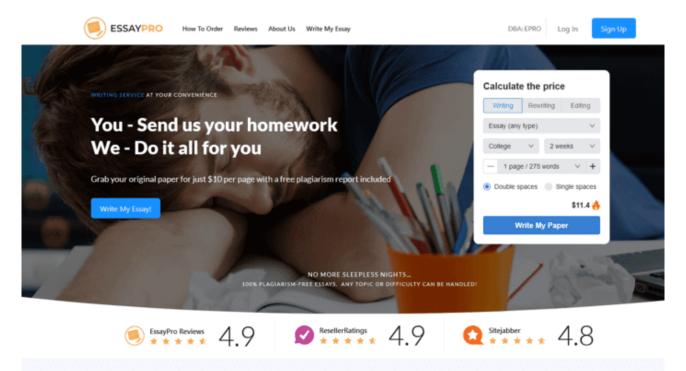
Contracts



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Contracts

A contract is an agreement that is enforceable by law. Modern business could not exist without such contracts. Most business transactions involve commitments to furnish goods, services, or real property; these commitments are usually in the form of contracts.

Use of the contract in business affairs ensures, to some extent, the performance of an agreement, for a party that <u>breaks</u> a contract may be sued in court for the damages caused by the breach. Sometimes, however, a party that breaks a contract may be persuaded to make an out-of-court settlement, thus saving the expense of legal <u>proceedings</u>.

A contract arises when an offer to make a contract is accepted. An offer contains a promise (for example, "I will pay \$1,000") and a request for something in return (a person's car). The acceptance consists of an assent by the party to whom the offer is made, showing that the person agrees to the terms offered. The offer may be terminated in a number of ways. For example, the party making the offer may cancel it (a revocation), or the party to whom the offer is made may reject it. When the party to whom the offer is

made responds with a different offer, called a counteroffer, the original offer is terminated. Then the counteroffer may be accepted by the party making the original offer.

REQUIREMENTS OF A VALID CONTRACT

For a contract to be valid, both parties must give their assent. They must act in such a way that the other people involved believe their intention is to make a contract. Thus a person who is clearly not sincere in saying that he or she accepts an offer usually is not held to a contract by the courts. On the other hand, a person who secretly has no intention of making a contract but who acts in a manner that leads people to believe he or she had, may be held to a contract. Legally, it is the external appearance that determines whether one is held to a contract.

Consideration

A contract results from a <u>bargain</u>. This implies that each party to the contract gives up something, or promises to, in exchange for something given up or promised by the other party. This is called consideration. In the example given above, the consideration on one side is the promise to pay \$1,000, and on the other, the promise to deliver a car. With rare exceptions, a promise by one party, without some form of consideration being extended by the other pa...

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... of money designed to compensate for losses stemming from the breach). Damages are measured by what may reasonably be foreseen as financial losses; unforeseeable losses may not be collected. If an award of money is not compensatory because something about the promised performance was unique, the party who breaks a contract may be ordered by the court to perform as agreed. This is called specific performance. For example, real estate is always considered unique. Therefore, when a party has contracted to sell real estate but changes his or her mind, the court may grant specific performance and order that the deed for the real estate be delivered to the agreed buyer.

Most contracts are formed with an implicit understanding that neither party need perform unless the other has completed his or her promised performance. An exception to this understanding occurs when a party has performed most of his or her obligation and the part not performed is relatively immaterial. The doctrine of substantial performance provides that in such a case, the opposite party must perform, although he or she may secure money damages to the extent that he or she was damaged by lack of complete performance.

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