



# Business/Marketing Virtual Learning

# 10-12 grade Business Law

May 14, 2020



Lesson: [May 14, 2020]

**Objective/Learning Target:**  
Capacity

Identify the time frame during which a contract can be disaffirmed.

Recognize contracts that cannot be disaffirmed.

Understand the effects of misrepresenting age in contracts.

# Let's Get Started

Watch This Video:

[Contractual Capacity](#)



# Disaffirmance and Ratification of a Contract

**Disaffirmance** - in contract law, means a refusal to be bound by a previous legal commitment. Generally, a person lacking contractual capacity can disaffirm a contract for necessities or goods or services that are not necessities any time while still under the incapacity, or within a reasonable time after attaining capacity. After attaining capacity, a person may ratify the contract made while under an incapacity.

**Ratification** - is action by the party indicating intent to be bound by the contract. For a minor, ratification must occur after achieving majority. Ratification may consist of either of the following:

- 1) giving a new promise to perform as agreed
- 2) any act (such as making payments to the seller) that clearly indicates the party's intention to be bound.

**Once ratification occurs, it may not be withdrawn.**

# Disaffirmance and Ratification of a Contract

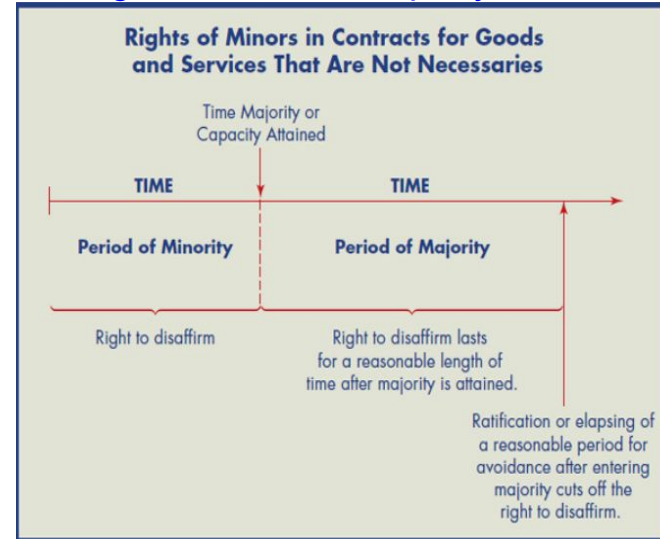
## Loss of Value

In most states, if minors are unable to return exactly what was received under the contract, they can still get back everything they gave. This is true even if a minor returns used or damaged goods. It is also true even if a minor returns nothing because the goods have been lost, consumed, or destroyed. In some states, however, a minor must return everything received in a condition as good as it was when it was received. If this cannot be done, the minor must pay the difference in value, or deduct the difference from the amount to be refunded.

## Obligations of Party with Capacity

Not only can the party lacking capacity generally disaffirm contracts for goods and services that are not necessities, but, should he or she choose to, the party lacking capacity can enforce them against the party with capacity. On the other hand, generally the party with capacity can neither enforce against a party lacking capacity nor avoid on the basis of the other party's lack of capacity all or any part of a contract for goods or services that are not necessities.

In all states, when a minor disaffirms a contract for goods and services that are not necessities, anything of value the minor received and still has must be returned. The minor is then entitled to get back everything that was given to the other party.



# Contracts that Cannot be Disaffirmed

Some contracts of minors for goods or services that are not necessities cannot be disaffirmed. These exceptions to the general rule vary considerably from state to state. The statutes and cases of your state are the only definitive source on this topic. The most common examples follow:

## 1) Court-Approved Contracts

In all states, minors cannot void any contracts approved for them by a court. For example, minors who are employed as actors or actresses or as professionals in sports usually have their contracts approved by a court. Once approved, these contracts may not be disaffirmed.

## 2) Major Commitments

In all states, contracts to enlist in the armed services and contracts for educational loans cannot be disaffirmed. Similarly, marriage contracts of minors cannot be disaffirmed. Note that under bankruptcy procedure (see Chapter 33), financial obligations stemming from some of these major commitments cannot be discharged. These include obligations resulting from marriage, such as alimony and child support, and educational loans.

## 3) Apartment Rental

In a few states, the lease of an apartment cannot be disaffirmed even if the apartment is not a necessary.

