

PART II

Test Bank

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CHAPTER 1

Introduction to Agency and Business Organizations

MULTIPLE CHOICE

- Agency is a legal relationship in which
 - the principal acts on behalf of the agent.
 - the principal becomes personally liable for all actions of the agent.
 - a written contract must specify all authority of the agent.
 - the agent acts for or represents the principal by the principal's authority.

ANS: **D**

- When used in relation to the agency relationship, the master
 - retains some control over his or her servant (employee).
 - gives his or her servant (employee) full discretion to act on the master's behalf.
 - hires the employee for a specific task for which the master is not responsible.
 - is not liable for any actions taken on his or her behalf by the servant (employee).

ANS: **A**

- A special type of power of attorney designed to continue for certain purposes even after the incapacity of the principal is referred to as a
 - special power of attorney.
 - will power of attorney.
 - durable power of attorney.
 - general power of attorney.

ANS: **C**

- An agency relationship may *not* be created
 - by express contract.
 - by conduct of the principal and agent.
 - without the principal's knowledge or consent.
 - by ratification.

ANS: **C**

- When the principal intentionally or negligently causes a third party to reasonably believe that an individual is acting as the principal's agent, and the third party relies on that belief, then
 - no agency relationship exists.
 - an express agency agreement is created.

- the purported agent assumes personal liability for his or her actions.
- an apparent agency may exist.

ANS: **D**

- An agent's duties to the principal include
 - the duty of loyalty.
 - the duty to act without compensation.
 - the duty to perform any tasks requested by the principal.
 - the duty to compensate the principal.

ANS: **A**

- The principal's duties to the agent do *not* include
 - the duty to compensate the agent as agreed on.
 - the duty to cooperate with the agent.
 - the duty to exercise reasonable care to avoid placing the agent in harm's way.
 - the duty to always put the agent's interests first.

ANS: **D**

- A principal is *not* liable for the torts of his or her agent if the
 - tort is committed by the agent acting in the scope of his or her employment by the principal.
 - agent's action is unrelated to the agency relationship.
 - principal is negligent or reckless in supervising the agent.
 - agent is acting under the principal's direction when committing the tort.

ANS: **B**

TRUE/FALSE

- Disputes concerning agency law are typically resolved under the contract or common law of the state where the agency was created.

ANS: **T**

- A power of attorney need not be put in writing.

ANS: **F**

11. Unlike most contracts, consideration need not be exchanged to form an agency relationship.
ANS: T
12. An agency may be created by ratification when the principal accepts the benefits derived from the agent acting on his or her behalf.
ANS: T
13. An apparent agency can be created by the actions of an apparent agent alone, without any action by the principal.
ANS: F
14. The doctrine of *respondeat superior* applies to the relationship between an employer and employee and *not* to the relationship between an employer and an independent contractor.
ANS: T
15. Under the doctrine of *respondeat superior*, an agent is *not* responsible for torts committed while working for an employer.
ANS: F
16. Partners act as agents for the partnership and the other partners.
ANS: T