

Chapter 1

Law and Legal Reasoning

TRUE/FALSE QUESTIONS

B1. Laws and government regulations affect almost all business activities.

ANSWER: T
BUSPROG: Analytic

PAGES: Introduction
AICPA: BB-Legal

B2. The U.S. Constitution is the basis of all law in the United States.

ANSWER: T
BUSPROG: Analytic

PAGES: Section 2
AICPA: BB-Legal

B3. The U.S. Constitution reserves to the federal government all powers not granted to the states.

ANSWER: F
BUSPROG: Analytic

PAGES: Section 2
AICPA: BB-Critical Thinking

B4. The Uniform Commercial Code has been adopted in all fifty states.

ANSWER: T
BUSPROG: Reflective

PAGES: Section 2
AICPA: BB-Critical Thinking

B5. Federal agency regulations take precedence over conflicting state agency regulations.

ANSWER: T
BUSPROG: Analytic

PAGES: Section 2
AICPA: BB-Legal

2 TEST BANK B—UNIT ONE: THE LEGAL ENVIRONMENT OF BUSINESS

B6. *Common law* is a term for the laws that are familiar to most of us.

ANSWER: F PAGES: Section 3
BUSPROG: Analytic AICPA: BB-Critical Thinking

B7. Decisions by higher courts are *not* binding on lower courts.

ANSWER: F PAGES: Section 3
BUSPROG: Analytic AICPA: BB-Legal

B8. *Stare decisis* is a doctrine obligating judges to help persons who have failed to protect their own rights.

ANSWER: F PAGES: Section 3
BUSPROG: Analytic AICPA: BB-Legal

B9. Courts are *not* obligated to follow precedents.

ANSWER: F PAGES: Section 3
BUSPROG: Reflective AICPA: BB-Critical Thinking

B10. In most legal controversies, there is one single correct result.

ANSWER: F PAGES: Section 3
BUSPROG: Analytic AICPA: BB-Critical Thinking

B11. Although cases may be similar, no two cases are ever identical in all respects.

ANSWER: T PAGES: Section 3
BUSPROG: Analytic AICPA: BB-Critical Thinking

B12. Each judge had his or her personal beliefs and philosophy, which shape the legal reasoning process.

ANSWER: T PAGES: Section 3
BUSPROG: Reflective AICPA: BB-Critical Thinking

B13. Clearly, a judge's function is to *make* the laws.

ANSWER: F PAGES: Section 4
BUSPROG: Analytic AICPA: BB-Critical Thinking

- B14. The courts, in interpreting statutory law, often rely on the common law as a guide to what the legislators intended.

ANSWER: T PAGES: Section 4
BUSPROG: Analytic AICPA: BB-Critical Thinking

- B15. A jury's good sense and careful consideration of consequences is known as jurisprudence.

ANSWER: F PAGES: Section 4
BUSPROG: Reflective AICPA: BB-Critical Thinking

- B16. Procedural law consists of all laws that outline the methods of enforcing rights.

ANSWER: T PAGES: Section 5
BUSPROG: Analytic AICPA: BB-Legal

- B17. A citation identifies the publication in which a legal authority can be found.

ANSWER: T PAGES: Section 6
BUSPROG: Analytic AICPA: BB-Research

- B18. The decisions made by the courts establish the boundaries of the law as it applies to almost all business relationships.

ANSWER: T PAGES: Section 7
BUSPROG: Analytic AICPA: BB-Critical Thinking

- B19. The party against whom a lawsuit is brought is the *plaintiff* or *petitioner*.

ANSWER: F PAGES: Section 7
BUSPROG: Analytic AICPA: BB-Critical Thinking

- B20. When all the judges (or justices) agree on a decision, a *majority opinion* is written for the entire court.

ANSWER: F PAGES: Section 7
BUSPROG: Reflective AICPA: BB-Critical Thinking

MULTIPLE-CHOICE QUESTIONS

- B1. Data Analytics, Inc., is a corporation engaged in the business of compiling, analyzing, and marketing data. To accomplish its purposes, Data Analytics obtains financing, and hires and fires employees. Laws and government regulations affect such business activities as

- a. hiring and firing decisions.
- b. the manufacturing and marketing of products.
- c. business financing.
- d. all of the choices.

ANSWER: D

PAGES: Section 1

BUSPROG: Reflective

AICPA: BB-Critical Thinking

- B2. The U.S. Congress enacts a new federal statute that imposes liability on businesses hiring employees without verifying their citizenship status. This statute applies

- a. only to businesses not covered by state law.
- b. only to those states that consent to apply it.
- c. to all of the states.
- d. to none of the states.

