

Chapter 1 Knowledge of Law as a Business Asset

MULTIPLE CHOICE

1. Which of the following examples correctly defines business law?
- a. legal responsibility for the occurrence of an event causing loss
 - b. rules governing commercial relationships and enforcement of rights
 - c. rules governing procedures involved when one person sues another
 - d. rules providing members of a society with established rights

ANS: B PTS: 1 DIF: Easy REF: 4
MSC: Remember

2. Which of the following describes the primary asset needed to maximize protection of entrepreneurs and the entire business enterprise?
- a. inventory tracking software
 - b. accounting software
 - c. surveillance cameras
 - d. knowledge of business law

ANS: D PTS: 1 DIF: Medium REF: 4
MSC: Analyze

3. Which of the following situations best exemplifies how the law protects members of society?
- a. The RCMP review Robert's e-mail without the required judicial warrant.
 - b. Bruce's company car is stolen; no one is charged with the crime.
 - c. Evelyn is awarded compensation for wrongful dismissal.
 - d. Alexis is not charged for identity theft; the two-year time limit passed.

ANS: C PTS: 1 DIF: Medium REF: 4
MSC: Understand

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. Which of the following best describes what the law facilitates by offering entrepreneurs choice in business structure?
- 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 law extends
 - d. legal certainty for activities conducted in the commercial arena

ANS: A PTS: 1 DIF: Challenging REF: 4
MSC: Evaluate

5. I'mNottaSoSmart Inc. overlooked the proper registration of its patent for a unique relay component used in its new software before release for public sale. A year later it discovered a competitor had used the component in its just released patented software. Which of the following best describes the consequences to the competitor for its actions?

- a. Unprotected intellectual property can be used with impunity.
- b. Theft of business property is a criminal offence.
- c. Patent law infringements are punishable offences.
- d. Losses due to theft of business property are recoverable.

ANS: A PTS: 1 DIF: Medium REF: 5
MSC: Evaluate

6. Windy Energy Inc. recovered most of its property stolen by a former employee. The employee was placed on probation and ordered to pay restitution. Which of the following correctly identifies the type of law that determined the employee's punishment?

- a. Employment law.
- b. Business law.
- c. Criminal law.
- d. Contract law.

ANS: C PTS: 1 DIF: Easy REF: 5
MSC: Analyze

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 of the following best describes the legal status of the contractual relationship between Novel 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.

ANS: D PTS: 1 DIF: Medium REF: 5
MSC: Evaluate

8. Which of the following best describes the outcome of US government reluctance to regulate the activities of its banks, financial institutions and markets?

- a. US destabilization left global markets unaffected.
- b. Severe destabilization of global markets and economies.
- c. Subprime mortgage lending continued to grow.
- d. US banks, markets and financial institutions flourished..

ANS: B PTS: 1 DIF: Medium REF: 7
MSC: Evaluate

9. Risk managers were keen to use unregulated derivative mortgage products to shift risk off their balance sheets. Which of the following describes the consequence of failing to regulate investment business activities in a free-market environment?
- a. Unscrupulous participants use the opportunities to act exploitatively.
 - b. Market participants voluntarily enforce ethical business practices.
 - c. Oversight by directors is a guarantee of scrupulous behaviour.
 - d. Market participants will cautiously push markets to expand.

ANS: A PTS: 1 DIF: Medium REF: 7
MSC: Evaluate

10. Which of the following correctly describes 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

ANS: D PTS: 1 DIF: Easy REF: 8
MSC: Remember

11. After checking regulations, Meat Market Inc. refused an offer of fresh wild bison meat that could be sold in Meat Market's chain of butcher shops. Which of the following describes the applicable law regulating the sale of wild meat in Canada that Meat Market Inc. considered?
- a. the *Wildlife Act*
 - b. the *Consumer Protection Act*
 - c. the *Criminal Code of Canada*
 - d. the *Civil Code*

ANS: A PTS: 1 DIF: Challenging REF: 7|8
MSC: Evaluate

12. Mortgage Plus Inc. made outstanding profits selling derivative asset-backed investments based on subprime mortgage products. Which of the following best describes the incentive to mortgage lenders to bundle derivative investment products with subprime mortgage loans?
- a. Mortgage lenders were able to avoid all risk of loss from borrower default.
 - b. Borrowers were able to escape consequences of default on payments.
 - c. Risk of loss to mortgage lenders resulting from borrower default was less.
 - d. Mortgage lenders could share risk of loss from borrower default.

ANS: A PTS: 1 DIF: Challenging REF: 7
MSC: Evaluate

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. Which of the following would a lawyer most likely identify as the role played by contract law and its contributions to the establishment of this business relationship?

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

ANS: A PTS: 1 DIF: Challenging REF: 8|9
MSC: Analyze

14. Which of the following describes the contributions a legal contract provides to the business relationship?

- a. It contributes uncertainty of liability in the relationship.
- b. It defines the moral principles and values of the relationship.
- c. It provides principles of paramountcy to govern the relationship .
- d. It gives structure, predictability, and security to the relationship.

