CONTRACTS

READ ALL THE FOLLOWING INSTRUCTIONS CAREFULLY

Instructions

(i) Write your examination number on each page of this examination. Use only your examination number, not your name.

(ii) This is a closed book examination. You MAY NOT use any materials.

(iii) Statutory, case and restatement citations may be used but are not required. The better answers will include a thorough analysis of the issues presented rather than a string of citations.

(iv) Conciseness and clarity of expression, organization and clarity of presentation, while not separately taken into account in the grade, necessarily have some impact on the grader's evaluation of your understanding of the subject matter.

(v) Answer each question only on the lines provided. Take care that your work is legible. Do not write in the margins.

(vi) This examination has 30 pages. Check that you have a complete examination.

(vii) This examination consists of 9 questions. Each question is given a suggested time limit that corresponds to the weight given the question in the determination of your final grade. ALL ANSWERS MUST BE EXPLAINED. Your grade will be based on your analysis of the issues rather than your ability to come to a single "correct" solution.

(viii) Remember that this is an examination of your understanding of the material covered in Contracts. Answer the questions based upon the Contracts readings and class discussions and not on the basis of material discussed or read in your other classes.

NOTE: Questions 1-3 are related. Read questions 1-3 before answering.
Question 1
10 minutes

Aggie Smith owned a farm in southeastern Missouri. In need of a new tractor, she visited Bob’s Fine Farm Implements. There she spotted a 1990 model John Deere tractor that suited her needs. On the tractor was a sign that read

1990 John Deere
$7,500
AS IS

Aggie purchased the tractor and she and Bob’s Fine Farm Implements signed a contract that included the following language:

The tractor sold under this agreement is warranted to be free from defects for a period of three months from the date this agreement is signed.

Aggie took the tractor back to the farm that day and began to use it in her farming operations. Four months after she purchased the tractor, it would not start. Aggie’s mechanic told her that she believes that, at some point, the engine had been run without oil, causing irreparable damage. Aggie is certain that the damage occurred before she purchased the tractor.

Assuming that no one at Bob’s Fine Farm Implements knew of the defect, what are Aggie’s rights against Bob’s Fine Farm Implements?

Question 2
10 minutes

Same facts as Question 1, but assume that the sales person with whom Aggie dealt knew about the defect. Assume further that during their discussion, he told Aggie that the tractor was “sound.” What are Aggie’s rights against Bob’s Fine Farm Implements?

Question 3
10 minutes

Would your answer to Question 2 change if the written agreement contained the following language?

This agreement sets forth the entire agreement between the parties hereto. There are no representations or warranties that extend beyond the face hereof.
NOTE: Questions 4 and 5 are related. Read questions 4 and 5 before answering.

Question 4
15 minutes

Mark Minor, a 16 year old who looks 21, purchased a guitar and guitar amplifier from Jane’s House of Jams for a total of $2,000. Mark paid $500 and agreed to pay $100/month over the next 15 months. Mark has not made any of the monthly payments. At a recent gig, Mark set the guitar on fire and kicked and overturned the amp. Mark’s antics rendered both the guitar and the amplifier valueless pieces of junk. What are Mark’s rights and obligations with respect to this purchase?

Question 5
15 minutes

Same facts as Question 4 except that Mark is a 25 year old musician who already owns 30 guitars and 15 amplifiers. Mark’s psychiatrist is prepared to testify that, although Mark was not intoxicated at the time he entered into the agreement, Mark’s long history of alcohol and drug use have rendered him unable to resist the urge to purchase and destroy musical instruments. The salespeople and managers at Jane’s House of Jams were Mark’s friends and sold him all of his instruments. What are Mark’s rights and obligations under these circumstances?

Question 6
30 minutes

Last month Acme Corporation, a manufacturer of lubricating materials used in the oil and gas industry, agreed to supply 1,000,000 gallons of lubricant to Big Oil Co. for $1.00/gallon. The written agreement required Big Oil to pay for the lubricant only after all 1,000,000 gallons had been delivered on May 1, 1997.

