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Business Law

Text & Exercises

Tenth Edition

Roger LeRoy Miller

Institute for University Studies

Arlington, Texas



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**Business Law: Text & Exercises,
Tenth Edition
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Cover/Internal Image Source: Woman holding whiteboard—Rawpixel.com/Shutterstock.com; all other images—metamorworks/Getty Images

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WCN: 02-300

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Library of Congress Control Number: 2021945549

Student Edition:

ISBN: 978-0-357-71741-7

Loose-leaf Edition:

ISBN: 978-0-357-71742-4

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200 Pier 4 Boulevard
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Preface to the Instructor

The study of business law and the legal environment has universal applicability. Any student entering any field of business must have at least a passing understanding of business law in order to function in the real world. Students going on to a business career must have an awareness of the legal and regulatory environment today. Even for those students who do not pursue a business career, legal problems will arise.

In *Business Law: Text & Exercises*, Tenth Edition, I present business law in a straightforward, practical manner. The essential aspects of every important topic are covered without overburdening the reader with numerous details and explanations of arcane exceptions. This new edition helps students master key legal concepts and doctrines while providing practical experience in applying basic legal principles to common business situations. Written in user-friendly, layperson language, I have taken special care to provide straightforward descriptions, everyday examples, and varied exercises to help students apply what they are reading and learning to real-life situations.

Developed specifically for the business law survey course, this new edition's short, concise chapters are punctuated with illustrative and timely features, including Highlighting the Point and Real Case summaries. Each chapter's learning tools clarify contemporary legal principles in a practical presentation that ensures students gain a solid understanding of business law.

What's New in the Tenth Edition

Instructors have come to rely on the coverage, accuracy, and applicability of *Business Law: Text & Exercises*. That is why in the tenth edition I continue to focus on engaging student interest and providing a basic understanding of business law. In every chapter, I have incorporated significant new details, timely examples, helpful exhibits, and recent cases.

This edition aims to provide a text that fully integrates diversity and inclusivity so that all students (and instructors) can feel comfortable at all times while reading it.

New Chapter Content

Where appropriate, I have added new or fully revised sections. These include:

- In Chapter 5, new explanation of **why the common language use of “assault” is incorrect**
- In Chapter 6, new section extension on **selling counterfeit items on the internet, in particular, involving a lawsuit by Chanel against Amazon**
- In Chapter 9, new section on **click-on agreements that includes forum-selection clauses**
- In Chapter 11, new section on **whether minors can avoid their obligations under smart contracts**
- In Chapter 11, new section on **minors' rights and digital assets**
- In Chapter 13, new section on **reformation of contracts as an alternative to judicially canceling contracts**

- In Chapter 13, new section on **innocent misrepresentation**
- In Chapter 14, new section on **text messaging and the enforceability of e-mail and text contracts**
- In Chapter 17, new section on **rules of construction given the order of priority of expressed terms**
- In Chapter 19, new section on **when a repudiation may be retracted**
- In Chapter 21, new section on the **TCPA and TRACED Acts, with the latter dealing specifically with prohibited robocalls**
- In Chapter 22, new section on **acceleration clauses**
- In Chapter 23, new section on **FTC Rule 433, which effectively eliminates holder in due course status for those holding notes pursuant to consumer credit transactions**
- In Chapter 24, new section on **online and mobile banking**
- In Chapter 24, new section on **electronic payment systems, including eBills**
- In Chapter 24, new section on **artificial intelligence (AI) and its use in financial technology (fintech)**
- In Chapter 24, new section on **digital lending using artificial intelligence**
- In Chapter 26, new section on the **Family and Medical Leave Act with respect to families of those in the armed forces**
- In Chapter 26, new section on the **Affordable Care Act**
- In Chapter 27, new section on the 2020 Supreme Court case *Bostock v. Clayton County* concerning the inclusion of gender identity and sexual orientation within the meaning of Title VII of the Civil Rights Act
- In Chapter 27, new section on **discrimination against transgender persons**
- In Chapter 27, new section on **seniority systems**
- In Chapter 29, new section on **Reg. A+, which increased the exemption under Reg. A from \$5 million to \$50 million for security offerings**
- In Chapter 29, new section on the **decreased use of physical stock certificates**
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- In Chapter 38, new section on **creation of an easement or profit by necessity**
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- In Chapter 39, new section on **commercial lease terms**
- In Chapter 40, new section on **transfer of digital assets upon death**
- In Chapter 40, new section on the **eight categories of digital assets that should be of concern to students**
- In Chapter 40, new section on **digital executors**
- In Chapter 40, new section on **adding digital heirs to your accounts**
- In Chapter 40, new section on **using a password manager**

Effective Pedagogy

The tenth edition complements its new content coverage with varied and updated pedagogical content. To provide students with a variety of study tools for retaining and reviewing chapter materials, I have revised the following:

- **Every chapter presents all-new Real Cases, which are based on actual cases.** Eighteen are real cases from 2020 and 2021. Students can quickly read

through the Real Cases to see how courts apply legal principles to everyday business scenarios.

