

Chapter 7 – Contract Law

1. D

Explanation: Actual fraud is any intentional act of deception or misrepresentation. This can include making statements without regard for whether or not they are true.

2. A

Explanation: Actual fraud occurs whenever a person makes a promise without any intention of performing it, in order to deceive another person.

3. C

Explanation: A minor or incompetent person may receive title to property through gift or inheritance, although they may not sign a contract to purchase property. Court approval may be required for a transfer through a guardian. A minor or an incompetent person is unable to appoint an agent, which would include an attorney in fact.

4. B

Explanation: The buyer's offer has not yet been accepted, so no contract has been formed. The offeror may withdraw an offer, and have a deposit returned, at any point before the offer is accepted.

5. C

Explanation: Only this definition contains all four requirements for a valid contract: legal capacity, mutual consent, consideration, and a lawful objective.

6. A

Explanation: Duress is a negative force that may affect whether consent to a contract was freely given. Duress occurs when a person is forced to sign a contract through threat of violence or confinement.

7. B

Explanation: A contract signed under duress is voidable. This means that the wronged party has the option of rescinding the contract or enforcing the contract against the other party.

8. D

Explanation: Consideration may be money, property, services, or a promise to provide something of value in the future.

9. A

Explanation: When a counteroffer is made, the original offer is terminated. Instead, a new offer is formed, and the offeree of the original offer becomes the offeror of the counteroffer.

10. C

Explanation: A bilateral contract is one in which both parties promise to do something; there must be a promise for a promise.

11. B

Explanation: A novation is the substitution of a new obligation for an old one. It can involve the substitution of a new contract between the same parties, or the substitution of the same contract between new parties.

12. D

Explanation: A voidable contract is one that can be rescinded. Contracts formed as a result of fraud, undue influence, or duress are voidable by the victimized party. Also, a contract signed by a minor is voidable by the minor. Failure to rescind results in ratification.

13. B

Explanation: A counteroffer, no matter how trivial the change from the original offer, amounts to a rejection of that offer and releases the original offeror from any liability.

14. C

Explanation: If a party does not have contractual capacity, the party's legal guardian should sign instead of the party, who lacks capacity.

15. C

Explanation: If an offeror fails to notify the offeree that the offer has been revoked, and the offeree communicates acceptance of the offer before the deadline, then a binding contract has been formed.