

**Contract Law Test****Part 1 – Multiple Choice/True False (2 points each)**

1. The taking back of an offer by the offeror is  
a. revocation    b. rejection    c. cancellation    d. consideration
2. A contract that amounts to nothing and has no legal effect is  
a. bilateral    b. voidable    c. void    d. unilateral
3. A contract that contains a promise by both parties is  
a. express    b. implied    c. bilateral    d. unilateral
4. A valid contract must contain at least four of the six elements of a contract.  
a. true    b. false
5. A(n) \_\_\_\_\_ occurs when one party to a contract does not do what he or she agreed to do.  
a. breach    b. fraud    c. consideration    d. ratification
6. If a valid offer is met with a valid acceptance, the result is  
a. misrepresentation    b. genuine agreement    c. legality    d. capacity
7. People sometimes enter into \_\_\_\_\_ contracts without saying a word.  
a. voidable    b. express    c. unenforceable    d. implied
8. The offeree's refusal, or \_\_\_\_\_, of an offer ends that offer.  
a. rejection    b. revocation    c. implication    d. expression
9. An offer must be definite, communicated to the offeree, and \_\_\_\_\_.  
a. signed    b. implied    c. seriously intended    d. timely
10. When a bilateral mistake is made, neither party may avoid the contract.  
a. true    b. false
11. A deliberate deception to secure unfair or unlawful gain is  
a. misrepresentation    b. libel    c. unilateral mistake    d. fraud
12. Overcoming a person's will through force is  
a. fraud    b. duress    c. extortion    d. ratification

Name:

\_\_\_\_\_/ 101 points

13. Alex persuaded his grandmother, Clara, to sell him her car for \$1,000. They both knew the car was worth much more than that. However, Clara did not need the car anymore and loved her grandson, so she agreed to sell him the car. The next day Clara found out that Alex was planning to sell the car to a friend for \$6,000.

Clara can avoid the contract because of:

- a. duress      b. fraud      **c. undue influence**      d. mistake

14. A minor has the right to avoid a contract.

- a. true**      b. false

15. A legal means of enforcing a right or correcting a wrong is a(n)

- a. breach      **b. remedy**      c. avoidance      d. beneficiary

16. A minor who claims to be over the age of majority commits

- a. fraud**      b. misrepresentation      c. extortion      d. larceny

17. A minor would be held responsible for the fair value of which of the following?

- a. athletic shoes      b. CDs      **c. medical care**      d. video games

18. After reaching the age of majority, a person may \_\_\_\_\_ a contract made during minority by using, selling, or keeping the item, or by making payments.

- a. confirm      b. disaffirm      c. sign      **d. ratify**

19. A promise to do something that is already under a legal obligation to do that same thing is not consideration.

- a. true**      b. false

20. A promise to give money in exchange for something that has already been done is binding.

- a. true      **b. false**

21. Consideration in a contract means that:

- a. A person has the mental capacity to enter into a contract.  
b. The two parties deal with the contract in a polite manner.  
c. The contract is legal and fully valid.  
**d. Something of value is being exchanged by the two parties.**

22. For consideration to be present in a contract, the two parties must pay the market value of the goods. For example, if one party is selling a car to another party, the car must be priced as it would at a dealership.

- a. true      **b. false**

23. A court's award that reimburses a buyer for reasonable expenses when the seller has breached a contract is \_\_\_\_\_ damages.

- a. incidental**      b. actual      c. real      d. illusory

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24. If both parties to an illegal agreement are equally at fault, the court will aid both parties equally.

- a. true      **b. false**

25. When contracts eventually end, they are said to be

- a. rejected    b. avoided    **c. discharged**    d. unenforceable

26. Illegal agreements are

- a. voidable    **b. void**      c. limited      d. enforceable

27. Charging more than the maximum legal interest rate is

- a. fraud      **b. usury**      c. extortion    d. price-fixing

28. Competitors who sell a particular product or service at an agreed price are engaged in

- a. price-fixing**    b. restraint of trade    c. usury      d. a restrictive covenant

29. A promise not to compete is

- a. price-fixing    b. restraint of trade    c. usury      **d. a restrictive covenant**

30. The destruction of the subject matter of a contract discharges that contract.

- a. true**      b. false

31. Can a contract be ended by mutual agreement by the parties?

- a. yes**      b. no

32. As long as all terms have been carried out properly and completely, the contract is discharged by \_\_\_\_\_ . (This is the most common way contracts are discharged.)