- I have **added Highlighting the Point features**. These features help students understand how business law can apply to common situations. There are over a dozen new features of this type.
- I have **added new Conflict Presented/Conflict Resolved features**. Each chapter opens with a brief legal Conflict Presented scenario and question. The Conflict Resolved feature answers the Conflict Presented question. These Conflict Resolved features are placed after the concept demonstrated is presented within each chapter. Students can therefore more easily see the relationship between the conflict and the legal principle that explains how it is resolved.
- Examples are very helpful for students because they illustrate and clarify legal principles. I have **added numerous new numbered examples** throughout the text.
- This edition also includes **forty-three new Real Law case problems** in the chapter-ending material. Thirty of these cases are from 2020 and 2021.

Additional Practical Learning Tools

To help students review chapter materials and prepare for testing, this text provides additional effective, practical features:

- **Learning Outcomes.** Every chapter starts with four to six Learning Outcomes. Each Learning Outcome is repeated in the margin at the point where it is discussed in the text. Additionally, each **Chapter Summary** includes that chapter's Learning Outcomes with a succinct review of the major points students need to remember. In this edition, the end-of-chapter exercises are also tied to the corresponding Learning Outcome.
- **Linking Business Law to Your Career.** Written in an easy-to-understand style, these features emphasize tips, pitfalls, and effective strategies for students to remember once they are working and applying their knowledge of basic business law to real-life workplace scenarios. In selected chapters, these features often reflect new business developments and examples.
- **Glossary.** For students' convenient reference, each key term throughout the text is defined in the Glossary.

Pedagogical Basis for the End-of-Chapter Questions and Problems

There is a logical progression of questions and problems at the end of each chapter.

1. **Straight to the Point.** After the chapter summary, this section of questions represents, as the title suggests, straightforward questions that students should be able to answer without much effort. In a sense, these questions get the student “warmed up” for more difficult questions.
2. **Issue Spotters.** These two questions are designed to make the student think about hypothetical situations while applying the concepts learned in each chapter. As always, the suggested answers are provided in Appendix A so that students can recognize where their weaknesses are.
3. **Real Law.** Now we get into more difficult questions based on actual cases. The cases are presented in a highly summarized manner, but they still require more analytical reasoning than previous questions. The suggested answers to these questions are presented in the Answers Manual for instructors.

4. **Ethical Questions.** The first Ethical Question is relatively simple, and most students should be able to answer it. The second Ethical Question, in contrast, is similar to the difficulty incurred in the Real Law questions above. Again, the suggested answers are provided in the Answers Manual.
5. **Work Sets.** As always, each chapter ends with a Work Set, an in-text study guide designed to help students review the material covered in the chapter. The Work Set is divided into three sections:
 - a. **True-False Questions.** If this is a homework assignment, most students should be able to answer the true-false questions correctly. In a sense, the Work Set starts with questions that are about the same level of difficulty as those found in the Straight to the Point questions.
 - b. **Multiple-Choice Questions.** These questions attempt to see if students have fine-tuned their understanding of the chapter concepts. While some are relatively easy, others are not.
 - c. **Answering More Legal Problems.** My goal in presenting these problems is to see how well students could be “teased” into filling in the correct answers to hypotheticals that have multiple facets.

Teaching Materials

Business Law: Text & Exercises, Tenth Edition, provides a comprehensive supplements package. The supplements were created with a single goal in mind: to make the tasks of teaching and learning more enjoyable and efficient. The following supplements are available for instructors.

MindTap

Today’s leading digital platform, *MindTap* for *Business Law: Text & Exercises*, Tenth Edition, gives you complete control of your course to create unique learning experiences that challenge students, build confidence, and elevate performance.

MindTap introduces students to core concepts from the beginning of your course using a simplified learning path that progresses from understanding to application. *MindTap* presents concepts using a blend of engaging narrative and media while minimizing distraction with assignments that pair learning content with assessments in a visually appealing side-by-side format. A distinctive, personalized study plan, based on individual performance, helps students stay focused and enables them to easily pinpoint areas for further study and practice.

