

Question MEE 4 – February 2022 – Selected Answer 1

1. (a) Peter is not bound by the contract signed by Angela. The issue is whether Angela acted with actual or apparent authority.

An agency relationship arises when one party agrees to act on behalf of the other. An agent will be able to bind the principal to contracts if the agent acts with actual or apparent authority. Actual authority can arise in two ways. It can be express, based on what the principal literally tells to the agent. Or it can be implied, based on what the agent reasonably believes is the scope of their authority based on representations made to them by the principal. This could be action by the principals such as never objecting to a certain type of contract the agent has entered into repeatedly. Apparent authority arises when an agent acts with no actual authority but, based on the representations made by the principal to a third party, the third party reasonably believes that the agent is acting within the scope of the authority. Such acts with apparent authority will bind the principal like it was made with actual authority.

Here, Peter will not be bound by the contract for the chairs. This is because Angela was not acting with actual or apparent authority. Angela was his agent, she agreed to act on his behalf. She did not have actual authority because Peter expressly told her to buy them for no more than 10,000 and that the chairs should be red. Angela told him she fully understood. Despite this she bought the chairs for 10,000, but they were yellow. Thus she did not act within her actual authority. She also did not have implied actual authority. Nothing Peter had done here would have made Angela reasonably think that Peter would not care about the color of the chairs. Angela made this assumption based on nothing.

Angela also did not act with apparent authority. This is because Peter made no representations whatsoever to the local furniture store. Also, Angela did not disclose that she was acting as an agent of Peter. Thus, there was no apparent authority. Because there was no actual or apparent authority when Angela signed the contract, Peter is not bound by the Chair contract.

(b). Angela will be liable for the chair contract. The issue is whether an agent who exceeds their authority and does not disclose that they are acting as an agent can be held personally liable for a contract.

When agents act with no actual and apparent authority, they can be personally liable for a contract. Moreover, when an agent enters into a contract on behalf of a principal, and does not disclose that she is working on behalf of a principal, or does not disclose the name of the principal, they become personally liable for the contract.

Here, Angela acted with no actual or apparent authority. Also, when she entered into the contract, she had not disclosed to the furniture store that she was acting as an

agent for a principal. She also only signed her name to the contract and not Peter or the pizza store. Thus, Angela failed to disclose that she was acting as an agent and the furniture store thought she was acting in her personal capacity. As a result, Angela will be fully bound and fully liable for the contract with the furniture store.

2. Angela can recoup from Peter the 8,000 she paid to the bike shop for the cargo bike. The issue is whether Peter ratified the contract.

When an agent enters into a contract without actual or apparent authority, the principal can still be bound by the contract if they subsequently ratify the contract. Ratification occurs when a principal retroactively approves a contract that the agent did not have the authority to enter into.

Once again, Angela acted without actual or apparent authority. Here, she only had the actual authority to buy an electric bike for no more than 5,000. Instead, she bought a cargo bike for 8,000. Moreover, she did not act with apparent authority because Peter had made no representations to the bike shop that would have made them reasonably believe Angela had the authority to enter this deal. She also did not mention to the bike shop that she was buying the bike on behalf of anyone else.

Despite this, Peter will still be bound by the contract. This is because Peter ratified the contract. Even though Peter was initially annoyed with Angela, after trying out the cargo bike, he realized he liked the carrying and capacity and decided to keep the bike. Deciding to keep the bike is tantamount to a ratification because he is keeping the content of the unauthorized contract. Because he ratified the contract, he is bound as the principal and is obligated to pay Angela back the 8,000 she paid for the bike on his behalf.

3. Peter is bound by the contract for the Pizza oven. The issue is whether Angela acted with apparent authority.

As mentioned above apparent authority exists when an agent acts with no actual authority but, based on the representations made by the principal to a third party, the third party reasonably believes that the agent is acting within the scope of the authority.

Here, Angela was not acting with actual authority. This is because Peter told her that she should not buy a pizza oven for more than 12,000. Angela said she fully understood, and despite this entered into a contract for a pizza oven at the cost of 15,000. Thus, there was no actual authority. However, Angela was acting with apparent authority. This is because before Angela went to the restaurant supplier, Peter called the supplier and told them that he was sending his sister Angela to buy a pizza oven on his behalf for his pizza parlor. That was all he told them, he did not tell

them that she was only authorized to spend 12,000. Thus when Angela arrived, the supplier reasonably believed she had the authority to buy a pizza oven because Peter had told him that was the case. Additionally, 15,000 is the fair and reasonable price for the pizza oven. It was reasonable for the supplier to believe that an agent authorized to buy a pizza oven would also be authorized to pay the fair and normal price when he had no indication as to what she was offered to pay. Thus, because it was reasonable for the third party supplier to believe Angela was acting within the scope of her authority by entering into a contract for the pizza oven for 15,000, Angela acted with apparent authority and Peter is bound by the contract.

Question MEE 4 – February 2022 – Selected Answer 2

As to the yellow chairs:

a) Is Peter bound by the contract signed by Angela with the furniture store?