ANSWER: C

PAGES: Section 2

BUSPROG: Reflective

AICPA: BB-Legal

- B3. A provision in the California state constitution conflicts with a provision in the U.S. Constitution. If challenged

- a. neither provision will be enforced.
- b. the provisions will be balanced to reach a compromise.
- c. the state provision, not the U.S. Constitution, will be enforced.
- d. the U.S. Constitution, not the state provision, will be enforced.

ANSWER: D

PAGES: Section 2

BUSPROG: Reflective

AICPA: BB-Legal

- B4. The Pennsylvania legislature enacts a state law that violates the U.S. Constitution. This law can be enforced by
- a. no one.
 - b. the federal government only.
 - c. the state of Pennsylvania only.
 - d. the United States Supreme Court only.

ANSWER: A PAGES: Section 2
BUSPROG: Reflective AICPA: BB-Legal

- B5. The Bay City Planning Department, the Coastal County Zoning Commission, the Delaware Environmental Quality Agency, and the U.S. Bureau of Land Management issue regulations. These rules constitute
- a. administrative law.
 - b. case law.
 - c. *stare decisis*.
 - d. statutory law.

ANSWER: A PAGES: Section 2
BUSPROG: Reflective AICPA: BB-Critical Thinking

- B6. Charles is a federal judge whose judicial decisions are part of case law, which does *not* include interpretations of
- a. regulations created by administrative agencies.
 - b. constitutional provisions.
 - c. statutes enacted by legislatures.
 - d. sound bites in the media.

ANSWER: D PAGES: Section 2
BUSPROG: Reflective AICPA: BB-Legal

6 TEST BANK B—UNIT ONE: THE LEGAL ENVIRONMENT OF BUSINESS

B7. Much of American law is based on

- a. the English legal system.
- b. the French legal system.
- c. Greek civil law.
- d. ancient Chinese law.

ANSWER: A

PAGES: Section 3

BUSPROG: Reflective

AICPA: BB-Legal

B8. Bob's Big Burgers n' Shakes Restaurant brings a suit, seeking a remedy at law. A *remedy at law* is

- a. monetary damages.
- b. a decree of specific performance.
- c. a judicial proceeding for the resolution of a dispute.
- d. an injunction.

ANSWER: A

PAGES: Section 3

BUSPROG: Reflective

AICPA: BB-Critical Thinking

B9. Larry enters into a contract with Motivational Education Services to host a panel discussion at a sales conference. When the conference is postponed indefinitely, Larry asks a court to cancel the contract and return the parties to the positions that they held before its formation. This request involves

- a. specific performance.
- b. an injunction.
- c. rescission.
- d. an action that the court cannot order.

ANSWER: C

PAGES: Section 3

BUSPROG: Reflective

AICPA: BB-Legal

B10. Maggie and Nate enter into a contract for the sale of a car, but Nate later refuses to deliver the car. Maggie asks a court to order Nate to perform as promised. Ordering a party to perform what was promised is

- a. specific performance.
- b. damages.
- c. rescission.
- d. beyond the court's authority.

ANSWER: A PAGES: Section 3
BUSPROG: Reflective AICPA: BB-Decision Modeling

B11. Jane enters into a contract with Jill to provide 100 roses for a dinner party. Jill fails to deliver the roses. Jane initiates a suit against Jill, asking the court to order Jill to refund Jane's payment. Jane is

- a. the plaintiff.
- b. the defendant.
- c. the binding authority.
- d. the persuasive authority.

ANSWER: A PAGES: Section 3
BUSPROG: Analytic AICPA: BB-Legal

B12. Sara believes that she has a strong case against Tom for the breach of an employment contract. Despite this belief, Sara cannot file a suit against Tom after the expiration of the time allowed for the filing under

- a. a statute of limitations.
- b. the doctrine of laches.
- c. an equitable maxim.
- d. the remedy at law.

ANSWER: A PAGES: Section 3
BUSPROG: Reflective AICPA: BB-Legal

- B13. In the case of *Retail Sales Corp. v. Trucking Delivery Co.*, the court may rule contrary to a precedent if the court decides that the precedent
- a. is incorrect or inapplicable.
 - b. is not in line with the judge's personal values.
 - c. would lead to unintended consequences.
 - d. would not bring about the result the judge prefers.

ANSWER: A PAGES: Section 3
BUSPROG: Reflective AICPA: BB-Legal

- B14. Karen is a judge hearing the case of *Local Dispatch Co. v. National Transport Corp.* Applying the relevant rule of law to the facts of the case requires Karen to find *cases on point*—previously decided cases that, in relation to the case under consideration, are
- a. as different as possible.
 - b. as similar as possible.
 - c. at odds.
 - d. exactly identical.