ANS: D PTS: 1 DIF: Medium REF: 8
MSC: Remember

15. Which of the following is a distinguishing characteristic of the influence of law on the business environment?

- a. The influence of law does not have to be exacting and literal.
- b. The influence of law demands strict, literal enforcement.
- c. The influence of law requires litigation of all disputes.
- d. The influence of law creates rules of procedure for planning.

ANS: A PTS: 1 DIF: Easy REF: 9
MSC: Remember

16. Which of the following best exemplifies some of the most important contributions the law provides when facilitating commercial activities?

- a. structure, confidence, preclusion
- b. structure, certainty, prevention
- c. structure, certainty, predictability
- d. structure, confidence, promise

ANS: C PTS: 1 DIF: Challenging REF: 8|9
MSC: Understand

17. Which of the following correctly matches the reality that contracts cannot recite or provide for all contingencies, leaving some issues unstated?
- a. The degree of certainty established in a contract is not entirely absolute.
 - b. Contractual disputes over unknown contingencies require litigation.
 - c. Standard form contracts are preferred as they cover all contingencies.
 - d. Unknown contingencies cause irreconcilable disputes between businesses.

ANS: A PTS: 1 DIF: Challenging REF: 9
MSC: Understand

18. Jim has retained a lawyer to file a lawsuit claiming economic loss due to theft of business revenues by his partner. Which of the following would your law professor accept as correctly identifying the form of dispute resolution Jim has undertaken?
- a. arbitration
 - b. mediation
 - c. litigation
 - d. reconciliation

ANS: C PTS: 1 DIF: Medium REF: 9|10
MSC: Analyze

19. A dispute has arisen between business entities with a lengthy relationship and each would suffer economically if the relationship were to suddenly end. Which of the following procedures should first be employed to attempt to maintain the relationship and quickly resolve the dispute?
- a. Consult with bankers to determine whether the company can afford litigation.
 - b. Refuse to compromise and look for alternate business relationships.
 - c. Negotiate direct resolution, set out in formalized settlement agreement.
 - d. Ask the company lawyer the cost of having to outsource the litigation.

ANS: C PTS: 1 DIF: Challenging REF: 9|10
MSC: Evaluate

20. Which of the following describe the commonly used alternative dispute resolution methods for avoiding litigation?
- a. intervention, negotiation, reconciliation
 - b. intervention, arbitration, mediation
 - c. negotiation, mediation, adjudication
 - d. direct negotiation, mediation, arbitration

ANS: D PTS: 1 DIF: Easy REF: 10
MSC: Remember

21. Which of the following types 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 law
 - b. contract law
 - c. criminal law
 - d. corporate law

ANS: A PTS: 1 DIF: Medium REF: 10|11

MSC: Understand

22. Approaching the operation of a business with an unethical perspective combined with a lack of respect for adherence to and enforcement of the law eventually should result in which of the following outcomes?
- a. commercial social responsibility
 - b. increased business morality
 - c. the success of the business
 - d. the demise of the business

ANS: D PTS: 1 DIF: Medium REF: 13

MSC: Analyze

23. Which of the following best describes the nature of the mediation process?

- a. submission to litigation of the dispute before a judge in court
- b. negotiated resolution with the assistance of a neutral person
- c. submission to an arbitrator's binding decision to resolve a dispute
- d. renegotiation of the contract with the assistance of a judge

ANS: B PTS: 1 DIF: Easy REF: 10

MSC: Remember

24. Which of the following best describes the goal of the Canadian legal system?

- a. to facilitate commerce
- b. to facilitate arbitration
- c. to facilitate free trade
- d. to facilitate justice

ANS: D PTS: 1 DIF: Medium REF: 11

MSC: Evaluate

25. Which of the following would be classified as the standard forms of business structures available to entrepreneurs to facilitate creation of a for-profit business enterprise?

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

ANS: B PTS: 1 DIF: Medium REF: 15

MSC: Understand

26. Which of the following 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.

ANS: A PTS: 1 DIF: Medium REF: 4
MSC: Understand

27. Which of the following is an example of 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.

ANS: A PTS: 1 DIF: Medium REF: 8
MSC: Understand

28. Which of the following is an example of the values represented in the Canadian legal system?

- a. The system seeks to be partial and flexible.
- b. The system strives to produce just outcomes.
- c. The system seeks to limit fairness and equity.
- d. The system demands fairness and subjectivity.

ANS: B PTS: 1 DIF: Challenging REF: 11
MSC: Understand

29. Hiring a company's accounting auditors to act as the business's accounting compliance consultants is an example of which of the following ethical infractions?

- a. unfair tender of contract
- b. employee privacy breach
- c. conflict of interest
- d. labour code violation

ANS: C PTS: 1 DIF: Challenging REF: 14|15
MSC: Understand

30. Jack and Jill recently agreed to sell their business to Evergreen Solutions Inc. Evergreen's lawyer suggested he can represent both Jack and Jill and Evergreen to reduce the legal cost of the deal. Which of the following correctly identifies the position the lawyer would be in if he acts as counsel for both business parties in this transaction?

