1. Which of the following is not required by the business judgment rule regarding the liability of officers and directors?
   a. Strict liability.
   b. Informed decisions.
   c. Decisions without conflict of interest.
   d. Reasonable business judgment.

2. All of the following are characteristics of a corporation EXCEPT:
   a. it has perpetual existence.
   b. it is usually managed by its shareholders.
   c. it is able to be sued and to sue.
   d. it is a legal entity of its own.

3. All of the following are true of promoters of a corporation EXCEPT:
   a. they solicit investors to begin the corporation.
   b. they prepare the formal documents of incorporation.
   c. they may make contracts in the name of the corporation.
   d. they continue to solicit capital whenever needed after incorporation.

4. A promoter is personally liable on contracts made by him in the name of the corporation:
   a. even after the adoption of the contract by the corporation.
   b. only until the corporation is formed.
   c. only if he signs his own name.
   d. only if the corporation is never formed.

5. Whether a corporation is a de facto corporation may be challenged by:
   a. an individual.
   b. another corporation.
   c. the government.
   d. only foreign states.

6. Which of the following is NOT a characteristic of the corporate form of doing business?
   a. Limited liability.
   b. Perpetual existence.
   c. Informal organization.
   d. Transferability of corporate shares.
7. A partner who is liable for a firm's debt only to the extent of her own capital contribution is a:

a. limited partner.
b. nominal partner.
c. secret partner.
d. general partner.

8. Which of the following is NOT an advantage of a partnership?

a. Partners' income taxes may be less than the income taxes would be on a corporation.
b. Each partner has limited liability.
c. It is possible to bring together more managerial skills than in a sole proprietorship.
d. It is possible to bring together more capital than in a sole proprietorship.

9. White, Grey and Green enter into a contract to form a partnership, but the contract says nothing about the sharing of profits and losses.

a. Profits and losses will be shared in a ratio based on the dollar amount of their capital investments.
b. Profits will be shared equally; losses will be absorbed based on dollar amount of capital investment.
c. Profits will be based on amount of time each partner spends working for firm; losses shared equally.
d. Profits and losses will be shared equally.

10. Richard writes a letter to Sarah authorizing her to sell his car and sends a copy of the letter to Timothy, a prospective purchaser. The next day, Richard sends a letter to Sarah revoking her authority, but he fails to notify Timothy.

a. Sarah has actual authority to sell the car to Timothy.
b. Sarah has implied authority to sell the car to Timothy.
c. Sarah has apparent authority with respect to Timothy to sell the car.
d. Sarah is empowered under the doctrine of respondeat superior to negotiate the contract.

11. Which of the following is true regarding an agent who is acting for an undisclosed principal?

a. The agent will bind both himself and the principal on most contracts.
b. The third party will never be bound in a contract with the principal.
c. An undisclosed principal will bind only himself and not the agent.
d. Failure to disclose the name of the principal is a form of fraud.
12. Pat bought a cotton sweater at Ivey's Fashion Store. Sue, the salesperson, told her the sweater was guaranteed not to shrink if washed in cold water by hand. Pat washes the sweater and it shrinks. Which of the following is correct?

a. Pat has no recourse against the store, because it was only the salesclerk who misrepresented the sweater.
b. Sue has apparent authority to make warranties such as the one she made.
c. If Sue is only a part-time employee, Ivey has no responsibility for misrepresentations she makes.
d. Salesclerks are usually independent contractors. Thus, there is no liability on the part of Ivey.

13. Which of the following is not a breach of an agent's duty of obedience?

a. Entering into an unauthorized contract for which his or her principal is liable.
b. Acting as agent for a purchaser of goods he is hired to sell as agent of his principal without first securing the principal's consent.
c. Improperly delegating her authority.
d. Quitting the agency relationship.

14. Bob owns a business delivering coffee and donuts within the downtown area of the city. Smith Co. calls him to deliver a large quantity of his products to their local office. While taking a coffee urn through the Smith Co.'s office, Bob accidentally drops it on Lester, scalding him. Who is liable in negligence?

a. Smith Co. and Bob are liable.
b. Bob alone is liable.
c. Lester has to absorb the cost himself since he assumed the risk by working at Smith Co.
d. No one is liable because it was an accident.