Exclusive Instructor Tools allow you to modify the wording of questions, answer choices, and feedback in assessments to match the specific objectives and style of your course. New Instructor Reports provide actionable insights into student performance and present opportunities for just-in-time intervention.

Use *MindTap* for *Business Law: Text & Exercises*, Tenth Edition, as-is, or customize it to meet your specific course needs. You can also easily integrate *MindTap* into your Learning Management System (LMS).

Product Features The outcomes-based learning design within *MindTap* propels students from memorization to mastery. It’s the only platform today that gives you complete ownership of your course. With *MindTap*, you can challenge every student, build confidence, and empower today’s learners to be unstoppable.

Boost Comprehension with Improved Learning Design. Students can focus and better comprehend key learnings through a Learning Path divided into groups of short activities, all anchored to a single concept. Built upon proven learning

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***MindTap* Table of Contents**

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Acknowledgments

Business Law: Text & Exercises could never have been written without the extremely helpful criticisms, comments, and suggestions that I received from the following professors on the previous editions:

Helena Armour
Southwestern College of Business

David Blumberg
LaGuardia Community
College–CUNY

Daniel Burnstein
Gibbs College

Jeffrey S. Chase
Clinton Community College

Jack R. Day
Sawyer College

Diamela del Castillo-Payet
University of Miami

Nancy K. Dempsey
Cape Cod Community College

Joseph L. DeTorres
Contra Costa College

| | |
|----------------------------------------------------------------------|----------------------------------------------------------------------|
| Lucy Dorum Clover Park Technical College | Alan Questall Richmond Community College |
| Greg Drummer Stone Child College | J. Kent Richards Lake Superior College |
| John Elger Georgia State University | Susan Rubisch-Gisler Carlow University |
| Austin Emeagwai LeMoyne-Owen College | Harold V. Rucker Cuyamaca College |
| Linda Ferguson Virginia Wesleyan College | Steve Schneider Lake Superior College |
| Gary Grau Northeast State Community College | Mary T. Sessom Cuyamaca College |
| Myrna Gusdorf Linn-Benton Community College | Tom Severance Mira Costa College |
| Michael Harford Morehead State University | Gary T. Shara California State University– Monterey Bay |
| James P. Hess Ivy Technical State College | Brenda A. Siragusa Corinthian College |
| Sharon J. Kingrey City College | Deborah Vincour SUNY Rockland Community College |
| Doris K. Loes Dakota County Technical College | Al Walczak Linn-Benton Community College |
| Margaret A. Lourdes Cleary University–Howell/ Ann Arbor | Ron Weston Contra Costa College |
| John F. Mastriani El Paso Community College | Roger D. Westrup Heald Business College |
| Arin S. Miller Keiser University | Frederick D. White Indian River Community College |
| Seymour D. Mintz Queens College | Timothy G. Wiedman Thomas Nelson Community College |
| Karen S. Mozengo Pitt Community College | Tom Wilson Remington College |
| Barb Portzen Mid-State Technical College | |

The staff at Cengage went out of their way to make sure that the tenth edition of *Business Law: Text & Exercises* came out in accurate form. In particular, I wish to thank Abbie Schultheis, Mara Vuillaume, and Lisa Elliott for their countless new ideas, many of which have been incorporated into this new edition.

Our senior content manager, Kim Kusnerak, made sure that I had a visually attractive edition and ensured the timely and accurate publication of all supplemental materials. I will always be in her debt. I am also indebted to project manager Ann Borman at Straive, my compositor. Her ability to generate the pages for this text quickly and accurately made it possible for me to meet an ambitious printing schedule.

The copyediting services of Maureen Johnson and the proofreading services of Sheila Joyce will not go unnoticed. My appreciation goes to Suzanne Jasin for her special efforts on the project.

I know I am not perfect. If you find something you don't like or want me to change, write to me via e-mail, using the text's website. That is how I can make *Business Law: Text & Exercises* an even better book in the future.

R.L.M.

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Roger LeRoy Miller is currently Director of the Institute for University Studies in Arlington, Texas. He has served on the faculty of several universities, including the University of Washington, Clemson University, and the University of Miami School of Law. As a professor, he has taught intellectual property law and entertainment law, among other subjects. A widely published and respected author, his work has appeared in the *Insurance Counsel Journal*, *Defense Research*, *California Trial Lawyers Journal*, *Antitrust Bulletin*, *Wisconsin Law Review*, and *Connecticut Law Review*. He has authored or co-authored numerous authoritative textbooks on law, including *Business Law: Text & Cases*; *Business Law Today: Text & Summarized Cases*; and *The Legal Environment Today*. Professor Miller completed his studies at the University of California at Berkeley and the University of Chicago.