# Contracts that Cannot be Disaffirmed

## 4) Banking Contracts

In most states, minors are permitted to make deposits in banks and in savings and loan associations. Most states also permit minors to make withdrawals as if they were adults, without any right to disaffirm these transactions.

## 5) Insurance Contracts

More than one-half of the states provide that minors who are over a certain age may not disaffirm certain contracts of insurance.

## 6) Work-Related Contracts

In most states, minors who engage in a business or trade cannot disaffirm agreements involving their businesses. In those states, Bailee in *What's Your Verdict?* would not be able to disaffirm the contract with the software-marketing house due to her previous business experience with the cell-phone applications.

## 7) Sale of Realty

In some states, a minor who owns real property and sells it or borrows money against it cannot disaffirm until after achieving majority.

# Contractual Effect of Misrepresenting Age

Minors have been known to misrepresent their ages. In most states, minors who lie about their age may nevertheless disaffirm their contracts. However, in these states, a minor who gives a false age may be held liable for the tort of false representation.

Minors are liable for their torts and delinquent or criminal conduct growing out of a contractual transaction, although typically they still have the right to disaffirm their contracts. Thus, the other party to the contract may collect from a minor any damages suffered because of the minor's fraud even though the minor may be able to disaffirm the contract.



## ACTIVITY #29

- 1) When can a person who lacks contractual capacity disaffirm a contract?
- 2) While still a minor, Beach bought a surround-sound system on credit from McReam's Electronic Cloud for \$500. Beach paid \$100 down and promised to pay \$50 a month on the unpaid balance until the debt was paid. After making four payments, two of which were made after he reached the age of majority, Beach decided to disaffirm the contract and return the equipment.  
Can Beach do so?
- 3) What contracts entered into by minors cannot be disaffirmed in any of the 50 states?
- 4) Since she was eight years old, Bailee had been playing and designing video games on her computer. By the age of 14 she had conceived, programmed, and marketed several basic games and applications for cell phones. She then developed a role-playing computer game for teenage girls called "Always a Jump Ahead." When she turned 15, she sold the rights to the game to a large software-marketing house for \$10,000. When the game became a near instant success, attracting more than a million participants worldwide in about six months, Bailee realized that she had greatly undervalued it. She then sought to disaffirm the contract of sale to the marketing house due to her minority.  
Can Bailee disaffirm the contract?

## ACTIVITY #29

- 5) If minors lie about their age, what happens in most states with regard to their ability to disaffirm contracts for goods and services that are not necessities?
- 6) Why do you think that most states permit minors to make deposits and withdrawals to their bank accounts without the right to disaffirm these transactions?
- 7) Ron, a mature-looking minor, lied about his age when he bought an extensive wardrobe of clothing from the Casuals Shop. Ron showed his older brother's driver's license as identification. He also used his brother's name on the installment contract. By October, Ron had paid \$325 on the \$785 contract. He then became bored with the wardrobe and returned it to the store and demanded the return of all payments.  
Must the store return his money?
- 8) Richard bought car insurance while he was 16. He had a perfect driving record until he reached the age of majority for contracting, 18 in his state. The day after his birthday, Richard disaffirmed the insurance contract and asked for the return of his payments.  
In most states would he be legally entitled to the money?

## ACTIVITY #29

- 9) Which contracts can a minor disaffirm in most states?
- 10) Linda subscribed to a “Book of the Month” program on her sixteenth birthday. She received monthly books from the publisher until her eighteenth birthday. She continued receiving books for another six months, and then attempted to disaffirm.  
Will she succeed?
- 11) Juan was extremely bright and graduated from high school at age 15. He immediately enrolled in a highly regarded private college that had offered him a large scholarship. Even with grants and the scholarship, however, Juan had taken out more than \$43,000 in educational loans by the beginning of his junior year. Barely a month before he turned 18, Juan sought to disaffirm these loans.  
Can he do so?
- 12) Beverly was 14 when she bought a used motorcycle that wouldn’t run. Over the next year Beverly made repairs and got it going. She then rode it without a license for more than six months until a leak developed in a gas line and the bike caught fire. It was a total loss. Beverly returned the burned-out motorcycle to the seller and asked for all her money back.  
Will she succeed?