

NINTH EDITION

# BUSINESS LAW

## TEXT & EXERCISES



ROGER LEROY MILLER

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# Business Law

## TEXT & EXERCISES

NINTH EDITION

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# Business Law

## TEXT & EXERCISES

### NINTH EDITION

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# Preface to the Instructor

It is no exaggeration to say that today's legal world is changing at a pace never before experienced. In many instances, technology is both driving and facilitating this change. In the midst of this evolving environment, however, one thing remains certain: for students entering the business world, an awareness of the legal and regulatory environment of business is critical. Even for those students who do not pursue a business career, legal problems will arise. Thus, a solid background in business law is essential for everyone.

In *Business Law: Text and Exercises*, Ninth Edition, we 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.

## What's New in the Ninth Edition

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

## New Chapter Content

To maintain the text's high-quality, up-to-date content, we have added several new topics and discussions to the Ninth Edition. These content additions include the following:

- A new chapter on **Mortgages** provides a basic explanation of mortgage loans and the laws and processes that surround them.
- The final chapter on International Law now presents a new section on the emerging area of **Space Law**.
- To reinforce student learning through visual aids, **fourteen new Exhibits** have been added to selected chapters.
- The chapter discussing employment law now includes **new sections on Worker Protections and Employee Privacy**.
- The coverage of corporations has been expanded to include **new sections on Sales of Securities, Corporate Ownership, Share Exchanges, and Takeover Attempts**.

## All-New Pedagogy

The Ninth Edition complements its new content coverage with new pedagogical content. To provide students with a variety of study tools for retaining and reviewing chapter materials, we made the following additions and changes:

- A new section, titled ***Straight to the Point***, in every chapter features five to seven questions that focus on important points in the chapter content. These straightforward questions provide pedagogical variety while helping students retain important business law terms and topics.

- A new *Ethical Question* based on a recent court case in every chapter helps emphasize the importance of ethics in business.
- Every chapter presents all-new *Real Cases*, which are based on 2016 or 2017 cases (formerly titled *Real-World Case Examples*). Students can quickly read through the *Real Cases* to see how courts apply legal principles to everyday business scenarios.
- We have added more than forty new *Highlighting the Point* features. These features help students understand how business law can apply to common situations.
- We have added more than twenty new *Conflict Presented/Conflict Resolved* features (formerly titled *Facing/Answering a Legal Problem*). Each chapter opens with a brief legal *Conflict Presented* scenario and question. At the end of the chapter, the *Conflict Resolved* feature answers the *Conflict Presented* question.
- Examples are very helpful for students because they illustrate and clarify legal principles. We have added more than forty new *Numbered Examples* throughout the text.
- This edition includes forty-three new *Real Law* case problems (formerly called *Real-World Case Problems*). Most are based on 2016 cases.

## Other Significant Revisions

Along with engaging new content and pedagogy, the Ninth Edition also boasts significant revisions and updates. To help students comprehend the more complex concepts of business law, we have removed legalese and reorganized content for better flow and understanding. To accomplish this editorial objective, we have revised some chapters.

- For smoother organization and more focused business law coverage, we have created four new chapters on **Business Torts, Business Crimes, Personal Property, and Bailments** by splitting chapters from the previous edition.
- In Unit 6, on Business Organizations, the coverage of **Corporations** has been expanded to three chapters to simplify coverage and introduce new topics and discussions.
- A complete revision of the chapter on **Bankruptcy Law** makes the content less confusing and easier to follow. The chapter now focuses on three common types of bankruptcy—Chapter 7, 11, and 13—and emphasizes the bankruptcy basics.
- Chapter 32, titled **Security Interests and Creditors' Remedies**, combines two chapters from the previous edition. The chapter has been condensed for a clear, layperson-oriented discussion of risk and credit in today's business world.

## 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*. This edition includes thirty new *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.
- **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.