DEDICATION

*To Johnny Hagenbach,
Your athletic accomplishments will
be followed closely by
your academic excellence.*

—R.L.M.

Unit 1

The Law and Our Legal System

Unit Contents

Chapter 1

Introduction to the Law

Chapter 2

Ethics in Business

Chapter 3

The Courts and Our Legal System

Chapter 4

Constitutional Law

Chapter 5

Business Torts

Chapter 6

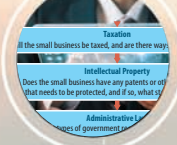
Intellectual Property

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Business Crimes

1

Introduction to the Law



Learning Outcomes

The four Learning Outcomes below are designed to help improve your understanding of the chapter. After reading this chapter, you should be able to:

- 1 Define *law*.
- 2 List the major sources of law.
- 3 Identify the supreme law of the land.
- 4 Distinguish different global legal systems.

Learning Outcome 1

Define *law*.

law

Enforceable rules governing individuals and their society.

Conflict Presented

Krista created, designed, produces, and sells an antivirus facemask. Each of these masks has a distinctive image of the singer Ariana Grande. Krista never asked permission to use the singer's likeness. Ariana Grande's lawyers file a suit against Krista.

Q Can Ariana Grande obtain a court order to stop Krista's use of her likeness and recover payment for lost profits due to that use?

Persons entering the world of business today will find themselves subject to numerous laws and government regulations. An acquaintance with these laws and regulations is beneficial—if not essential—to anyone contemplating a successful career in business.

In this introductory chapter, we look at the nature of law in general. We also examine the history and sources—both domestic and international—of American law in particular.

1-1 What Is Law?

The British jurist William Blackstone (1723–80) described law as “a rule of civil conduct, . . . commanding what is right, and prohibiting what is wrong.” There are many sets of rules that declare what is right and what is wrong. These may come from religion, philosophy, and other scholarly sources, or arise from peer pressure, customs, and social conventions.

Only rules enacted by the government apply with equal force to all of the individuals in a society, however. Of course, to be effective, these rules must be enforced with penalties when they are broken. Thus, the **law** consists of enforceable rules governing relationships among individuals and between individuals and their society.

1-2 Business Activities and the Legal Environment

To make good business decisions, knowledge of the laws and regulations governing business is essential. Businesspersons must also develop critical thinking and reasoning skills to evaluate how the law might apply in a given situation and to determine the best course of action. Businesspersons are also pressured to make ethical decisions. Thus, the study of business law involves an ethical dimension.

1–2a Many Different Laws May Affect a Single Business Transaction

As you will see, each chapter in this textbook covers a specific area of the law and shows how the legal rules in that area affect business activities. It is important to remember, however, that many different laws may apply to just one transaction.

Businesspersons should be aware of this and understand enough about the law to know when to hire an expert for advice. See the Linking Business Law to Your Career feature later in this chapter for more on this topic.

If a dispute cannot be resolved amicably, then a **lawsuit** may become necessary. At that point, it is also important to know about the laws and the rules concerning courts and court procedures.

lawsuit

A judicial proceeding for the resolution of a dispute.



Highlighting the Point

Suppose that Molortron, Inc., plans to introduce a driverless car equipped with Lidar, a radar system that relies on lasers, and with artificially intelligent cameras. Even if its technicians put the vehicle through two million miles of testing on closed courses and then deem this vehicle low risk, Molortron cannot simply start selling rides to consumers.

What are some of the legal issues that Molortron could face? The company must first test the cars on public roads, which requires permission from state governments. It must also establish safety rules in conjunction with federal regulators, and it must negotiate sustainable insurance rates. At each step, Molortron will have to adjust its bottom line to take account of the legal costs of introducing cutting-edge, but potentially dangerous technology, into the marketplace.

1–2b The Role of the Law in a Small Business

Some of you may end up working in, or owning and operating, a small business. The small-business owner is the most general of managers. When you seek additional financing, you become a finance manager. As you go over the expenses and revenues, you become an accountant. When you direct an advertising campaign, you are the marketing manager. When you have employees and determine salaries and benefits, you become a human resources (HR) manager. Each of these roles has a link to the law. Exhibit 1.1 shows some of the legal issues that can arise in managing a small—or large—business.

