

Instructions on Getting Started Using the *University of Wisconsin* LGM-Dairy Software System

1. Let's start by accessing the data that I reviewed in the previous PPT. On your desktop should be a file called ca_example.csv. First, start the LGM-Dairy premium estimator program by navigating through the Understanding Dairy Markets website that I showed in the previous PPT presentation.
2. Once you start the Premium Estimator, use the program's file manager to grab the file ca_example.csv from your desktop.
3. Once loaded, run the same scenario that I ran in the previous PPT presentation, estimating premium costs of a 50% coverage strategy under the August 2010 contract. Note that in terms of the results you obtained, they should be different than mine, as a different set of futures/options data are used to obtain your premium estimate.
 - a. What are the 3 days of futures and options contracts settle prices used to estimate your LGM-Dairy Premium?
 - b. What is the deductible level you are assuming?
 - c. What is your total GMG? GMG/cwt of covered milk? GMG/cwt of total farm milk?
 - d. What is the total cost of insurance? What is the per cwt cost for covered milk? Per cwt cost of total farm milk?
 - e. What is the impact on the deductible level on your GMG versus your premiums?
4. Using the results for the \$1.00 deductible scenario, determine the net GIOGC target.
 - a. What is this target?
 - b. Using the LGM-Dairy least cost optimizer, how much can you reduce your premium costs to obtain this target versus that given by the Premium Estimator software?
 - c. Using the same target, assume you do not want to cover the Oct. – December 2010. What would be the optimal (i.e. least cost) allocation to obtain the above target? (Hint: Exclude these months from consideration and rerun the optimization model).
5. Up to this point, we have examined how our software systems can be used to evaluate the cost of purchasing an LGM-Dairy contract for the next contract offering. There may be certain situations where you want to undertake a "what if" type of analysis. That is..." If I had done strategy X in October 2008, what would have been the outcome in terms of an actual insurance payout?" Our software system has the ability to do such an analysis. I would like to walk you through the software for such an application.