15. Bob rented a lawnmower from Scott Rentals. The lawnmower wheel was loose when Bob picked it up. When he began to cut his grass, the wheel fell off, causing the mower to tip over onto his foot. Under what theory can Bob hold Scott liable for his injuries?

a. Breach of warranty of merchantability.
b. Breach of warranty of fitness for purpose.
c. Strict liability in tort.
d. All of the above.

16. Geoff's fiancee, Susan, comes to meet his parents for the weekend. On Saturday morning, while using Geoff's mother's hair dryer, the blower short-circuits sending sparks across the guest room. Susan's angora sweater and her hands are covered with tiny burns. Susan's mother is a lawyer and wants her to sue the seller of the dryer. Can she?

a. No, because horizontal privity would extend only to members of the family.
b. No, because privity would require that Geoff's mother sue.
c. Yes, since she is a guest in the home of the buyer.
d. Yes, since under the Code all users are protected.
17. A spectator who is overcome by the heat at a college football game will be unlikely to be successful in suing the school because of the doctrine of:

a. assumption of the risk.
b. intervening forces.
c. superseding causes.
d. contributory negligence.

18. William, who is a waiter, is injured when an unopened bottle of cola explodes in his hand while he is putting it into the restaurant's cooler. If William wants to sue the bottling company for his injuries:

a. he will lose, because it will be impossible for him to prove that the bottle was overpressurized by the bottler.
b. he will lose, because the bottling company has no duty to him.
c. he will probably win if the court allows him to use the res ipsa loquitur doctrine.
d. he will win based on the last clear chance rule.

19. Arthur negligently stopped his car on the highway. Betty, who was driving along, saw Arthur's car in sufficient time to stop. However, Betty negligently put her foot on the accelerator instead of the brake and ran into Arthur's car.

a. Arthur's contributory negligence will prevent his recovery from Betty in all jurisdictions.
b. In the majority of jurisdictions, Betty had the last clear chance to avoid the accident and will bear legal responsibility for it.
c. Arthur has assumed the risk of the accident.
d. Because both parties were negligent, in a state that follows the comparative negligence doctrine, both parties will share the liability for their injuries.

20. While driving his car five miles over the speed limit, Carl struck Darla, who was jaywalking across the street. When the case came to trial, the jury determined that Carl was 60% negligent and that Darla was 40% negligent. Darla's injuries are $10,000. This accident occurred in a state following the comparative negligence theory of recovery.

a. Darla will recover $10,000.
b. Darla will not recover anything.
c. Darla will recover $6,000.
d. Darla will recover $4,000.

21. Which of the following is NOT considered to be an alternative method of dispute resolution?

a. Special verdict.
b. Negotiation.
c. Conciliation.
d. Mediation.
22. How much force may an individual use to protect her property?
   a. As much as is necessary.
   b. Deadly force.
   c. Reasonable force but not deadly force.
   d. All of the above are correct.

23. The Fourth Amendment to the Constitution:
   a. requires a speedy trial.
   b. prevents double jeopardy.
   c. prohibits unreasonable search and seizure.
   d. all of the above.

24. A warrant is required for a search by the police except where:
   a. the police are in hot pursuit of a criminal.
   b. voluntary consent is given to the search.
   c. evidence of a crime is in plain view of the police officer.
   d. all of the above.

25. The most common remedy for breach of contract is:
   a. injunction.
   b. specific performance.
   c. punitive damages.
   d. money damages.

26. As a result of a breach of contract by Susan, Ellen's personal losses were substantial. Ellen's obligation is to:
   a. perform any remaining duties she has not performed.
   b. give up her right to compensatory damages if she receives consequential damages.
   c. mitigate damages.
   d. all of the above.

27. Carl Contractor and Big Bucks, Inc. have a contract which calls for Carl to build a building with the completion of it by June 15. If the building is not completed by that date, the contract calls for Carl to pay $100 per day in damages. The $100 per day is:
   a. punitive damages.
   b. nominal damages.
   c. liquidated damages.
   d. an illegal penalty.

28. Which of the following is NOT true regarding specific performance?
   a. It will not be granted if money damages would be adequate to compensate the injured party.
   b. It is granted in contracts involving unique items of personal property.
   c. It will be granted in some contracts involving the sale of goods.
   d. The courts will not order specific enforcement of contracts for personal services.
29. Contract damages that put the injured party in as good a position as if the other party had performed are:
   a. compensatory damages.
   b. incidental damages.
   c. consequential damages.
   d. liquidated damages.

