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Chapter 1 - Knowledge of Law as a Business Asset

1. Which of the following best defines business law?

- a. legal responsibility for the occurrence of an event causing loss
- b. rules governing commercial relationships and the enforcement of rights
- c. rules governing procedures involved when one person sues another
- d. rules providing members of a society with established rights

ANSWER:

b

2. Kamal is a computer technician who is about to enter into a one-year contract to provide IT services to a real estate agency. From Kamal's perspective, what is the most important function of this contract?

- a. to establish penalties for non-compliance
- b. to deal fairly with unexpected events
- c. to resolve conflicts
- d. to plan for the future and enforce expectations

ANSWER:

d

3. Which of the following is NOT an objective of business law?

- a. protection of business ideas and tangible property
- b. ensuring losses are borne by those who cause them
- c. imposition of fines on those who breach contracts
- d. facilitating planning by ensuring compliance with commitments

ANSWER:

c

4. A small group of entrepreneurs undertaking a business venture have agreed on the roles each will assume in the business, but they must now determine the form of business structure for the enterprise. What does the law facilitate by offering entrepreneurs different business structure options?

- a. choice of degree of exposure to liability for business risks
- b. rules that make written agreements between parties binding
- c. opportunities to maximize the protections that the law extends
- d. legal certainty for activities conducted in the commercial arena

ANSWER:

a

5. Joy is a sales representative with EduPlan Ltd., a business selling education savings plans. She received a hospital record setting out the names and contact information of women who recently gave birth at a local hospital. She received the record from her friend who is a nurse in the maternity ward, who photocopied it without permission. Joy intends to contact these potential leads about purchasing an annuity from her business. How does the law impact the disclosure of this record to Joy?

- a. by requiring businesses and organizations to protect the privacy of personal information by imposing and collecting fines when they breach this obligation
- b. by ensuring that Joy is required to compensate her friend for her assistance in providing the record
- c. by punishing Joy for using the record for a purpose that was not contemplated when the record was created
- d. by requiring Joy to obtain the hospital's consent before using the record

ANSWER:

a

6. After numerous requests for payment for the services it provided to a client, Cando Enterprises Inc. found it necessary

Chapter 1 - Knowledge of Law as a Business Asset

to sue in order to recover the amount it was owed. What type of law did Cando Enterprises Inc. resort to?

- a. employment
- b. business
- c. criminal
- d. contract

ANSWER: d

7. Novel Swings Inc. has a contract to begin construction of a school's swing set on June 15th, and work is to be completed by August 1st. After weeks of wet weather, the ground was unsuitable for work to begin in June and Novel will not meet the completion deadline. Which statement best describes the legal **status** of the contractual relationship between Novel Swings and the school?

- a. The contract is void due to wet weather.
- b. The contract requires renegotiation.
- c. The contract is in good standing.
- d. The contract has been breached.

ANSWER: d

8. The government recently enacted rules governing the use of drones that will limit how they are used by businesses and individuals. What purpose is the law fulfilling in this situation?

- a. facilitating planning by ensuring compliance with commitments
- b. protecting businesses by setting penalties and ensuring accountability
- c. responding to emerging hazards in society and setting rules to protect the public interest
- d. ensuring that losses are borne by those who are responsible for them

ANSWER: c

9. What is the role of business ethics?

- a. to provide a comprehensive plan for dealing with legal risk
- b. to establish principles and values for determining right and wrong in the business world
- c. to resolve disputes between conflicting parties
- d. to impose legal responsibility for an event or loss that has occurred

ANSWER: b

10. What is the purpose of contract law?

- a. to ensure litigation of parties committing contractual breach
- b. to prescribe principles and values for use in society
- c. to determine right and wrong in the business world
- d. to enforce expectations and facilitate planning

ANSWER: d

11. Which law regulates privacy standards in most Canadian provinces?

- a. the *Consumer Protection Act*
- b. the *Personal Information Protection and Electronic Documents Act*
- c. the *Criminal Code of Canada*
- d. the *Privacy and Marketing Act*

ANSWER: b

12. Champion Well Drilling Inc. is being sued for rupturing a gas line while drilling a well on a customer's property. How might Champion best avoid similar risks in the future?