- a. privacy breach
- b. criminal code conflict
- c. conflict of interest.
- d. financially profitable

ANS: C PTS: 1 DIF: Challenging REF: 14|15
MSC: Analyze

TRUE/FALSE

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

ANS: F PTS: 1 DIF: Medium REF: 5
MSC: Evaluate

2. 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.

ANS: T PTS: 1 DIF: Easy REF: 5
MSC: Evaluate

3. A stockbroker who is employed by a large Canadian banking institution and charged with theft and commercial fraud of a number of the bank's customers could be prosecuted under the *Criminal Code of Canada* and, if found guilty, sued in a civil court for damages.

ANS: T PTS: 1 DIF: Medium REF: 5|6
MSC: Evaluate

4. Contract law refers to a collection of rules used to establish contracts as binding agreements between contracting parties and to ensure their obligations can be legally enforced.

ANS: T PTS: 1 DIF: Easy REF: 8
MSC: Remember

5. 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.

ANS: F PTS: 1 DIF: Medium REF: 9
MSC: Remember

6. Litigation directly involves lawyers, judges, and the court system because it is the process one person or a business must use to sue another.

ANS: T PTS: 1 DIF: Easy REF: 9
MSC: Remember

7. The creation of complexity in business relationships is one of the most important contributions the law can make to the commercial arena.

ANS: F PTS: 1 DIF: Medium REF: 8
MSC: Remember

8. Canadian law provides that business owners may discriminate in hiring practices and may ignore the laws of other countries; however, they must comply with the health and safety regulations governing the workplace.

ANS: F PTS: 1 DIF: Medium REF: 13
MSC: Evaluate

9. Recent events involving fraud on the public in Canada confirmed that failure to comply with the obligation to abide by the law can lead to severe consequences for business enterprises, including financial penalties and criminal prosecution.

ANS: T PTS: 1 DIF: Medium REF: 5
MSC: Remember

10. 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.

ANS: F PTS: 1 DIF: Medium REF: 9|10
MSC: Remember

11. 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.

ANS: T PTS: 1 DIF: Medium REF: 8|9
MSC: Evaluate

12. In the mediation process, the parties to the dispute agree on the choice of the mediator who will be appointed to review the facts of the dispute and make a binding decision to resolve the problem.

ANS: F PTS: 1 DIF: Easy REF: 10
MSC: Remember

13. 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.

ANS: T PTS: 1 DIF: Easy REF: 10
MSC: Remember

14. 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.

ANS: T PTS: 1 DIF: Easy REF: 9
MSC: Remember

15. Liability is a set of moral principles and values that seek to determine right from wrong in the business world.

ANS: F PTS: 1 DIF: Medium REF: 10
MSC: Remember

16. 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.

ANS: T PTS: 1 DIF: Easy REF: 10
MSC: Remember

17. 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.

ANS: T PTS: 1 DIF: Easy REF: 11
MSC: Remember

18. 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.

ANS: T PTS: 1 DIF: Medium REF: 11
MSC: Remember

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

ANS: F PTS: 1 DIF: Medium REF: 11
MSC: Evaluate

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

ANS: T PTS: 1 DIF: Easy REF: 12|13
MSC: Remember

SHORT ANSWER

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

ANS:

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.

PTS: 1 DIF: Medium REF: 9 MSC: Remember

2. While dispute resolution is a function of law, there are other functions that shift the law's focus and intent to another purpose with respect to facilitating relationships. Briefly describe the other functions of law and what the primary focus of law is through their application.

ANS:

The law functions to protect persons and property. The law also functions to facilitate interaction by providing a reasonable degree of certainty and predictability in the relationship. These functions shift the primary focus of law from dispute resolution to dispute prevention.

PTS: 1 DIF: Medium REF: 5 MSC: Remember

3. 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?

ANS:

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.

PTS: 1 DIF: Medium REF: 10 MSC: Remember

4. Law suits 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?

ANS:

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.

PTS: 1 DIF: Challenging REF: 11 MSC: Remember

5. Identify two basic *values* of the Canadian legal system? Discuss your own view of how successful the Canadian legal system is in its pursuit of achieving *justice*, citing examples.

ANS:

Examples of the basic values of the Canadian system are broad application, accessibility, definition of rights and obligations, striving for just outcomes, fair and reasonable laws applied in a fair process free of bias, judges' application of law with objective impartiality to determine liability according to certain principles and procedures regarded as just, creation of certainty in relationships, protection.

PTS: 1 DIF: Easy REF: all MSC: Remember

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

ANS:

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.

PTS: 1 DIF: Medium REF: 10 MSC: Remember

7. Briefly describe the laws a Canadian business involved in contracts outside of Canada's borders would have to consider to ensure compliance.

ANS:

A Canadian business involved in contracts outside of Canada's borders would have to include any Canadian law, foreign law, treaties, and conventions that apply to their business activities in their legal risk management plan.

PTS: 1

DIF: Medium

REF: 6

MSC: Remember