1–3 Sources of American Law

To understand the law, you need to have some understanding of its origins. One major source is the common law tradition that originated in medieval England. Another is constitutional law, which includes the U.S. Constitution and the constitutions of the states. Statutes—the laws enacted by Congress and the state legislatures—comprise an additional source of American law. Finally, yet another source of American law is administrative law, which consists of the regulations created by administrative agencies.

Learning Outcome 2

List the major sources of law.

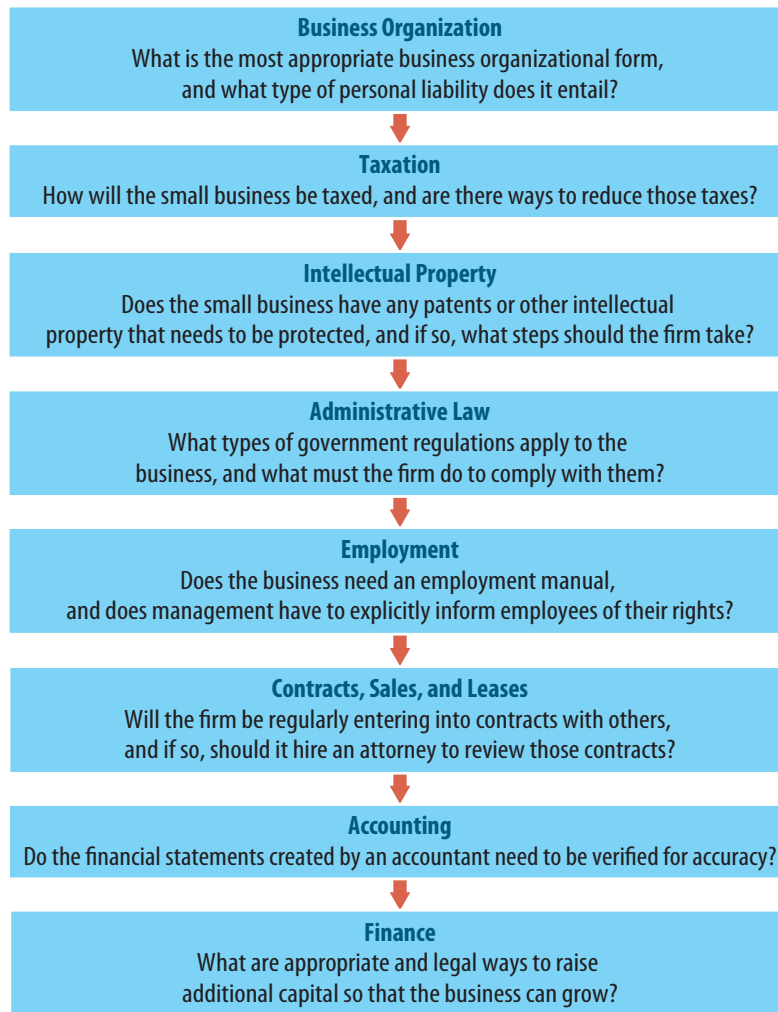
1–3a The Common Law

In medieval England, the courts established a uniform set of rules from the customs and traditions that had been in force in various regions of the nation. These rules—and the principles behind them—were applied to resolve similar disputes in a consistent way. Each application served as a guide for future decisions—a legal **precedent**.

precedent

A court decision that guides subsequent decisions.

Exhibit 1.1 Linking Business Law to the Management of a Small Business



common law
A body of law developed from court decisions.

case law
Rules of law announced in court decisions.

stare decisis
A doctrine under which judges follow established precedents.

jurisdiction
The authority of a court to decide a specific dispute.

action
A court proceeding to enforce or protect a right, or redress or prevent a wrong.

Over several centuries, these decisions developed into a body of **common law**. The English colonists brought this law to America and set up legal systems based on the common-law method of deciding disputes. When the United States was formed, these legal systems were the model for the new nation’s courts.

Today, the common law is still a significant source of legal authority. This body of law—sometimes referred to as **case law**—includes court interpretations of constitutional provisions, statutes enacted by legislatures, and regulations issued by administrative agencies.

The Doctrine of Precedent—Stare Decisis The practice of deciding new cases with reference to previous decisions, or precedents, forms a doctrine called **stare decisis** (pronounced *ster-ay dih-si-ses*), which means “to stand on decided cases.” According to this doctrine, a judge is obligated to follow the precedents established within the judge’s **jurisdiction**.

This practice is a cornerstone of the U.S. judicial system. The doctrine helps courts to be more efficient and makes the law more stable and predictable. Someone bringing an **action** in a court can expect a result based on how the law has been applied in cases with similar facts.

