

# Chapter 13

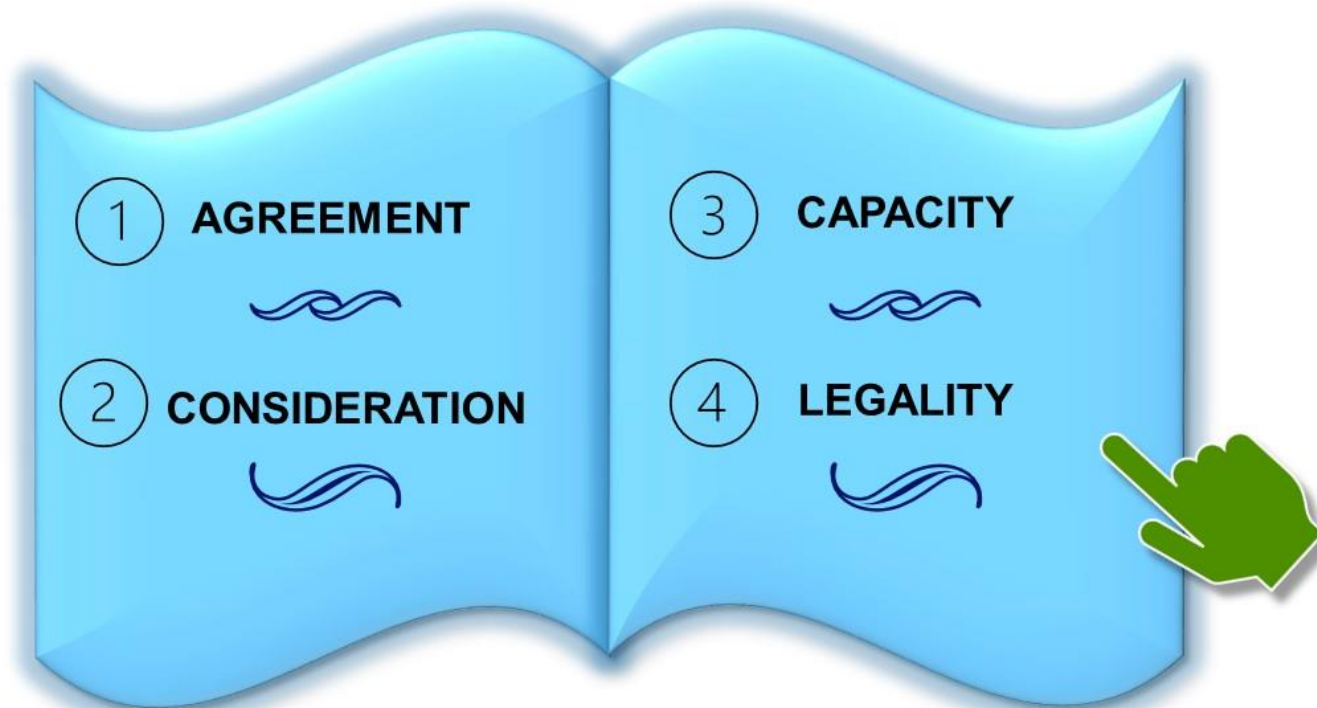
## Capacity and Legality

# Chapter Objectives

By the end of this chapter, you should be able to:

- Define capacity.
- Summarize the capacity of a minor.
- Define emancipation, in the context of contract law.
- Describe the impact of mental capacity in determining the validity of a contract.
- Explain how intoxication affects capacity.
- Explain the legality requirement in contract law.
- Define illegality in a contract.

# Why Does Capacity and Legality Matter?



**Scenario:** Sixteen-year-old Jane wants to free herself from her abusive parents. Can her parents relinquish their legal right to exercise control over Jane?

# Minors or Infants

- Not legally bound by contracts
- Adult age begins at 18
- Minority status terminated with emancipation
- Avoid contracts by disaffirming with intent
- Disaffirmance within a reasonable time
- Obligations to return goods on disaffirmance
- Necessaries
- Ratification



# PAK Foods Houston, LLC v. Garcia

## Polling Question

Can a minor disaffirm a contract at his or her option?

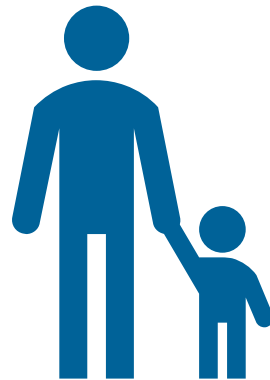
Yes

No

Explain your reasoning to another person or classmate.

