

College Admission

Introductory-Business-Law

CLEP Introductory Business Law Exam (College Level Examination Program)



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Question: 1

What is the name for the international business contract clause that asserts the application of a particular country's laws?

- A. force majeure
- B. choice of forum
- C. attorney fees clause
- D. non-waiver clause
- E. choice of law

Answer: E

Explanation:

The international business contract clause that asserts the application of a particular country's laws is called choice of law. This choice is binding in arbitration and typically honored in court. A force majeure clause declares that both parties will be free of the contract in the event of some catastrophic, unforeseeable event out of their control (for instance, a flood, war, or strike). A choice of forum clause specifies where any necessary litigation will occur. An attorney fees clause specifies that if there is any litigation between the two parties involved in the contract, the loser will have to pay the legal fees of the winner. A non-waiver clause ensures that the terms of the contract can be upheld even if one of the parties consistently violates them and the other party accepts the violation for a time.

Question: 2

Dave's Auto Shop agrees to transfer its entire inventory of sparkplugs to Fireplugs, Inc. Both parties agree to conduct this transfer according to the Uniform Commercial Code Bulk Transfers Article. What must be included in the notice to creditors?

- A. The name of the lending institution associated with Fireplugs, Inc.
- B. Whether Dave's Auto Shop will be paying off its debts in full because of this transfer
- C. The names and addresses of Dave's Auto Shop's creditors
- D. The confirmation of a bulk transfer
- E. The quantity of sparkplugs

Answer: B

Explanation:

The notice to creditors must state whether Dave's Auto Shop will be paying off its debts in full because of this transfer. Since the notice to creditors must be posted in advance of the transfer, it would be incorrect to include the confirmation of the bulk transfer. The information in answer

choices A, C, and E does not need to be included in a notice to creditors. If debts are to be paid in full, the notice to creditors needs to include an address for invoices to be sent. If the debts are not to be paid in full, the notice to creditors needs to include sufficient information so that creditors can inspect the inventory of sparkplugs before the sale if they so desire.

Question: 3

Geoffrey is an attorney, and Kelly is one of his clients. Kelly is unable to repay her large debts, and some of her creditors are threatening to force her into bankruptcy. She does not want to enter bankruptcy. Which of the following statements is true?

- A. Kelly can borrow the money to repay her debts.
- B. Kelly may be able to avoid bankruptcy by agreeing with her creditors to form a creditor's committee.
- C. Kelly cannot be forced into bankruptcy.
- D. So long as a custodian has not taken control of her property, Kelly cannot be forced into bankruptcy.
- E. Geoffrey and Kelly should prepare financial statements that indicate solvency, even if these statements violate the accepted principles of accounting.

Answer: B

Explanation:

In this scenario, Kelly may be able to avoid involuntary bankruptcy by agreeing with her creditors to form a creditor's committee. If Kelly does this, however, the committee will have total control over her business operations. This would be a good option for Kelly if she wants to avoid damaging her reputation. It may not be possible for Kelly to borrow enough money to repay her debts. She technically can be forced into bankruptcy if she is unable to meet her obligations on time. Finally, it is illegal to create misleading accounting documents.

Question: 4

Company A airs a television advertisement stating that the products made by Company B have a structural defect. Because of this, Company B loses a great deal of business. What theory of tort would Company B try to use in an action against Company A?

- A. vicarious liability
- B. interference with business relations
- C. trade libel
- D. deceit
- E. transferred intent

Answer: C

Explanation:

Company B would try to assert a tort of trade libel in an action against Company A. However, Company B could prevail only if it could show that Company A knowingly made false statements in the advertisement. In other words, if the product made by Company B actually does have a

structural defect, the tort suit will fail. Vicarious liability is blame assigned to one party based on the actions of another party. Interference with business relations is the intentional hindering of a valid and enforceable contract. Deceit, otherwise known as fraud, is intentional misrepresentation designed to persuade another party to enter a contractual relationship. Transferred intent is the tort principle in which a person who intends to injure someone else but instead injures a third person will be charged as if he or she intended to injure the third person.

Question: 5

What is the most common approach to environmental regulation in the United States?

- A. charging businesses for pollution
- B. establishing standards and applying penalties for noncompliance
- C. establishing private markets in which pollution rights can be purchased and sold
- D. leaving pollution regulation to the state governments
- E. focusing on large polluters and ignoring lesser infractions

Answer: B

Explanation:

In the United States, the most common approach to environmental regulation is establishing standards and applying penalties for noncompliance. In a sense, answer choice A is correct, because fines are levied against polluters. However, the phrasing of the answer gives the impression that pollution is allowed. There are no private markets for purchasing pollution rights, though this idea has been mentioned as a possible way to regulate carbon emissions. Although state governments do issue their own legislation, they are not entirely responsible for pollution control. Finally, environmental regulators enforce the laws in every situation, not just with regard to the largest polluters.

