



Business/Marketing Virtual Learning

10-12 grade Business Law

May 15, 2020



Lesson: [May 15, 2020]

Objective/Learning Target:

Review and assess the concept of Capacity in contracts.

Let's Get Started

Review This Presentation:

[Contractual Capacity](#)



Contractual Capacity of Individuals and Organizations

1. Generally, the contracts of individuals lacking contractual capacity are voidable and can be disaffirmed by the incapacitated party. Upon so doing they are to receive back what they put into the bargain and must return what they received from it, if possible.
2. Necessaries are those things needed to sustain life. In most states, necessaries are limited to food, clothing, and shelter. Even after disaffirming a contract for these items, a party without capacity is liable for their reasonable value.
3. Minors are those under the age of majority.
4. If a court has held that an individual is permanently insane or is permanently addicted to alcohol or drugs, that person's contracts are void. However, the doctrine of necessaries will apply where appropriate.
5. The contractual party having capacity has no right to enforce or disaffirm the contract just because the party lacking capacity has the right to do so.
6. Employees bind their employers to contracts they execute on their employer's behalf if they are acting within their actual or apparent scope of authority.

Limits on the Rights of Those Without Capacity

1. Generally, those lacking contractual capacity can only disaffirm contracts during the time of their incapacity and for a reasonable time thereafter.
2. Ratification of a contract cannot occur before capacity is attained or recovered.
3. Ratification may consist of either giving a new promise to perform as agreed, or any act (such as making payments to the seller) that clearly indicates the previously incapacitated party's intention to be bound.
4. In many states certain types of contracts, such as insurance and banking contracts, cannot be disaffirmed.
5. Generally, misrepresentation of age does not affect the right to disaffirm but may expose a minor to the legal consequences of any related tortious or criminal conduct.

ACTIVITY #30

- a. Age of Majority to Contract
 - b. Contractual Capacity
 - c. Disaffirmance
 - d. Emancipation
 - e. Intoxication
 - f. Mental Incapacity
 - g. Minor
 - h. Minority
 - i. Necessaries
 - j. Ratification
 - k. Scope of Authority
1. Severing of the parent-child relationship.
 2. Within the range of authorized contractual acts.
 3. Goods and services needed to sustain life.
 4. The state of being unable to recognize that you are entering into a contract due to the consumption of legal or illegal drugs.
 5. Act after regaining capacity indicating an intent to be bound by the contract.
 6. Ability to understand that a contract is being made and the consequences thereof.
 7. Returning what you have received under a contract and requesting the return of what you gave.
 8. Age range in which, because of youthful inexperience, a person is deemed by the law to lack full contractual capacity.
 9. The inability of a person to understand the consequences of her or his contracts due to severe mental illness, retardation, or senility.
 10. Either 18, 19, or 21 in most states.
 11. One who has not yet reached the age of majority to contract.

ACTIVITY #30

- 1) Assume you were going to buy a two-year-old car at a bargain price from a woman who was 86 years old. Explain the steps you would take to create evidence that she has contractual capacity.
- 2) Assume you were going to buy a two-year-old car at a bargain price from a man with alcohol on his breath. Explain the steps you would take to create evidence that he has capacity.
- 3) Identify three things you've bought recently that are necessities and three things that are not.
- 4) If any of the purchases in exercise 14 can be ratified, describe the exact conduct you might engage in after achieving majority to constitute ratification.
- 5) On her sixteenth birthday, Laurisa bought a used computer from Stuart for \$100 cash. Laurisa is from a wealthy family and receives an allowance of \$200 a week. Six months after buying the computer, the hard drive crashed so Laurisa decided to disaffirm. Legally, can she?

ACTIVITY #30

- 6) A month after he turned 16, Chris, a resident of Missouri, answered a classified newspaper ad and, after prolonged negotiations, bought a used car from Dowdy. Chris spent \$8,500 of the \$10,000 in cash given to him by his father on his birthday on the purchase. Six months after buying the car, the crankshaft in the engine broke. The cost of a new engine would have been about \$3,200 so Chris decided to disaffirm the contract to purchase the car. Legally, can he do so?
- 7) June stopped by a bar on the way home from work and drank three gin and tonics. Then she bought a six-pack of beer at the local grocery store and drank three cans before her husband came home. June and her husband then began drinking whiskey and water and each finished two drinks. A salesperson from Metropolitan Life Insurance came over and sold June a life insurance policy that cost \$3,000 per year. Is there evidence indicating that June may be able to disaffirm?
- 8) Larson was 69 years old and trying to sell his home. He had it appraised, and the estimated value was \$300,000. He listed the home with a local real estate broker for \$330,000. When Perry offered him \$305,000 he counter offered at \$320,000. When Perry balked at the price, he lowered his offer to \$315,000 and she accepted. Is there evidence that Larson possesses the mental capacity to contract?