No, Peter is not bound by the contract signed by Angela with the furniture store. The issue is whether Peter, as principle, was bound by Angela's contract as his agent. A principal will be bound by the contracts his agents enter into on his behalf so long as the agent has actual authority or apparent authority. Here, Angela did not have actual authority or apparent authority to bind Peter to the contract. Actual authority between a principal and an agent is the authority the agent reasonably believes she has based on representations by the principal. Actual authority can be express, where the principal states exactly what authority an agent has. Actual authority can also be implied, where the principal tells an agent what to do and the agent reasonably implies that the principal would want her to make decisions that allow her to carry out her specific duties. Here, Angela had actual, express authority to buy 50 red chairs and spend no more than \$10,000 to do so. Peter made it very clear what authority Angela had. Thus, she only had actual authority to bind Peter to a contract for red chairs, not yellow chairs. Additionally, there is no implied authority here because Peter expressly stated the color chair he wanted. Had he only said to buy 50 chairs, Angela could have reasonably implied that yellow would be acceptable. Thus, Angela did not have actual authority to bind Peter to the contract for the yellow chairs. Further, there is no apparent authority. Apparent authority is the authority that a third party reasonably believes an agent has to bind the principle based on representations by the principle. Even without actual authority, apparent authority can bind the principal to a contract. Apparent authority cannot be created unilaterally by the agent but must be based on representations of the principal. Here, Peter made no representations to the furniture store regarding Angela's authority as his agent. He did not give Angela a business card, he did not send Angela with a company credit card, or make any other representation

that would have given the store the impression that Angela had any authority to bind him on the contract. Thus, there was no apparent authority and Peter will not be bound by the contract with the furniture store.

b) Is Angela bound by the contract she signed with the furniture store?

Yes, Angela is bound by the contract she signed with the furniture store. The issue is whether an agent can be bound by contracts she signs on behalf of a principal. Under general agency law, an agent will not be bound on a contract if the agent fully discloses the principal on behalf of whom she is working. Even partial disclosure is sometimes enough to relieve an agent of the total responsibility for a contract when the other party to the contract knows that the agent is working on behalf of a principal. Here, though, Angela will be bound by the contract because she did not disclose that she was signing the contract on behalf of Peter, the principal. Here, Angela spoke to the salesperson about buying 50 red chairs for \$10,000. Angela never said that she was buying the chairs for another other than herself, she never said she was only supposed to buy red chairs, and she only signed the contract in her name. Thus, she did not disclose that she was buying the chairs for a principal, and thus, will be bound by the contract.

As to the used cargo bike, can Angela recoup from Peter the \$8,000 that she paid to the bike shop for it?

Yes, Angela can recoup from Peter the \$8,000 that she paid to the bike shop for it. The issue is whether Angela can recover from Peter based on his ratification of the transaction. Here, Angela did not have actual authority to purchase the non-electric bike. Actual authority, as stated above, is based on what the agent reasonably believes she has the authority to do based on representations by the principal. Peter made it clear he wanted an electric bike for no more than \$5,000. Angela bought a bike that was non-electric and for \$8,000, exceeding her actual authority. Additionally, Angela did not have apparent authority because there were no indications by Peter to give the local bike shop any reasonable belief that Angela had authority to bind Peter on a contract. She never told them she was buying the bike for Peter and she paid with a personal check. However, a principal can also be bound by the agent's contracts if the principal ratifies the decision by the agent. Ratification is when a principal affirms a decision by an agent after the fact, given that all material facts regarding the transaction are disclosed. Here, Peter was at first annoyed with Angela for purchasing the bike. However, after trying out the bike, Peter decided he liked the carrying capacity of the bike. He called Angela and said that he would keep the \$8,000 bike because he liked its carrying capacity. This shows that he knew it was \$8,000, which is a material fact, and he already knew that it was not electric, which is also a material

fact. His affirmation of the transaction- calling and telling Angela he was going to keep the bike- is a ratification. Thus, Angela can recoup the \$8,000 she spent on the bike from Peter.

As to the pizza oven, is Peter bound by the contract signed by Angela?

Yes, Peter is bound by the contract signed by Angela for the pizza oven. The issue here is whether Peter will be bound because of apparent authority. Apparent authority is the authority that a third party reasonably believes an agent has to bind the principal based on representations by the principal. Apparent authority can bind the principal to a contract even when there is no actual authority. Additionally, apparent authority cannot be created unilaterally by the agent but must be based on representations of the principal. Here, Angela did not have actual authority to buy the pizza oven because Peter told her she could only buy an oven for \$12,000. Here, she purchased one for \$15,000. However, Angela had apparent authority to enter into the transaction. Peter called the local restaurant supplier before Angela purchased the oven and told them that he was opening a pizza parlor and that Angela would come to the store to purchase a pizza oven on his behalf. Peter specifically told the restaurant supplier that Angela would be purchasing the oven for him. Because Peter indicated to the restaurant supplier that Angela had authority to enter into a contract on his behalf, this was enough for the restaurant supplier to reasonably believe that Angela had authority to purchase the \$15,000 oven. Additionally, Angela signed the contract as, "Angela, on behalf of Peter." This fully disclosed Peter as the principal. Here, because the restaurant supplier reasonably believed that Angela had the authority to bind Peter based on Peter's representations to the supplier, Peter is bound by the contract signed by Angela.