Chapter 1 - Knowledge of Law as a Business Asset

- a. by developing and implementing a legal risk management plan
- b. by limiting itself to zero-risk projects
- c. by ensuring it has sufficient resources set aside to pay out future judgments
- d. by hiring a mediator to assist in resolving future legal disputes

ANSWER:

a

13. Organic Veggies'4'U Inc. has entered into a one-year, extendable supplier contract with EcoWise Fertilizers Ltd. for the delivery of 1.5-ton pallets of worm castings fertilizer at a price of \$2,000 per ton in March and June. What type of role do contract law and its contributions to the establishment of this business relationship have?

- a. a facilitating role, providing definition, context, and certainty
- b. an ethical role, facilitating better environmental practices
- c. a litigation role, defining clear areas of liability for breach
- d. a governing role, providing a comprehensive action plan

ANSWER:

a

14. What is one of the most significant contributions the law can make in the commercial arena?

- a. establishing penalties for breaching promises
- b. defining the moral principles and values of the relationship
- c. creating certainty in business relationships
- d. setting standards for service in business relationships

ANSWER:

c

15. What might be the legal consequence if a business were to choose a name for its new product that is very similar to the name already used by a competitor for its competing product?

- a. mandatory arbitration
- b. a lawsuit for defamation
- c. a lawsuit for passing off
- d. prosecution under the *Criminal Code*

ANSWER:

c

16. Which of the following best describes how law protects members of society?

- a. setting rules with penalties and making those who break the law accountable
- b. establishing ethical rules and minimizing risks before they materialize
- c. constraining business activity and regulating commercial relationships
- d. minimizing unknown contingencies to avoid irreconcilable disputes between businesses

ANSWER:

a

17. Jim has retained a lawyer to file a lawsuit claiming economic loss due to theft of business revenues by his partner. What form of dispute resolution has Jim undertaken?

- a. arbitration
- b. mediation
- c. litigation
- d. reconciliation

ANSWER:

c

18. Groot Industries Inc. requires more space in order to expand its business. Which of the following is a legal decision that Groot Industries Inc. must now undertake?

- a. who should be hired to construct a new building

Chapter 1 - Knowledge of Law as a Business Asset

- b. whether its new premises will be regulated by health and fire regulations
- c. whether to buy, build, or lease additional premises
- d. whether to obtain insurance for its new premises

ANSWER:

c

19. What are the commonly used alternative dispute resolution methods for avoiding litigation?

- a. intervention, negotiation, and reconciliation
- b. intervention, arbitration, and mediation
- c. negotiation, mediation, and adjudication
- d. direct negotiation, mediation, and arbitration

ANSWER:

d

20. Which of the following best describes the nature of the arbitration process?

- a. negotiated resolution with the assistance of a neutral person
- b. neutral party makes a decision (usually binding) that resolves a dispute
- c. submission to judge for decision-making
- d. renegotiation of the contract with the assistance of a judge

ANSWER:

b

21. What is usually the first logical step for parties involved in a legal dispute?

- a. to submit their dispute to a mediator
- b. to engage legal counsel
- c. to submit their dispute to an arbitrator
- d. to try to come to a resolution between themselves

ANSWER:

d

22. What are the standard forms of business structure available to entrepreneurs to facilitate creation of a for-profit business enterprise?

- a. sole owner, proprietor, and partnership
- b. sole proprietor, partnership, and corporation
- c. sole partnership, proprietor, and corporation
- d. sole owner, proprietor, and corporation

ANSWER:

b

23. Which statement best explains how business law guides business conduct?

- a. The law sets rules and penalties to encourage compliance.
- b. The law sets specific codes of ethics to guide conduct.
- c. The law seeks levels of compensation exceeding losses.
- d. The law limits executive compensation to guide conduct.