- **Work Sets**—At the end of every chapter, there is a tear-out sheet called a *Work Set*, which features true-false and multiple-choice questions, plus an *Answering More Legal Problems* fill-in-the-blank feature. This in-text study guide helps students review the material covered in the chapter.
- **Issue Spotters**—The *Issue Spotters* provide students with two hypothetical situations that end with questions related to the chapter topics. Students answer these questions by reviewing the topic material. They can then compare their answers with those provided in Appendix A at the end of this book.
- **Glossary**—For students’ convenient reference, each boldfaced key term throughout the text is defined in the *Glossary*.

## Supplements

*Business Law: Text and Exercises*, Ninth 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 Business Law for Business Law: Text & Exercises, Ninth Edition*

*MindTap*<sup>™</sup> is a fully online, highly personalized learning experience built upon authoritative Cengage Learning content. By combining readings, multimedia, activities, and assessments into a singular Learning Path, *MindTap* guides students through their course with ease and engagement. Instructors personalize the Learning Path by customizing Cengage Learning resources and adding their own content via apps that integrate into the *MindTap* framework seamlessly with Learning Management Systems.

Business law instructors have told us it is important to help students Prepare for class, Engage with the course concepts to reinforce learning, Apply these concepts in real-world scenarios, and use legal reasoning and critical thinking to Analyze business law content. Accordingly, the *Business Law MindTap* product provides a four-step Learning Path designed to meet these critical needs while also allowing instructors to measure skills and outcomes with ease.

- **Prepare**—Interactive worksheets are designed to prepare students for classroom discussion by ensuring that they have read and understood the reading.
- **Engage**—Real-world videos with related questions help engage students by displaying the relevance of business law in everyday life.
- **Apply**—Brief hypothetical case scenarios help students to practice spotting issues and applying the law in the context of short factual scenarios.
- **Analyze**—Case-problem analysis promotes deeper critical thinking and legal reasoning by building on acquired knowledge. These exercises guide students step by step through a case problem and then add in a critical-thinking section based on “What If the Facts Were Different?”

Each and every item in the Learning Path is assignable and gradable. This gives instructors the knowledge of class standings and concepts that may be difficult. Additionally, students gain knowledge about where they stand—both individually and compared to the highest performers in class. *MindTap* also includes:

- **Case Collection**—Instructors can find more than 1,600 additional cases included in several previous editions of all Cengage Business Law or Legal



Environment texts. These cases are searchable by name, year, state, and subject matter.

- **Adaptive Test Prep**—Students can generate their own practice quizzes with questions similar to those found on most exams.

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The *Instructor's Companion Website* for *Business Law: Text and Exercises*, Ninth Edition, contains the following supplements:

- ***Instructor's Manual.*** The *Instructor's Manual* contains all of the answers to the *Issue Spotters*, *Straight to the Point* questions, *Real Law* case problems, and *Ethical Questions*. In addition, it provides the answers to each chapter's *Work Set*.
- ***Test Bank.*** The comprehensive *Test Bank* contains multiple-choice, true-false, and short essay questions. More than 30 percent of the material in the *Test Bank* is either new or has been upgraded.
- ***PowerPoint Slides.***

For more details, contact your Cengage Learning sales representative.

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

R.L.M.  
W.E.H.

## DEDICATION

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*To Clyde,  
Whose mastery  
of all things in publishing  
continues to live on.  
Thanks for everything.*

—R. L. M.

*Para mi esposa, Luisa,  
y mi hijas, Sandra y Mariel,  
con mucho amor.*

—W. E. H.







## UNIT 1

# The Law and Our Legal System

## UNIT CONTENTS

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### 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

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### CHAPTER 6

Intellectual Property

### CHAPTER 7

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 legal systems.



### Conflict Presented

Max owns photos and other art depicting the Beatles. Max does business through his website, thebeatlesartwork.com. Apple Corps, Ltd., owns trademarks—including “The Beatles”—that it uses to sell merchandise related to the group. Alleging trademark infringement, Apple Corps files a suit against Max.

**Q Can Apple Corps obtain a court order to stop Max’s use of “The Beatles” and recover payment for its lost sales 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 (1723–1780) 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 other social conventions.