Departures From Precedent A court may decide that a precedent is incorrect or that a change in society or technology has rendered it inapplicable. In that case, the court may rule contrary to the precedent.

Sometimes, there is no precedent, or there are conflicting precedents. In these situations, a court may base a decision on the principles announced in other court decisions. The court may also consider public policy, social values, or concepts and data from other fields of knowledge.

Equity A person brings a case to a court of law seeking a **remedy**, or relief from a wrong. Usually, that remedy is **damages**—the payment of money.

Example 1.1 Elena is injured because of Ning’s wrongdoing. If Elena files a lawsuit and is successful, a court can order Ning to compensate Elena for the harm by paying her a certain amount of money (damages). The compensation is Elena’s remedy.

Money may not always be enough to make a situation right, however. **Equity** is a branch of the law that seeks to supply a fairer and more adequate remedy in such a case. ■

For instance, a court might issue an **injunction** to order a party to do specifically what the party promised. Or a contract might be cancelled, and the contracting parties returned to the positions they held before the deal.

Historically, two distinct systems of courts were created to grant the different types of remedies. A court of law could award only damages. A court of equity could provide other relief. Today, however, in most states, the courts of law and equity are merged. A court may now grant either a legal or an equitable remedy, or both, in the same action.

remedy

The means to enforce a right or compensate for a wrong.

damages

Money sought as a remedy for a harm suffered.

equity

Equity here means fairness. Within the law, it refers to types of relief, such as injunctions (as opposed to legal remedies).

injunction

A court order to do or not do a certain act.

Conflict Resolved

In the Conflict Presented feature at the beginning of this chapter, Krista created, designed, produces, and sells an antivirus facemask. Each of these masks has a distinctive image of the singer Ariana Grande. Krista never asked permission to use the singer’s likeness. Ariana Grande’s lawyers file a suit against Krista.

A **Can Ariana Grande obtain a court order to stop Krista’s use of her likeness and recover payment for lost profits due to that use?** Yes. A court can grant both types of remedies in a single case. Krista used Ariana’s likeness without her permission. The court can issue an injunction to stop Krista from continuing this action. If Ariana can also show that she lost sales of her own merchandise that uses her likeness, a court may order Krista to pay for Ariana’s lost profits.

1–3b Constitutional Law

The federal government and the states have separate constitutions that set forth the general organization, powers, and limits of their governments. The U.S. Constitution is the supreme law of the land. A law in violation of the Constitution, no matter what its source, will not be enforced.

Learning Outcome 3

Identify the supreme law of the land.

Real Case

The state of Maine provides by statute that all students shall benefit from a secondary school, whether private or public. Maine’s private schools, in order to be approved for tuition assistance, must be nonsectarian. That is to say, they do not support any specific religious beliefs. Certain parents challenged this requirement as violating the First Amendment of the Constitution.



(Continues)

Does the requirement that private schools not support specific religious beliefs in order to receive tuition-assistance payments infringe on the plaintiff’s constitutional rights? No, in *Carson v. Makin*, the U.S. Court of Appeals for the First Circuit ruled that this requirement did not violate the First Amendment free exercise clause and did not violate the establishment clause. Rather, the limitation related to how the state’s funds could be used. Maine did not place any limitations on religious teachings in general.

—979 F.3d 21 (1st Cir.)

Each state has its own constitution. Unless it conflicts with the U.S. Constitution, a state constitution is supreme within the state’s borders.



Highlighting the Point

The U.S. Constitution gives Congress the authority to regulate businesses involved in interstate commerce. Under this authority, Congress enacts a law prohibiting businesses from refusing to deal with the members of socially disadvantaged groups. Later, a state legislature enacts a law allowing businesses in the state to refuse to deal with members of the groups. Jill, a member of a specific socially disadvantaged group, brings an action against the state to stop the enforcement of the new state law.

Is the state law valid? No. The law violates the U.S. Constitution because it attempts to regulate an area over which the Constitution gives authority to the federal government. The law also violates the constitutional rights of the members of any group against which it discriminates. The court can order the state to stop its enforcement of the law.

1–3c Statutory Law

statutory law

Laws enacted by a legislative body.

Statutes enacted by Congress and the state legislative bodies make up another source of law, generally referred to as **statutory law**. Statutory law also includes the ordinances passed by cities and counties. None of these can violate the U.S. Constitution or the relevant state constitution.

Today, regulatory agencies assume an ever-increasing share of lawmaking. Much of the work of modern courts consists of interpreting the intent of legislation and then the appropriateness of the consequent regulatory rules that were declared after statutes are passed.