ANSWER:

a

24. What consequences might a business face by skirting ethical norms?

- a. bad publicity and condemnation
- b. *Criminal Code* conviction

Chapter 1 - Knowledge of Law as a Business Asset

c. conflict of interest

d. breach of contract

ANSWER:

c

25. What type of law is the vehicle for ensuring that those affected by a failed business are treated fairly, reasonably, and in accordance with agreed rules?

a. bankruptcy

b. contract

c. criminal

d. corporate

ANSWER:

a

26. How does the law impact the marketing activities of a business?

a. It requires businesses to customize marketing to the recipient.

b. It imposes limitations on how far a business may go in extolling the virtues of its product.

c. It does not regulate marketing activities.

d. It requires that marketing activities treat all individuals equally.

ANSWER:

b

27. Olivia is suing a supplier for breach of contract. Assuming she is successful, what remedy might she expect to receive from the court?

a. restitution

b. punitive damages based on the seriousness of the contract breach

c. aggravated damages

d. a sum of money that will put her in the position that she would have been had the contract been fulfilled

ANSWER:

d

28. Alpha Textile Ltd. has developed a line of clothing and is considering using the brand name Calvin Klein in order to take advantage of the familiarity of its target market with a well-known designer named Calvin Klein. What legal consequences might Alpha Textile Ltd. face if it proceeds with its plan?

a. being sued for negligence by its customers

b. criminal proceedings for breach of trademark legislation

c. being sued for damages by Calvin Klein

d. no legal consequences because it is not actually using the name Calvin Klein

ANSWER:

c

29. Which statement best exemplifies a protective element of Canadian law?

a. It seeks to make those who break the law accountable.

b. It sets rules in order to encourage complexity.

c. It sets rules in order to encourage complacency.

d. It provides rules that prohibit making commitments.

ANSWER:

a

30. In what way is mediation different from arbitration and litigation?

a. Mediation is free and does not require the assistance of a lawyer.

b. Mediation is time-consuming and tends to be ineffective.

c. Mediation results in an informal, non-binding decision.

Chapter 1 - Knowledge of Law as a Business Asset

d. Mediation involves the use of a neutral party to assist with resolution of the dispute.

ANSWER: d

31. Canadian business law consists of a set of established bilingual rules governing commercial relationships that exclude enforcement of rights.

- a. True
- b. False

ANSWER: False

32. Canada offers an attractive commercial environment for entrepreneurs because it has an established set of laws comprised of rules and principles intended to guide conduct in business relationships and protect the property of persons and business.

- a. True
- b. False

ANSWER: True

33. The law is primarily about rules that constrain commerce.

- a. True
- b. False

ANSWER: False

34. Mediation and arbitration are mechanisms offered by the legal system for avoiding litigation.

- a. True
- b. False

ANSWER: True

35. Litigation is an expensive and lengthy process that involves one business entity attempting to find a resolution for a conflict caused by the other party to the contract by actively engaging in negotiations aided by a neutral party.

- a. True
- b. False

ANSWER: False

36. Litigation is usually the most cost-effective method for resolving legal disputes.

- a. True
- b. False

ANSWER: False

37. One of the goals of Canadian law is to ensure that losses are paid for by the parties responsible for creating them.

- a. True
- b. False

ANSWER: True

38. A business that neglects to protect its intellectual property may have its ideas taken with impunity by a competitor.

Chapter 1 - Knowledge of Law as a Business Asset

- a. True
- b. False

ANSWER: True

39. In every type of business dispute resolution, Canadian law requires that a judge must decide the amount of the loss to prevent hard feelings between the parties and allow the business relationship to be maintained.

- a. True
- b. False

ANSWER: False

40. A contract provides the legal backdrop to commercial relationships by defining the rights and obligations of the parties, but it is the business relationship itself that will determine whether, in a conflict, the parties will insist upon strict enforcement of their legal rights.

- a. True
- b. False

ANSWER: True

41. Parties that agree to submit disputes to a neutral party who will ultimately make a binding decision to resolve the dispute are agreeing to participate in the arbitration process.