Only rules enacted by the government apply with equal force to all of the individuals in a society, however. Of course, these rules are effective only if they are 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 determine the best course of action. Businesspersons are also pressured to make ethical decisions. Thus, the study of business law involves an ethical dimension.

### LEARNING OUTCOME 1

Define law.

#### law

Enforceable rules governing individuals and their society.

## 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 at the end of 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

Mark Zuckerberg starts Facebook when he is a student at Harvard University. Later, others who attended Harvard at the same time assert that Zuckerberg stole their idea for a social networking website. Meanwhile, Facebook users contend that the company tracks their website visits and scans their messages to mine data to sell to advertisers.

**What are some legal issues Zuckerberg and his company could face?** The fellow students may have a claim against Zuckerberg in areas of the law that concern intellectual property, contracts, and partnerships. Facebook could also face a **class action lawsuit** for violating its users' privacy. Such an action could be brought under tort law, contract law, or constitutional law. Lastly, Facebook could be subject to action for claims by certain federal regulators, which would be based in administrative law.



### class action lawsuit

A lawsuit in which a number of persons join together.

## 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 books, 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 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

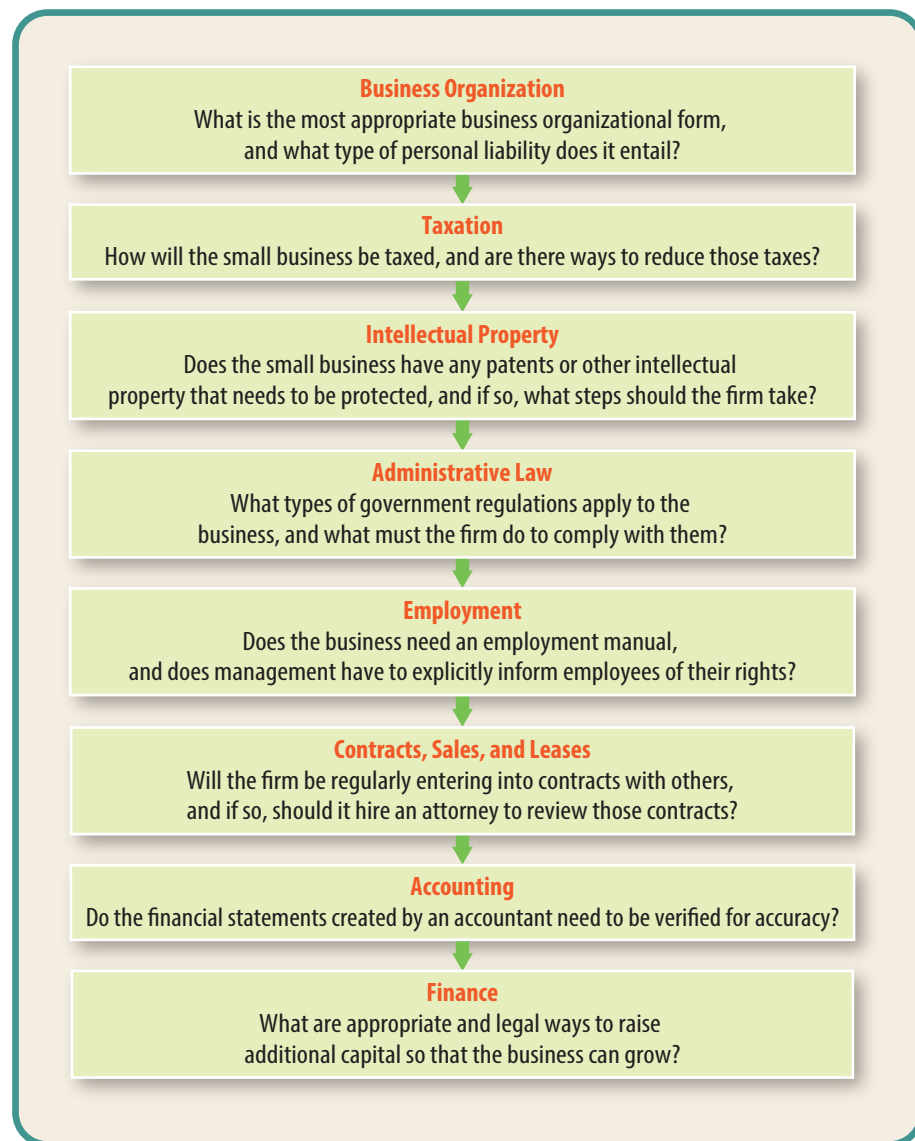
List the major sources of law.