Question: 6

Which of the following is a true statement about the Statute of Frauds?

- A. It mandates that the independent promise to pay the debt of another be in writing.
- B. It applies to all real estate leases.
- C. It forbids the use of oral evidence to contradict the terms of a written contract.
- D. It applies to all contracts with consideration valued at \$500 or more.
- E. It mandates that executory promises be written.

Answer: A

Explanation:

The Statute of Frauds mandates that the independent promise to pay the debt of another be in writing. This is known as a secondary promise (a primary promise is the promise to pay one's own debt). Real estate leases are not required to be in writing if they are for less than one year. The prohibition against oral evidence to contradict the terms of a written contract is the parol

evidence rule rather than the Statute of Frauds. The Statute of Frauds covers agreements of all dollar amounts. Finally, the Statute of Frauds mandates that some executory promises be written, but not all. The determination of whether a promise must be written has more to do with the content of the contract than with the degree to which it has been performed.

Question: 7

Who may file a voluntary petition for bankruptcy?

- A. all insolvent debtors
- B. only businesses that want to continue operations
- C. corporations that have attempted to reorganize and failed
- D. most debtors, even those who are solvent
- E. all debtors, so long as most of their creditors have not obtained a receivership

Answer: D

Explanation:

Most debtors, even solvent ones, may file a voluntary petition for bankruptcy. A voluntary bankruptcy is a request for the discharge of debts under the terms of Chapter 7 of the Bankruptcy Code. Businesses that file for voluntary bankruptcy are not required to continue operations. A business does not need to have attempted reorganization in order to file for voluntary bankruptcy. The presence of receiverships would not forbid voluntary bankruptcy, since the relief offered by the bankruptcy court would put a hold on the receivership proceedings.

Question: 8

According to which ethical theory is the right action that which creates the most happiness for the most people?

- A. legalism
- B. egoism
- C. naturalism
- D. structuralism
- E. utilitarianism

Answer: E

Explanation:

According to utilitarianism, the right action is that which creates the most happiness for the most people. This theory of ethics differs from some others in that it focuses almost entirely on the results of action, rather than on the motives or the action itself. Legalism is just the general assumption that societies should be governed by a set of laws. Egoism is an ethical philosophy in which the needs of the individual are paramount. Some ethical philosophers declare that capitalism is based on egoism, since in capitalism every person is striving for his or her own happiness and success. Naturalism is a philosophical system in which all human actions are derived from nature,

rather than transcendent truth. Structuralism is a doctrine asserting that the general organization of a society is more predictive of morality than the qualities of individual citizens.

Question: 9

When does the mailbox rule NOT apply?

- A. both the offer or and offeree are merchants
- B. the offer states explicitly that acceptance is effective only when it is received
- C. one of the parties lacks legal capacity
- D. the offer involves a real estate transaction
- E. the duration of the offer is no more than three months

Answer: B

Explanation:

The mailbox rule does not apply when the offer states explicitly that acceptance is effective only when it is received. According to the mailbox rule, acceptance is effective once it has been transmitted in the same manner as it was received. The rule was so named because most contracts were sent through the mail, and therefore acceptance was considered effective as soon as it was placed in the mailbox. However, if the offeror stipulates a different moment for acceptance to become effective, this change can be binding. The mailbox rule exists in both common law and the Uniform Commercial Code, so it would not matter if both parties were merchants. The lack of legal capacity could invalidate the contract, but would have no effect on the mailbox rule itself. The mailbox rule applies to both personal property and realty. Finally, the duration of the offer has no effect on the mailbox rule.

Question: 10

What is the legal term for the interpretation of laws by the courts?

- A. judicial review
- B. adjudication
- C. statutory construction
- D. judicial legislation
- E. stare decisis

Answer: C

Explanation:

Statutory construction is the legal term for the interpretation of laws by the courts. The point of statutory construction is to clarify any murky areas within the law. Often, legislation has unforeseen side effects that must be addressed through the judicial system. Judicial review is the authority of the court to evaluate and overturn legislation. It is different from statutory construction in that it entails either acceptance or rejection of a law, rather than clarification or elaboration. Adjudication is simply the rendering of a verdict. Judicial legislation is incorrect

because it implies that law is made rather than interpreted by the judicial system. Stare decisis is the legal principle that previous decisions will be used to decide subsequent cases with similar fact patterns.

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