On April 25, Art Acme, the CEO of Acme Corporation, read in the Wall Street Journal that the oil and gas industry was experiencing severe difficulties due to a glut of imported oil. On April 26, Art met with Bob Big, CEO of Big Oil Co. In that meeting Art demanded that Big Oil pay for the oil prior to delivery and stated, “If you don’t pay we won’t deliver.” Bob refused to pay.

Acme has refused to deliver without payment in full. From April 24, 1997, and thereafter, the market price of lubricant was $2.00/gallon. What are the obligations of Acme under the agreement? How would you have advised Art had you represented Acme at the April 26 meeting?

Question 7
Paula Producer, the executive producer of the David Letterman Show, entered into a contract on behalf of NBC with Much Meat Inc. to deliver 10,000 42 ounce canned hams to NBC studios on April 1, 1997, in anticipation of Letterman’s gala tax day ham giveaway. NBC agreed to pay $5.00/ham.

Much Meat delivered the hams to the NBC studios on April 1, 1997. The hams arrived in 10 crates each containing 1,000 hams. Paula inspected one of the crates, finding that it contained 1,000 hams conforming in all respects to the contract. On April 7, in preparation for the gala, the show’s production staff opened the remainder of the crates. Four of the remaining crates contained hams that conformed to the contract but the other 5 crates each contained 1,000 48 ounce hams. Except for their size, these 5,000 hams conformed to the contract.

Paula immediately sent a fax to Much Meat rejecting all 10,000 hams. She was able to locate a substitute supplier who only charged $3.00/ham for 10,000 42 ounce hams with precisely the same specifications as were required in the Much Meat agreement.

On April 14, a Much Meat delivery truck with 5,000 42 ounce hams arrived at the NBC studio. Paula told the driver that he had come too late and that she had found a better deal elsewhere. The driver returned to the Much Meat warehouse with the 5,000 conforming hams and the 10,000 rejected hams. Much Meat sold the 10,000 hams that NBC rejected for $4.00 each.

What rights does Much Meat Inc. have against NBC?

NOTE: Questions 8 and 9 are related. Read Questions 8 and 9 before answering.

Claude’s Construction Company entered into a contract with the Smallville School District for substantial renovation and addition to one of the district’s school buildings for a total price of $1,000,000. The contract was entered into in January and required completion of the construction by August 15 so that the building would be ready for use by the beginning of school.

Claude’s Construction began work on February 1, as required by the contract, and the work was proceeding on schedule, when, on March 15, the District’s cafeteria workers went on strike and began picketing the school. Union drivers employed by the suppliers of construction materials honored the picketline and refused to deliver materials needed for the construction. As a result, work on the construction was halted until April 15. On May 1, Claude met with representatives of the school board and informed them that, unless they would agree to pay more, the work would not be completed until September 15. Claude told them that extra workers would be required and that he would have to charge an additional $20,000 to complete the work on schedule. The school board representatives told Claude that they absolutely had to have the building by August 15 because substitute facilities for classes would create a substantial
disruption in class schedules and the cost of the substitute facilities would be prohibitive. On May 15, the school board voted to authorize a $20,000 increase in the price to be paid to Claude’s Construction, and Claude and the school board entered into a written modification to that effect. Claude completed the project by using extra workers that he was able to pull off other jobs so the additional work did not actually cost Claude’s Construction anything.

Claude’s Construction completed the job on time. The school board paid the $1,000,000 and has refused to pay any more. The original contract is silent regarding delays due to labor problems but states that “time is of the essence in this contract.” Analyze Claude’s Construction Company’s claim to the additional $20,000.

Question 9
30 minutes

Same facts as Question 8, but assume that the school board refused to enter into the second agreement. Claude’s Construction finished the work on September 15. To date, the school board has paid $750,000 toward the $1,000,000 price. The late completion required the school board to rent other facilities costing $100,000 and caused a substantial disruption in classes. What are the rights and obligations of the school board and Claude’s Construction Company?