30. Annette entered into a contract with a local truck dealer to have a new truck delivered to her daughter, Sue, as a graduation present. In this contract, Sue is:
   a. an incidental beneficiary.
   b. an intended beneficiary.
   c. a creditor beneficiary.
   d. an assignor.

31. Stark enters into a contract with a contractor to build a large shopping mall in River City. Donner will greatly benefit from this contract since his convenience store is adjacent to the mall. Donner in this instance is:
   a. an implied beneficiary.
   b. a partial beneficiary.
   c. a donee beneficiary.
   d. an incidental beneficiary.

32. Don, a minor, contracts to sell 100 acres of land to Jerry who is also a minor. Don reaches the age of 21 as does Jerry. Don takes no action to avoid the contract. Which of the following most accurately describes the status?
   a. Don has ratified the contract.
   b. Don has not ratified the contract.
   c. The contract remains executory.
   d. There is no contract, so there is no legal obligation owed by either party.

33. Steve purchases a four wheel drive truck from Belk Ford. Steve is only 16 years of age. He immediately wrecks the vehicle and attempts to disaffirm the contract and have Belk Ford repay him all that he has paid. In the majority of jurisdictions, what would happen?
   a. Steve would be out of luck.
   b. Steve must have the truck repaired.
   c. Steve will receive his money less the depreciation in value of the vehicle.
   d. Steve may return the wrecked vehicle and get all his money back.
34. Andrew owns a store in Polk County. His trade extends throughout River City, but not beyond the county limits. He sells his store to Betty and as part of the transaction agrees not to engage in the same business anywhere within the State for a period of three years.

   a. The agreement legally enforceable.
   b. The agreement is not legally enforceable.

35. Maxine offered to sell her video camera to Tom for $200 and also stated to Tom, "I will give you two weeks to accept my offer." One week later Tom learned that Maxine had sold the video camera to Cindy.

   a. Maxine has a right to revoke her offer to Tom.
   b. Maxine's offer is a firm offer and she must sell Tom an equivalent video camera for $200.
   c. Maxine must get the camera back from Cindy if Tom accepts within two weeks.
   d. Both answers (b) and (c) are appropriate alternatives in this case.

36. Self-dealing by an officer of a corporation is

   a. Always prohibited, because of the conflict of interest.
   b. Never prohibited, because the law favors transactions.
   c. Only permitted where the officer has disclosed all information.
   d. Sometimes permitted, in cases where the public need for the property is substantial.

37. Sam is a 20% owner of the common stock of a close corporation, Moscow Motors (MM), which is a car dealership. He is also the sales manager of that company, earning 50,000 per year. He also is receiving dividends from that corporation in the amount of $20,000 per year. Sam gets into an argument with the majority stockholders, and they fire him. In addition, the majority stockholders decide not to issue dividends for at least two years. Sam is having difficulty paying his bills, and tries to sell his shares, but can not find a buyer. Nine months after being fired, the majority stockholders offer to buy Sam’s stock for only half of what it is worth. Feeling he has no option, and needing the money, Sam sells. This is

   a. An illegal maneuver by the majority known as a "nugie".
   b. An illegal maneuver by the majority which violates the Uniform Commercial Code.
   c. An illegal maneuver by the majority which has been outlawed by the common law.
   d. Probably a legal maneuver by the majority known as a "freeze-out".
38. Sue works for a WWR, a manufacturer of whitewater rafts as vice president of marketing. WWR sends her to Denver to attend an industry show. At that show she meets with Doris, who has invented a new type of raft. Sue believes that this new raft will be a great success. She recently inherited $500,000, and she offers to buy Doris' patent for that amount. Sue then quits WWR, starts her own company, and makes five million dollars the next year. When WWR learn all these facts, they sue Sue. WWR will
a. Win because Sue violated her duty of care.
b. Win because Sue usurped a corporate opportunity
c. Lose because Sue was no longer a WWR officer or employee when she started her own company
d. Lose because a company can never restrain competition from a former employee or officer.

39. Able, Baker and Charley are thinking of starting up a new business. They expect to have substantial losses in the first 3 years, and large profits later. They want to gain some tax advantage from the losses of the first 3 years. The legal form of the business that they should chose, is a
a. "C" Corporation
b. Partnership
c. Sole proprietorship
d. Multiple proprietorship

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**SIDE 1**

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