## 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.

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.

**Real Case**

Rosa Parks refused to give up her seat on a bus to a white man in violation of a law in Montgomery, Alabama. This event sparked the modern Civil Rights Movement. Her role has been chronicled in books and movies, and featured on mementoes, some of which are offered for sale by Target Corp. The Rosa and Raymond Parks Institute for Self Development is a Michigan firm that owns Parks's name and likeness. The Institute



filed a lawsuit against Target, alleging a violation of Michigan's common law. The court dismissed the suit. The Institute appealed.

**Did Michigan's common law protect Target's sales of merchandise that depicted or discussed Rosa Parks and the modern Civil Rights Movement?** Yes. In *Rosa and Raymond Parks Institute for Self-Development v. Target Corp.*, the U.S. Court of Appeals for the Eleventh Circuit affirmed the dismissal. Michigan's common law prohibits the use of a person's name or likeness without his or her consent. But the state's common law also includes a "privilege to communicate on matters of public interest. . . . Rosa Parks is a figure of great historical significance and the Civil Rights Movement a matter of . . . the highest public interest." Target's sales fell within this privilege.

—812 F.3d 824 (11th Cir.)

**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 her or his **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 Rowan's wrongdoing. If Elena files a lawsuit and is successful, a court can order Rowan 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 he or she promised. Or a contract might be cancelled and the contracting parties returned to the positions they held before the deal.

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, 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.

## 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.

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

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### **stare decisis**

A doctrine under which judges must 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.

### **remedy**

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

### **damages**

Money sought as a remedy for a harm suffered.

### **injunction**

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

### **LEARNING OUTCOME 3**

Identify the supreme law of the land.

## 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 minority 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 minority 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 minority group against which it discriminates. The court can order the state to stop its enforcement of the law.

### statutory law

Laws enacted by a legislative body.

## 1–3c Statutory Law

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, legislative bodies and regulatory agencies assume an ever-increasing share of lawmaking. Much of the work of modern courts consists of interpreting what the rulemakers meant when a law was passed and applying the law to a present set of facts.

**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

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

**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 making and selling of products.



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

### **international law**

The law that governs relations among nations.

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 to benefit from international trade.



### Conflict Resolved

In the *Conflict Presented* feature at the beginning of this chapter, Max sells art depicting the Beatles through a website, thebeatlesartwork.com. Apple Corps, Ltd., owns the trademark “The Beatles,” which Apple Corps uses to sell its own products related to the group. Alleging trademark infringement, Apple Corps files a lawsuit against Max.

**A Can Apple Corps get a court order to stop Max’s use of “The Beatles” and recover payment for lost sales due to that use?** Yes. A court can grant both types of remedies in a single case. Max infringed the “The Beatles” trademark. The court can issue an injunction to stop him from using “The Beatles” in his business and domain names. Apple Corps also provides evidence that shows a big decrease in the company’s revenue during Max’s infringing use. The court can order Max to pay Apple Corps for its lost sales.

## 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 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 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 her or his 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.



## ISSUE SPOTTERS

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

- Under what circumstances might a judge rely on case law to determine the intent and purpose of a statute? (See *Sources of American Law*.)
- 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 *Sources of American Law*.)



## STRAIGHT TO THE POINT

- Why is knowledge of business law essential for any businessperson? (See *Business Activities and the Legal Environment*.)
- What is the common law? (See *Sources of American Law*.)
- When and why does a court apply the decision of another court to determine the result in a case? (See *Sources of American Law*.)
- What are some of the remedies that a party can obtain from a court to make a wrong situation right? (See *Sources of American Law*.)
- Which aspects of a business's operation do the rules, orders, and decisions of administrative agencies affect? (See *Sources of American Law*.)