Uniform Laws State laws differ from state to state. During the 1800s, the differences among state laws made trade and commerce among the states difficult. To counter these problems, a group of legal scholars and lawyers formed the National Conference of Commissioners on Uniform State Laws (NCCUSL). This organization began to draft uniform laws for the states to adopt.

Each state has the option of adopting or rejecting a uniform law. A state legislature may choose to adopt only part of a uniform law or to rewrite the sections that are adopted. Hence, even though many states may adopt a uniform law, the law may not be “uniform” across all these states. Once adopted by a state, a uniform act becomes a part of the statutory law of that state.

The Uniform Commercial Code (UCC) In 1932, the Uniform Commercial Code (UCC) was created through the joint efforts of the NCCUSL and the American Law Institute. The UCC has been adopted in forty-nine states, the District of Columbia,

and the Virgin Islands. Louisiana has adopted Articles 1, 3, 4, 5, 7, 8, and 9. The UCC facilitates commerce among the states by providing a uniform, yet flexible, set of rules governing commercial transactions.

1–3d Administrative Law

Administrative law consists of the rules, orders, and decisions of administrative agencies. An administrative agency is a federal, state, or local government body established to perform a specific function. Congress or a state legislature charges these departments, commissions, and boards with carrying out the terms of particular laws.

Rules issued by administrative agencies affect almost every aspect of a business's operations. Regulations govern a business's capital structure and financing, hiring and firing procedures, relations with employees and unions, and the making and selling of products.

administrative law

The rules, orders, and decisions created by administrative agencies.

1–4 Civil Law Versus Criminal Law

The huge body of the law is broken down into several classifications. One important classification divides law into civil law and criminal law.

Civil law spells out the rights and duties that exist between persons and between citizens and their governments. In a civil case, one party tries to make the other party comply with a duty or pay for the damage caused by a failure to do so. Contract law is part of civil law.

Example 1.2 If Elijah fails to perform a contract with Mary, she may bring a lawsuit against Craig. The purpose of the lawsuit will be either to compel Elijah to perform as promised or, more commonly, to obtain monetary damages for Elijah's failure to perform. ■

Criminal law has to do with a wrong committed against the public as a whole. Criminal acts are prohibited by local, state, or federal government statutes. In a criminal case, the government seeks to impose a penalty (a monetary penalty and/or imprisonment) on an allegedly guilty person.

civil law

Law that defines and enforces all private and public rights, as opposed to criminal matters.

criminal law

Law that defines crimes and subjects criminals to punishment.

1–5 National Law Around the World

The common law system practiced in the United States is one of the major legal systems of the world. Other countries that were once colonies of Great Britain—such as Australia, Canada, and India—generally also use common law systems.

Many nations employ a **civil law system**, however. The basis of the system is codified law—a set of legal principles enacted into law by a legislature. The primary source of law is a statutory code. Precedents do not bind courts, although previous decisions may serve as guidance for judges. Most European nations, along with many countries that were once their colonies, use civil law systems. In the United States, Louisiana has a civil law system, due to the state's historical ties to France.

Learning Outcome 4

Distinguish different global legal systems.

civil law system

A legal system based on a statutory code.

1–6 International Law

International law can be defined as a body of written and unwritten laws observed by independent nations in their relations with other nations. It governs the acts of individuals as well as governments. International customs and treaties are generally considered to be two of the most important sources of international law.

The key difference between international law and national law (the law of a particular nation) is that national law can be enforced by government authorities.

international law

The law that governs relations among nations.

No such authority exists to enforce international law. The only methods to obtain compliance are persuasive tactics, such as sanctions, by other countries or international organizations.

International law must accommodate two conflicting goals of individual nations. Every nation desires to benefit economically from its dealings with individuals and other nations. At the same time, each nation is motivated by a need to be the final authority over its own affairs. International law attempts to balance these national desires and needs. And individual nations agree to be governed by international law in some respects in order to benefit from international trade.



Linking Business Law to Your Career

Consulting an Expert for Advice

Whether you own a business or work for one, you will face many issues that touch on subjects about which you know little. Not every manager is aware of all the information needed to manage a business. It is therefore necessary for you to know when to ask for advice from experts.

With respect to the law, you may know enough about the law to prevent a potential legal dispute simply by taking the appropriate action. In other circumstances, however, the best alternative will be to seek outside counsel.

Why Consult a Legal Expert?