Question MEE 4 – February 2022 – Selected Answer 3

1. As to the yellow chairs, Peter is not bound by the contract signed by Angela with the furniture store. Angela is bound by the contract with the furniture store.

(a) The issue is whether Peter is bound to the contract Angela signed with the furniture store for the yellow chairs even though he told Angela that he wanted 50 red chairs. Pursuant to Agency principles, an agency relationship is created when a principal and an agent intend for the agent to act on the principal's behalf, and the agent agrees to act on the principal's behalf. Upon the creation of an agency relationship, an agent can bind the principal to contracts when the principal acts with actual, apparent, or implied authority. Here, Peter is not bound to the contract with

the furniture store for the yellow chairs because Angela did not act with actual, apparent, or implied authority.

Actual authority is defined as authority the agent reasonably believes she has as incident to the agent's position with the principal, or expressly given to the agent. Here, it would not be reasonable for Angela to believe she had authority to purchase yellow chairs because Peter asked Angela to make certain purchases for his pizza parlor, none of which included yellow chairs. He expressly limited Angela's authority when he told her that he wanted her to buy red chairs costing no more than \$10,000. Instead of purchasing red chairs as instructed by Peter, Angela purchased yellow chairs. Therefore, she did not act with actual authority.

Apparent authority is defined as authority the the third party reasonably believes the agent has due to the principal dressing the agent in such authority. Here, the furniture store's salesperson did not know that Angela was acting on behalf of Peter or the pizza parlor. Angela did not mention that she was acting on anyone else's behalf other than herself. She signed the contract in her name only. Therefore, Angela did not act with apparent authority.

Because Angela did not act with actual or apparent authority, Peter is not bound to the contract Angela signed with the furniture store.

(b) The issue is whether Angela is bound to the contract she signed with the furniture store because she acted without consent, and did not disclose to the furniture store salesperson that she was acting on behalf of Peter. According to the principles of Agency, an agent will be liable for contracts entered into without actual or apparent authority when the agent does not disclose the principal.

Here, as discussed above in (a), Angela did not act with authority when she entered into the contract with the furniture store. Additionally, she signed the contract with her own name. She did not disclose the principal to the furniture store. Therefore, Angela remains bound and personally liable for the contract with the furniture store.

2. Angela can recoup from Peter the \$8,000 she paid to the bike shop for the used cargo bike.

The issue is whether Angela can recover the \$8,000 she paid for the used cargo bike after Peter said that he would like to keep it. Under the principles of Agency, the creation of the agency relationship between a principal and an agent forms a duty of the the principal to pay for the expenses the agent makes while acting on behalf of the principal. Here, Angela purchased the used cargo bike on behalf of Peter. Whether Peter owes her the \$8,000 depends on whether she acted with authority.

Angela did not act with actual or apparent authority. Peter expressly limited Angela to purchahsing a new electric bike within a certain price range. Angela did not purchase a new electric bike. While she stayed within the price range authorized by Peter, she

purchased a used cargo bike. Additionally, she did not mention that she was buying the bike for someone else. The seller of the bike did not know she was acting on Peter's behalf. Therefore, she did not act with actual or apparent authority.

Peter is still bound to pay Angela because he ratified her purchase. Even after acting without authority, a principal may be bound when he ratifies or otherwise accepts/consents to the agent's act. Here, although Peter did not want the used cargo bike, he eventually told her that he would like to keep it. Therefore, he ratified the purchase and owes Angela the cost of the bike which is \$8,000.

3. As to the pizza oven, Peter is bound by the contract signed by Angela.

The issue is whether Peter is bound by the contract signed by Angela even though Angela signed the contract knowing that the price for the oven was more than what Peter believed it would be. Peter is still bound to the contract under actual or apparent authority.

Here, Peter did not expressly limit Angela from purchasing a stove under \$12,000. Instead he stated, it should not cost more than \$12,000. Because he did not clearly limit the price of the stove Angela should purchase, it was reasonable for Angela to believe that Peter wanted to buy the \$15,000. Peter called the local restaurant supplier and told him that he would be sending his sister, Angela to purchase to oven on his behalf. Therefore, Angela acted with actual authority.

Additionally, she acted with apparent authority. When Peter called the supplier, he told the supplier that his sister Angela would have authority to act on his behalf. When Angela arrived, she told the supplier that she was Angela, there on behalf of Peter. Peter dressed Angela with authority, and it was reasonable for the supplier to believe Angela had such authority. Therefore, Peter is bound to the contract signed by Angela for the oven.