

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Under common law parties are considered have the capacity to enter into legally enforceable contracts if they have the ability to:
- A) fully understand the rights and obligations imposed by an agreement.
 - B) enter into to a contract without the signature of a director, secretary or the Company Seal.
 - C) sign their names properly in the appropriate places in the contract.
 - D) all of the above.

Answer: A

- 2) Under statute in all states and territories people cease being minors when they turn:
- A) 18 years of age.
 - B) 21 years of age.
 - C) 16 years of age.
 - D) 15 years of age.

Answer: A

- 3) Jenny, who is 16 years old, pays \$950 for a diamond necklace from her local jewellery shop. Jenny's mother is horrified at the cost and takes Jenny back to the store to demand a refund. The owner refuses. As Jenny and her mother leave the shopping centre they see the same necklace on special at another jewellery shop for \$600. Under common law, the likely legal position is:

- A) Jenny was buying something which was for her benefit. She will be bound by the contract.
- B) Jenny was not buying something which is a 'necessary'. She is not bound by the contract.
- C) Jenny was not buying something with her mother's consent. The contract is voidable.
- D) Jenny knew what she was doing and is bound by the contract.

Answer: B

- 4) Sally, who was 16, had a good job in Canada but wished to emigrate to Australia. She talked her Uncle Henry into forwarding her the money to come to Australia, promising to repay him. She failed to pay. Under common law if Uncle Henry sued for a breach of contract, he would be likely:

- A) to fail because Henry could not prove the contract was for necessities - Sally already had satisfactory employment in Canada.
- B) to fail, because Henry had no intention to form a binding and enforceable contract.
- C) to succeed because Sally is deemed under Section 23 of the Sale of Goods Act to have 'purchased' a necessity.
- D) to succeed because her immigration was for her benefit.

Answer: A

- 5) When Bill turns 15 years of age he enters into a three-year apprenticeship contract to train to become a pastry maker. Bill is required to attend TAFE on one day per week. If Bill takes legal action to terminate the contract under common law, it is likely that the contract will be:

- A) voidable because Bill is under 18 years of age.
- B) valid because the contract is for Bill's benefit.
- C) unenforceable because the contract is not one for necessities.
- D) void because Bill is under 18 years of age.

Answer: B

- 6) Hung left school when he was 16 years old and started a business of shopping for people and delivering the purchases to their homes. He leased a small car by claiming he was 20 years old. Hung became ill and his business failed. The leasing company has sued him for breach of contract. Under the common law in regard to minors, the likely outcome would be that:
- A) Hung is liable because the contract was a beneficial contract of service.
 - B) Hung is not liable because the leasing company knew his real age, or should have made proper checks about his claims.
 - C) Hung is not liable because the contract was a trading contract.
 - D) Hung is liable because the contract was a contract for necessities.

Answer: C

- 7) When minors reach 18 years of age they sometimes ratify (approve) invalid contracts they made when they were under 18. Victoria and Tasmania have passed special legislation which provides that ratification is:
- A) valid provided the minor's parents give signed approval.
 - B) not valid under any circumstances.
 - C) valid provided the contract involved a loan, or unpaid accounts.
 - D) not valid if the goods involved are above market value.

Answer: B

- 8) Which of the following statements is not true concerning the contractual capacity of minors in New South Wales?
- A) Minors who affirm (ratify) an unenforceable when they reach 18 years of age are legally bound from the time of the ratification.
 - B) The relevant statute is the *Minors (Property and Contracts) Act 1970*
 - C) Persons who are under 18 years of age have the right to enter into a contract
 - D) Minors who have entered contracts are bound by the common law and the *Minors (Right of Contract) Act 1972*.

Answer: D

- 9) Which of the following statements is correct in relation to the contractual rights and obligations of minors (persons under 18 years) in New South Wales?
- A) Contracts with minors are presumptively binding, which means the courts will assume they are valid.
 - B) Contracts with minors are not presumptively binding, which means the courts will assume they are not valid.
 - C) Minors can only make valid contracts for necessities, such as basic food and accommodation.
 - D) Minors who make gifts of cash or property to a third person are not legally bound by these types of agreements.

Answer: A

- 10) In New South Wales the capacity of minors to enter into contracts is:
- A) limited to contracts for food, clothing and other necessities.
 - B) limited to contracts where the minor did not pay with cash or a credit card.
 - C) determined by whether they understood the contract and received a benefit within 12 months after they become 18 years of age.
 - D) determined by whether they understood the contract and received a benefit when the contract was made.

Answer: D

- 11) Velvet, aged 17, enters into a contract to buy a thoroughbred horse for \$15 000. Before she takes delivery of the horse she becomes 18. Velvet can escape her legal obligations under the contract by proving that:
- A) the contract was not for her benefit.
 - B) the price she paid was excessive.
 - C) she did not have the financial capacity to pay \$ 15 000.
 - D) all of the above.
 - E) A or B.

Answer: E

- 12) Jilly is 22 years old. While she was suffering from severe depression she signed a contract with Michael that stated she would pay \$20 000 for his collection of Marvel comics. At common law, Jilly is bound by the contract unless she can prove that:
- A) she was not capable of understanding the nature of the contract and Michael was aware, or should have been aware of her incapacity.
 - B) Michael was aware, or should have been aware, that the price was excessive and/or not necessary for a person in her situation.
 - C) it would be inequitable if she was forced to go ahead with the contract.
 - D) Michael was aware, or should have been aware, that people suffering from manic depression are not bound by common law contracts.

Answer: A

- 13) A lives on a disability pension because he suffers from a severe mental illness. A has agreed to buy B's second-hand computer for a price that was 50% more than its market value. A's family have convinced A to rescind the contract. Under common law, A needs to prove that:
- A) 'I was not capable of understanding the nature of the contract when I made the agreement and I do not have the financial capacity to buy the computer'.
 - B) 'I was not capable of understanding the nature of the contract when I made the agreement and B was aware of/ should have been aware of my lack of capacity'.
 - C) 'I was not capable of understanding the nature of the contract when I made the agreement'.
 - D) 'I was not capable of understanding the nature of the contract when I made the agreement because of the severity of my illness'.

Answer: B

- 14) Which of the following statements is most accurate regarding the legal capacity of bankrupts to enter contracts?
- A) Bankrupts must declare they are bankrupt in the first six months of their bankruptcy.
 - B) Bankrupts cannot enter a contract where the sum involved is approximately \$6000 or more.
 - C) Bankrupts cannot enter a contract where the sum involved is approximately \$4900 unless they declare they are bankrupt.
 - D) Bankrupts cannot enter into any contracts during the term of their bankruptcy.

Answer: C