It is not possible to keep up with the variety of statutes, rules, and regulations that affect the conduct of business in the United States. This problem only gets worse with laws that concern doing business on a global scale. It is possible to break a law without knowing that a law has been broken.

The general standard for compliance with the law is “good faith,” but at any time, an issue may arise that can only be resolved with special expertise. When your business’s reputation and profits are on the line, there is no substitute for the right advice.

How Can You Find an Attorney?

To choose an attorney for an issue that affects your employer’s business, first ask for your employer’s recommendations. There may be an advocate who works for your organization or with whom your employer consults on a regular basis.

To find an attorney for a question that concerns your own business, obtain the recommendations of your friends, relatives, or business associates. Ask for endorsements from those who have had long-standing relationships with their attorneys.

Other sources of referrals include your local or state bar association and online directories.

Chapter Summary—Introduction to the Law

Learning Outcome 1: Define *law*.

Law consists of enforceable rules governing relationships among individuals and between individuals and their society.

Learning Outcome 2: List the major sources of law.

The common law consists of past judicial decisions. According to the doctrine of *stare decisis*, these decisions are normally applied to resolve current disputes.

Constitutional law is the law expressed in the U.S. Constitution and the various state constitutions. Statutory law consists of laws or ordinances created by federal, state, or local legislatures and governing bodies.

Learning Outcome 3: Identify the supreme law of the land.

The U.S. Constitution is the supreme law of the land. State constitutions are supreme within state borders to the extent that they do not violate the U.S. Constitution or a federal law. No federal, state, or local statute or ordinance can violate the U.S. Constitution or the relevant state constitution.

Learning Outcome 4: Distinguish different global legal systems.

The common law system involves the practice of deciding new cases with reference to previous decisions, or precedents. A judge is obligated to follow the precedents established within the judge's jurisdiction.

The civil law system is a legal system in which the primary source of law is a statutory code—a set of legal principles enacted into law by a legislature or governing body. Precedents are not binding in a civil law system.

Straight to the Point

1. Why is knowledge of business law essential for any businessperson? (See Learning Outcome 1.)
2. What is the common law? (See Learning Outcome 2.)
3. When and why does a court apply the decision of another court to determine the result in a case? (See Learning Outcome 2.)
4. What are some of the remedies that a party can obtain from a court to make a wrong situation right? (See Learning Outcome 2.)
5. Which aspects of a business's operation do the rules, orders, and decisions of administrative agencies affect? (See Learning Outcome 2.)

Issue Spotters

Check your answers to the Issue Spotters against the answers provided in Appendix A at the end of this text.

1. Under what circumstances might a judge rely on case law to determine the intent and purpose of a statute? (See Learning Outcome 2.)
2. The First Amendment of the U.S. Constitution protects the free exercise of religion. A state legislature enacts a law that outlaws all religions that do not derive from the Judeo-Christian tradition. Is this state law valid? Why or why not? (See Learning Outcome 2.)

Real Law

1–1. Stare Decisis. A patent is an exclusive right granted to the creator of an invention. Under U.S. law, a patent owner possesses that right for twenty years. The owner can allow another party to make and market a product based on the invention in exchange for a payment of royalties on the sales. According to the United States Supreme Court in a case known as the *Brulotte* decision, a contract to pay royalties after a patent has expired is unenforceable. Stephen Kimble owned the patent to a toy glove that could shoot foam intended to look like the web of Marvel Comics' Spider-Man. Kimble agreed to allow Marvel Entertainment, LLC, to sell its version of the toy. Marvel agreed to pay Kimble a royalty of 3 percent on the sales. Their contract did not specify an end date. After the patent expired, Marvel sued to stop the payments. What is the doctrine of *stare decisis*? What are the arguments for and against applying it in this case? Discuss. [*Kimble v. Marvel Entertainment,*

LLC, 135 S.Ct. 2401, 192 L.Ed.2d 463 (2015)] (See Learning Outcome 2.)

1–2. Role of Law. Otto May, Jr., a pipefitter for Chrysler Group, LLC, was the target of racist, homophobic, and anti-Semitic remarks. He received death threats, his bike and car tires were punctured, and someone poured sugar into the gas tank of his car. A dead bird was placed at his workstation wrapped in toilet paper to look like a member of the Ku Klux Klan. Chrysler documented and investigated the incidents. Records were checked to determine who was in the building when the incidents occurred, the graffiti handwriting was examined, and employees were reminded that harassment was not acceptable. What role might the law play in these circumstances? Discuss. [*May v. Chrysler Group, LLC*, 716 F.3d 963 (7th Cir. 2013)] (See Learning Outcome 1.)