- a. agreement    b. avoidance    **c. performance**    d. exaction

33. Damages agreed upon by the parties when they first enter into a contract are called

- a. actual damages    b. incidental damages    c. anticipatory damages    **d. liquidated damages**

## Part 2 – Short Answer

1. Luisa agreed to buy Renee's armoire for \$500, mistakenly thinking it was made of mahogany and worth much more money. Renee never told Luisa the armoire was made out of mahogany. Luisa later learned that it was made of pine and worth only \$200. Can Luisa get out of the contract? Explain your answer. (2 points)

**Luisa cannot get out of her contract b/c she made a unilateral mistake. Renee never told her it was made of mahogany, so there was no misrepresentation or fraud.**

2. Explain when a promise of a future gift will NOT be upheld in court. (2 points)

**If a person promises to bestow a gift at some future time or in a will, that promise is not enforceable if no consideration is given for the promise.**

3. List and define the six essential elements of a contract. (12 points)

Offer – a proposal by one party to another intended to create a legally binding agreement

Acceptance – the second party's unqualified willingness to go along with the first party's proposal

Genuine Agreement – exists when a valid offer is met by a valid acceptance

Capacity – the legal ability to enter a contract

Consideration – the exchange of things of value

Legality – people cannot enter into contracts to commit illegal acts

4. List the three key characteristics of consideration. (3 points)

Promises must involve the concept of a bargained-for exchange

Something of value must be involved

The benefits and detriments promised must be legal

5. Explain the difference between a void and voidable contract. (2 points)

A contract that is void has no legal effect. An agreement that is missing one of the elements would be void.

When a party to a contract is able to void or cancel the contract for some legal reason, it is a voidable contract. It is not void itself, but may be voided by one or more of the parties.

6. A promise not to compete is called a restrictive covenant. When will a court uphold a restrictive covenant? Write an example. (2 points)

Will be upheld by a court if it is reasonable in time and geographic location. Examples will vary.

7. When the city took ownership of four buildings due to nonpayment of taxes, the buildings were in serious need of renovation due to neglect by the owners. Local law required the city government to open the contracts to competitive bidding and to accept the lowest bid submitted by a contractor on each construction job. Four contractors met and agreed for one of them to be the lowest bidder on one of the four jobs so they could all be awarded one of the jobs. Is this agreement enforceable? Explain your answer. (2 points)

No. Agreements to defeat competitive bidding is contrary to public policy. The bidders agreements and their resulting contracts are not enforceable.

8. Blake gave Travis \$1000 down payment on his car, with a written contract stating that he would pay the remaining \$2000 the next day when he came to pick up the car. That night, while the car was parked on the street, it was demolished by another driver who lost control of his car. The parties can discharge the contract based on what? (1 point)

Destruction of exact subject matter/impossibility of performance

9. Explain when specific performance and injunctions would be awarded in court for a breach of contract. (2 points)

Specific performance can be granted when the subject matter of the contract is rare or unique; money damages is not enough to repay a breach of contract.

An injunction is only available in special circumstances, such as when money damages will be inadequate to compensate the injured party; trying to stop a race track developer from building a new track 1000 feet behind your home.

10. Differentiate between fraud and misrepresentation. Which is more serious, and why? (3 points)

Misrepresentation occurs when you make an innocent statement that turns out to be false. The person honestly believed it was true at the time. Fraud is deliberate deception intended to secure an unfair or unlawful gain. Fraud is more serious because there is intent to do wrong.

Name:

\_\_\_\_\_/ 101 points

**Part 3 – Case Studies:** Read the case summaries below. Then write Yes or No to indicate your decision. Also, check the letter of the supporting legal principle. (2 points each)

1. Charles Kubert, 17, wanted to buy a car. His father offered to help him, but he insisted on doing it himself. Accordingly, he purchased a brand new Corvette. A week later, Charles saw a TransAm he liked better. He took the Corvette back to the dealer. The car dealer told Charles that he could not disaffirm the contract. Is the car dealer correct?

- \_\_\_\_\_ A. A minor is responsible for the fair value of necessities.  
\_\_\_\_\_ B. Contracts of minors are voidable.  
\_\_\_\_\_ C. Contracts of minors are void.  
\_\_\_\_\_ D. An adult may choose to enforce a contract made with a minor.

No, B

2. Amcotex, Inc. and Hudson-Sanchez, Inc. are the only two construction companies available to bid on the construction of two new buildings at the North Central Institute of Technology. Executives from the two companies agree to fix bids so that Amcotex wins one contract and Hudson-Sanchez the other. Amcotex reneges on the deal and wins both contracts. Hudson-Sanchez sues for breach of contract. Will Hudson-Sanchez win? \_\_\_\_\_

- \_\_\_\_\_ A. Agreements to defeat competitive bidding are illegal.  
\_\_\_\_\_ B. Agreements to defeat competitive bidding are legal.  
\_\_\_\_\_ C. Agreements to defeat competitive bidding are legal only in the construction industry.  
\_\_\_\_\_ D. Agreements to defeat competitive bidding are illegal only in the construction industry.

No, A

Extra Credit (2 points): What is the most important thing you learned while discussing contracts? Explain why you think this is so important.