the earth for use.
- _____ Deals to trade commodities at future prices.
- _____ Cultivated goods like grains and livestock.
- _____ Current commodity price, reflecting supply and demand.
- _____ Mined resources like oil, gas, and minerals.

Column B

- a. Commodities
- b. Soft Commodities
- c. Hard Commodities
- d. Future Contracts
- e. Speculators
- f. Spot Price

Multiple Choice

1. **Why did Henry Heinz face a financial problem with his cucumber purchase?**
 - a. He didn't have enough cucumbers to make pickles.
 - b. There were too many cucumbers at a high price.
 - c. Cucumbers were not needed for his product.
 - d. He sold cucumbers at a price that was too low.
2. **What is a futures contract in commodity trading?**
 - a. An agreement to sell a commodity at current market prices.
 - b. A contract to buy or sell a commodity at a future price.
 - c. A plan to buy commodities only in the future.
 - d. A deal to trade only in soft commodities like wheat and soybeans.
3. **What makes trading in commodities risky?**
 - a. Prices are stable and don't change often.
 - b. No one can predict future prices with certainty.
 - c. Commodities are not useful in everyday life.
 - d. Only speculators are involved in commodity trading.
4. **Why is the spot price of a commodity important?**
 - a. It tells how much the commodity costs right now.
 - b. It shows the price of the commodity last year.
 - c. It is the price used for trading only gold and silver.
 - d. It predicts the future price of the commodity.

Application

Henry Heinz enters a futures contract to buy cucumbers from a local farm to make his famous pickles. He agrees to buy 5,000 cucumbers at a fixed price of \$0.50 each, planning to spend a total of \$2,500. However, due to an unexpected bumper crop, the farm delivers 7,000 cucumbers instead of the agreed 5,000.

- a. How much money will Henry Heinz pay for the 7,000 cucumbers based on the contract price?



- b. If Henry only budgeted \$2,500 for cucumbers and needs to pay the full amount for the 7,000 cucumbers, how much over his budget will he be?
- c. If Henry decides to sell the excess 2,000 cucumbers to another pickle manufacturer at a price of \$0.60 each, how much money will he make from selling the excess cucumbers?
- d. After selling the excess cucumbers, how much has Henry spent on the cucumbers in total?

Use this table to organize your work, the first column demonstrates how to use it:

	Original Contract	Bumper Crop	Over Budget	Sell Option
# of pickles	5,000			
Price per each	X \$0.50	X	X	X
Total Amount	= \$2,500	=	=	=

$$\underline{\hspace{2cm}} - \underline{\hspace{2cm}} = \underline{\hspace{2cm}}$$

(total cost of cukes) (earnings from sell option) (total money spent)

What Are Commodities? | Answer Key

Matching

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Multiple Choice

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Application Answer

	Original Contract	Bumper Crop	Over Budget	Sell Option
# of pickles	5,000	7,000	2,000	2,000
Price per each	X \$0.50	X \$0.50	X \$.50	X \$0.60
Total Amount	\$2,500	= \$3,500	= \$1,000	= \$1,200

$$\text{\$3,500} - \text{\$1,200} = \text{\$2,300 spent in total}$$

- a. How much money will Henry Heinz pay for the 7,000 cucumbers based on the contract price? Henry Heinz will pay **\$3,500** for the **7,000 cucumbers** based on the contract price (Bumper Crop column).
- b. If Henry only budgeted \$2,500 for cucumbers and needs to pay the full amount for the 7,000 cucumbers, how much over his budget will he be? Since he only budgeted **\$2,500**, he will be **\$1,000 over budget** to pay for all 7,000 cucumbers. (Difference between Bumper Crop amount and Original Contract amount.)
- c. If Henry decides to sell the excess 2,000 cucumbers to another pickle manufacturer at a price of \$0.60 each, how much money will he make from selling the excess cucumbers? If he sells the **2,000 excess cucumbers** at **\$0.60 each**, he will earn **\$1,200** from the sale (Sell Option column).
- d. After selling the excess cucumbers, how much has Henry spent on the cucumbers in total? After selling the excess cucumbers, Henry will have spent a total of **\$2,300** on the cucumbers (Difference between Bumper Crop column and Sell Option column).