ANSWER: B PAGES: Section 3
BUSPROG: Analytic AICPA: BB-Legal

- B15. Juan is a judge. How Juan and the judges in other courts interpret a particular statute determines
- a. how that statute will be applied.
 - b. how the law needs to be changed.
 - c. how the common law should be codified.
 - d. nothing.

ANSWER: A PAGES: Section 3
BUSPROG: Analytic AICPA: BB-Legal

B16. To Sam, the written law of a particular society at a particular time is most significant. Sam is a

- a. legal positivist.
- b. person who adheres to the historical school of legal thought.
- c. legal realist.
- d. person who adheres to the natural law tradition.

ANSWER: A
BUSPROG: Analytic

PAGES: Section 4
AICPA: BB-Critical Thinking

B17. Dave and Ellen enter into a contract via e-mail. When a dispute arises over the performance of the deal, Dave files a suit against Ellen. The emerging body of law that governs transactions conducted via the Internet is referred to by the term

- a. cyberlaw.
- b. civil law.
- c. equitable maxims.
- d. IRAC.

ANSWER: A
BUSPROG: Reflective

PAGES: Section 5
AICPA: BB-Critical Thinking

B18. Beth is a victim of Carl's violation of a criminal law. Criminal law is concerned with

- a. the prosecution of private individuals by other private individuals.
- b. the prosecution of public officials by private individuals.
- c. the relief available when a person's rights are violated.
- d. wrongs committed against the public as a whole.

ANSWER: D
BUSPROG: Reflective

PAGES: Section 5
AICPA: BB-Research

B19. The Nebraska Supreme Court issues an opinion that can be found at 285 Neb. 88, 825 N.W.2d 429. “285” is

- a. the number of the volume in the official reports of the court’s decisions.
- b. the number of the volume in Thomson Reuter’s unofficial publication of the court’s decisions.
- c. a page number in the appropriate volume.
- d. the number of the case in the sequence decided by the state’s highest court.

ANSWER: A

PAGES: Section 6

BUSPROG: Reflective

AICPA: BB-Research

B20. Operational Processes, Inc., appeals a decision against it, in favor of Precision Manufacturing Corporation, from a lower court to a higher court. Operational Processes is

- a. the appellant.
- b. the appellee.
- c. the defendant.
- d. the respondent.

ANSWER: A

PAGES: Section 7

BUSPROG: Reflective

AICPA: BB-Legal

ESSAY QUESTIONS

B1. In a lawsuit between Cloud Computing Corporation and Digital Enterprises, Inc., the court applies the doctrine of *stare decisis*. What is this doctrine? What does this doctrine have to do with the American legal system?

ANSWER: In a common law legal system, past judicial decisions are binding in current disputes with similar facts. This feature of the common law, which is the basis of the American legal system, is unique because, unlike the law in other legal systems, it is judge-made law. Within the common law system, when possible, judges attempt to be consistent and to base their decisions on the principles suggested by earlier cases. The body of principles and doctrines that form the common law emerged over time as judges applied the principles announced in earlier cases to subsequent legal controversies.

The practice of deciding cases with reference to former decisions, or precedents—the cornerstone of the American legal system—is called the doctrine of *stare decisis*. Under this doctrine, judges are obligated to follow the precedents established within their jurisdictions. This helps courts to be more efficient and makes the law more stable and predictable.

PAGES: Section 3

BUSPROG: Reflective

AICPA: BB-Critical Thinking

- B2. For a business law class, Sierra reads and briefs several court opinions using the IRAC method of legal reasoning. What do the letters I, R, A, and C abbreviate? What are the steps in the IRAC method?

ANSWER: The letters I, R, A, and C are the first letters of “Issue,” “Rule,” “Application,” and “Conclusion.”

The IRAC method of legal reasoning requires Sierra or any other student or reader to first summarize the important facts of a legal case and state the salient issue or issues. The second step is to determine and set out the rule of law that applies to the facts to resolve the issue. The third step is to apply that rule to those facts. The application of the rule requires an answer to the question posed by the issue. This answer may involve one or more different types of legal reasoning, but those reasons should be thought out and expressed clearly. Finally, the conclusion derived from the application of the rule to the facts is stated. This is sometimes referred to as the result or the outcome in a case—who won; who lost; what the award, if any, consists of; or what the parties are, or are not, required to do next.

PAGES: Section 3

BUSPROG: Reflective

AICPA: BB-Legal