Unit II

**Contracts**

Contract law is of great importance in business and in everyday life. Common transactions such as buying a pack of gum at the corner grocery store, purchasing a ticket at a movie theater, or ordering a meal at a restaurant involve making contracts, but so does a complex patent licensing agreement between two multinational corporations. In this unit, we will explore the nature of contracts, the requirements for their valid formation, and the consequences for their breach.

A contract is a legally enforceable agreement between two or more people. Although all contracts contain enforceable promises, not all promises result in contracts. Consider the following situation:

Henry invites Ericka to dinner, and Ericka accepts. Henry looks forward to the date and can think of little else all day long. A half hour before they were to meet, Ericka calls Henry and tells him that she will not be able to keep their date because Ron has invited her to go dancing and she has accepted. Henry is upset, hurt, and angry and would like to sue Ericka for breach of contract, since she has clearly broken a promise made to him earlier that day and caused him distress. Will he succeed?

**CHAPTER 4**

**Offer, Acceptance, and Consideration**

**CHAPTER 5**

**Contracts: Capacity, Genuine Assent, the Statute of Frauds, and Illegality**

**CHAPTER 6**

**Third Parties, Performance and Discharge of Contracts, and Remedies**

Ericka may not be a very nice person, and she may have had a moral obligation to attend the dinner date. Nevertheless, she had no legal obligation to do so. The agreement that she breached was not a contract, but merely a social obligation that the courts will not enforce.

In order for there to be a valid contract, certain essential elements must exist. These include an offer to enter into a contract, acceptance of the offer by the other party, an exchange of consideration between the parties, and a legal purpose for the contract. In addition, both parties must have the capacity to enter into a contract. We will explore these elements in depth in this unit. We will also discuss certain types of contracts that must be in writing to be enforceable and situations in which a contract is unenforceable due to a lack of genuine assent, such as in cases of fraud or mutual mistake of fact.

We enter into contracts every day. On the way to work, you pick up a newspaper at a newsstand. You also stop for a cup of coffee at a cafe. While there, you use your phone to browse the Web and purchase tickets to a concert online. Finally, you arrive at the bus stop and pay your fare as you enter the bus that will take you to work or to class. In each of these examples, a contract was made. In each case, there was a valid offer and acceptance (your ordering the drink and the cafe’s providing it), consideration (the cup of coffee and the money you pay for it), capacity and legality (you are (hopefully) of sound mind when purchasing the coffee, and coffee is a legal good that can be purchased and sold in the United States). There were no issues concerning mutual assent. No documents were signed, and no negotiations took place; nevertheless, valid contracts were formed giving each party certain rights and imposing on each party some responsibilities as well.

The vast majority of contracts are routinely completed without a problem, and without the interested parties giving the matter much thought. Problems arise when parties to a contract fail to live up to their agreements, or misunderstand what it is that they agreed to do. In such cases, the courts may be called upon to settle the dispute in accordance with established rules of law that determine each party’s rights and obligations under a valid contract. Many misunderstandings and disagreements between contracting parties, as well as costly, time-consuming litigation, can easily be avoided if each party has a basic understanding of the law of contracts. The following chapters will explore the requirements for the formation of valid contracts and the remedies available when they are breached.

Under the Uniform Commercial Code, the rules for sales of goods contracts are sometimes different. Where the UCC rules are an exception to a basic common law rule, they will be briefly discussed in this section, and other issues concerning the UCC and sales of goods will be explored in later chapters. But the common law of contracts is very much in effect today and is crucial to the running of every business, regardless of its size.