- a. True
- b. False

ANSWER: True

42. Businesses that have been unable to resolve complex contractual disputes may have to turn to litigation as the last resort to, among other things, establish the liability of one business to another.

- a. True
- b. False

ANSWER: True

43. It is a rule of law that a party who suffers a breach of contract is entitled to be put in the position that he or she would have been in had the contract been fulfilled.

- a. True
- b. False

ANSWER: True

44. Liability between parties engaged in a contractual business relationship refers specifically to the legal responsibility of one party to the other for any event or loss that may occur due to breach of the contract.

- a. True
- b. False

ANSWER: True

45. It is a rule of law that a party who suffers a breach of contract is entitled to be put in the position it would have been in had the contract been fulfilled.

- a. True
- b. False

Chapter 1 - Knowledge of Law as a Business Asset

ANSWER: True

46. In the litigation process, the party initiating a claim for breach of contract is obligated to prove its case, and the judge is obligated to be as objective as possible in determining whether the case of breach has been proven.

- a. True
- b. False

ANSWER: True

47. A supplier who commits to a contract is free of any legal obligations for direct and foreseeable financial consequences that the other party to the contract may experience should the supplier breach the contract.

- a. True
- b. False

ANSWER: False

48. A legal risk management plan involves a business strategy that may require legal supervision to reduce the probability and severity of loss.

- a. True
- b. False

ANSWER: True

49. Ethics may demand that a business do more than comply with the law.

- a. True
- b. False

ANSWER: True

50. One of the most important functions of law in the business environment is to facilitate planning.

- a. True
- b. False

ANSWER: True

51. Briefly describe the main reasons one party to a contract might decide to overlook a breach of contract by the other party.

ANSWER: A party to a contract might decide to overlook a breach of the contract if it is a minor breach and maintaining the business relationship is important and desirable. A minor breach is more likely to be quickly resolved directly between the parties, while litigation is a slow and expensive process for resolving a dispute.

52. Briefly describe the steps that parties must go through to achieve the consensus reflected in a contract. What role does a lawyer play in this process?

ANSWER: Usually one party has identified a need and will make a proposal to another party for an exchange that will satisfy that need. If the other party sees benefit in making the exchange, the parties will negotiate until they arrive at mutually acceptable terms. Typically, each party will have a lawyer whose role is to provide legal advice throughout the negotiation process and, once consensus is reached, to then accurately document the terms of the agreement in a contract.

53. Why might a business involved in a legal dispute prefer to reach a private settlement instead of litigating the matter in court?

Chapter 1 - Knowledge of Law as a Business Asset

ANSWER: The time and money saved in avoiding a court battle may more than offset the cost of a private settlement. There are other less tangible benefits to reaching a compromise, including preserving business relationships and reputation.

54. Lawsuits come to court for either of two reasons: there is a dispute about the facts that actually occurred or there is a dispute about the way the law treats the parties. Describe the role and obligations of the judge, including what details must be considered and what must be proven to the court to allow it to reach a decision resolving the dispute.

ANSWER: The role of the judge is to review the claim and consider the contract and other evidence, as well as legal arguments presented by both sides to determine what the agreement between the parties actually was and what laws apply. The judge is obligated to then impartially apply the law in an objective manner to determine whether the initiating party's claim has been proven, and, if so, what legal consequences would provide a remedy to make up for the loss.

55. Briefly describe the main reasons that some business disputes must be resolved in court.

ANSWER: The main reasons a court must decide some business disputes involve instances where the parties are unwilling or unable to negotiate a settlement themselves, or where there is no agreement between the parties to accept arbitration of disputes or to refer disputes to mediation.

56. What are some examples of typical business transactions and events with significant legal implications?

ANSWER: Examples of transactions and events having legal implications include: choice of form of business, business name selection, financing considerations, property purchasing and leasing decisions, and marketing and advertising strategies.

57. Briefly describe how the law of contract facilitates commercial activity.

ANSWER: The law of contract provides a way for parties to enter into binding agreements, thereby creating a measure of security and certainty in their business operations. Contract law also allows business enterprises to plan for the future and to enforce their expectations.