# Parent's Liability

- Not liable for contracts made by minor acting on their own
- Necessaries, parents legally required to provide
- Example: businesses require parents to cosign for liability




# Intoxicated Persons

- Lacking mental capacity, but other party knows it
- Transaction may be voidable
- Option for disaffirmance for a reasonable time upon sobriety
- Consequences understood while intoxicated, then contract enforceable
- Difficult to prove impaired judgment causing misunderstanding
- Courts rarely permit avoiding contracts due to intoxication



# Mentally Incompetent Persons

- Contracts can be void, voidable, or valid
- Court determines mental incompetence, making contract void
- Without court, minor incompetent when contract formed, then voidable
- **Case Example 13.3** Annabelle Duffie 
- Contract valid if capacity present when contract formed



# Knowledge Check 1

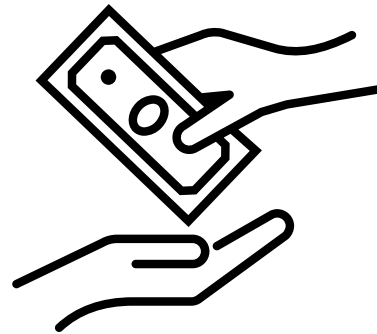
Courts always permit avoiding contracts due to intoxications.

True

False

# Legality: Contracts Contrary to Statute

- Contracts to commit a crime violate statute
- Usury
- Gambling
- Licensing statutes for certain professions



# Business Law Analysis

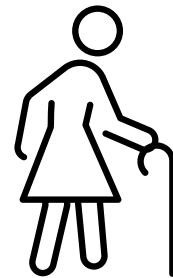
## Activity: Creating Scenarios

### Determining If a Contract with an Unlicensed Party is Enforceable

- Review the Business Law Analysis feature, and create a couple of similar scenarios.
- Why would some companies do business with unlicensed parties?

# Legality: Contracts Contrary to Public Policy

- Contracts in restraint of trade
- Covenants not to compete, and the sale of an ongoing business
- Covenants not to compete in employment contracts
- **Case Example 13.4** Dana Clement



# Group Breakout Discussion: Ethical Issue

## Are Expansive Noncompete Agreements Reducing Worker Mobility?

In your groups, create one or two concrete scenarios where noncompete agreements may be reducing worker mobility.

- Discuss potential workplaces.
- Discuss possible co-worker dynamics.
- Discuss any possible legal issues that may arise.

# Enforcement Problems

- Noncompete enforceability laws vary state by state
- **Examples:**
  - California prohibits all noncompete covenants
  - Texas only considers it, if employee receives benefits
- Courts only reform contracts to prevent undue burdens or hardships



# Kennedy v. Shave Barber Co.

## Polling Question

Did Patricia Kennedy breach the noncompete provision of her employment contract with The Shave?

Yes

No

Explain your reasoning to another person or classmate.

# Unconscionable Contracts or Clauses

- The UCC incorporates unconscionability in provisions
- Procedural unconscionability
  - **Case Example 13.5** Lianna Saribekyan vs. BANA
- Substantive unconscionability





# Exculpatory Clauses

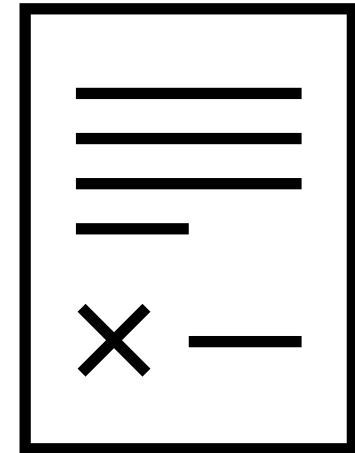
- Courts sometimes refuse to enforce due to unconscionability

## Violation of Public Policy

- **Examples:** Rental agreements, employment

## Enforcement of Exculpatory Clauses

- Reasonable
- Do not violate public policy
- Do not protect parties from liability for intentional misconduct



# Discussion: Managerial Strategy

## Creating Liability Waivers That Are Not Unconscionable

1. What would be your strategy regarding liability waivers, if you were managing a business that relied on minors engaging in inherently dangerous activities?
2. Under what circumstances would you, as a business owner, choose to aggressively defend your business against a customer's liability lawsuit?

# Holmes v. Multimedia KSDK, Inc.

## Polling Question

Was the language used in the exculpatory clause that Colleen Holmes signed clear in releasing all sponsors, their agents, and employees without exclusion from liability for future negligence?

Yes

No

Explain your reasoning to another person or classmate.

# The Effect of Illegality

- *In pari delicto* – both parties are equally at fault

## Justifiable Ignorance of Facts

- Courts won't enforce contract, but allow parties to return to original positions

## Members of Protected Classes

- Only member can enforce violated contract

# Knowledge Check 2

When both parties are equally at fault, it is called \_\_\_\_\_.

1. ad hominem
2. ex parte
3. in pari delicto
4. Habeas corpus

- A. 1, 2, and 4
- B. 1 and 3
- C. 3 only
- D. None of the above

# Withdrawal from an Illegal Agreement

- **Example 13.8** Marta and Andy



## Severable or Divisible Contracts

- Contract performance can be completed in parts or whole
- **Example 13.9** Cole

## Fraud, Duress, or Undue Influence

- Victimized party allowed to recover for performance, or its value

# Knowledge Check

Most obligations are discharged by full performance.

True

False

# Self-Assessment

1. What concepts did you find difficult, and thus need to review?
2. How might the topics in this chapter come up in the future in your personal (or work) life?
3. How can you use your personal (or work) experience to contribute for a class discussion on the topics in this chapter?
4. Which topics would you like to independently learn more about?



# Summary

Now that the lesson has ended, you should have learned how to:

- Define capacity.
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