
BUSINESS LAW



AND THE LEGAL ENVIRONMENT

Third Edition

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THIRD EDITION

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Preface

The purpose of the third edition of this book remains the same as the first and second, to provide a useful tool for the study of legal problems facing not only the student who intends to enter business, but also any other individual. Both legal cases and textual comment are employed. An attempt has been made to mix the classic landmark cases with more recent cases having a bearing on present-day problems. Although most of the cases are of recent vintage, cases that clearly illustrate significant legal concepts have not been eliminated merely because of their age. In addition to the text and cases, discussion questions are presented after a number of cases to challenge students to think beyond the material in the text and to help them determine whether they have mastered the concepts that the cases illustrate. For ease of discussion, the cases are placed in the sections of the text that they are intended to illustrate.

The cases have been edited in such a fashion as to include enough of the facts for the student to get a flavor of the actual situation that led to the lawsuit. Too often cases are condensed to a point where nothing is left but naked statements of law. Of course, more cases could be included at the cost of eliminating much of the flavor and interest from them. We hope a satisfactory compromise has been reached.

Many of the cases found in previous editions have been replaced with newer ones. In some instances a new case has been selected because it illustrates a particular point better. In addition, some cases have been added where none appeared in the previous editions.

One problem that constantly faces the business law professor is how to integrate the appropriate Uniform Commercial Code material into the chapters that discuss contracts. Everyone has his or her own approach to teaching this material. In order to facilitate the integration of the Uniform Commercial Code material we have added a section in most of the chapters dealing with contracts that summarizes the changes the code has made in the general law of contracts. The purpose is to afford the professor the basis for further discussion of this material if he or she finds it desirable at this point. The material is only a summary and is not intended to replace the complete discussion of this code material that is found in the section on Sales.

In addition to the Uniform Commercial Code, Uniform Partnership Act, and Uniform Limited Partnership Act, The Model Business Corporation Act has been added to the Appendix. Many of the state corporation statutes are based upon this Act. It is also useful for purposes of discussion where a provision of a particular state statute differs

from the Model Act. The Constitution of the United States has also been added to the Appendix.

At the end of each chapter are a number of problem cases. In many instances these are designed to give a contrasting or different point of view from the cases presented in the main body of the text. These problems are based on actual cases that are appropriately identified. A number of new problems have been included in this edition.

If a text in business law is to be useful to the student, it must cover a wide variety of subject areas. The omission of significant topics, such as the Uniform Commercial Code or a proper treatment of corporations, would result in a loss of usefulness. On the other hand, it is not possible to cover all subjects in one text. We have therefore attempted to cover the traditional areas of business law and, in addition, a selection of several others less frequently covered that may be of interest and significance to the student. The areas of torts, antitrust law, and consumer protection are examples. These areas obviously affect us all, whether we are business students or not. The Magnuson-Moss Warranty Act is also covered because of its impact on the Uniform Commercial Code. This edition also has new chapters on constitutional law, ethics, liability of accountants and other professionals, securities regulation, the international environment of business, insurance law, the employment environment, products liability, and administrative law. There are now separate chapters on torts and criminal law.

The text is broken into a number of sections for flexibility and because business law is frequently taught as a two- or three-term course. For example, during the first term one may wish to cover the introductory material in the first section together with contracts, sales, and government regulation. The Uniform Commercial Code, agency, and business organizations may be covered during the second semester. If necessary, certain sections may be eliminated.

Section Two, on contracts, deals with the traditional legal concepts. Where the Uniform Commercial Code has changed significant traditional contract principles, the change has been mentioned in this section. However, because the code affects only contracts for the sale of goods, it is necessary to discuss general contract law and the Uniform Commercial Code separately. A summary of Uniform Commercial Code changes is found in most of the contracts chapters.

To further aid the student in understanding the full impact of the code on the law of contracts, we have placed the discussion of sales in Section Three, immediately following the general contract section. Many schools treat the Uniform Commercial Code in a separate course. Therefore the sections are independent, and the text is designed so that Section Three may be treated in some other order. Where they are relevant, the appropriate sections of the code are cited.

In the discussion of warranties, we have chosen to discuss not only the code approach, but also the Magnuson-Moss Warranty Act; the act has had great impact on product warranties. This edition contains a separate chapter dealing with products-liability problems in general, a matter of relevance to the code warranty material, so it follows the chapter on warranties.

Perhaps the most difficult material for students of business law to master is that on secured transactions and negotiable instruments. We believe this is partly because texts frequently do not relate many necessary concepts on the subject to factual situations. We have attempted to be as specific and factual as possible. We have also attempted to explain the individual code provisions in as many instances as possible. Our experience

has been that merely telling the student what the code says is, in many cases, not sufficient.

The relationship of government and business and the law, often referred to as the “legal environment of business,” are areas so broad as to be the subjects of one or more courses separate from the basic course in business law in some schools. It is nevertheless important for the business law student to be aware of some of the more significant concepts in these fields. Parts Eight and Nine are designed to serve this purpose for the instructor who wishes to give a substantial amount of time to such important subjects.

SUPPLEMENTAL MATERIALS

Professor Frank E. Land of the University of North Carolina at Greensboro has put together what we believe to be one of the strongest and most comprehensive supplements packages available with any business law text.

Instructor’s Manual

1. Chapter prompts—an abstract of the chapter
2. Chapter outline—designed as the basis for lecture notes
3. Case abstracts and answers to case discussion questions
4. End of chapter problems plus complete answers
5. Answers to the multiple choice and discussion questions in the study guide

The format of the Instructor’s Manual is looseleaf so that instructors may insert their own supplemental material.

Study Guide

1. An overview of the chapter—highlights the parts of the chapter which may give students problems, and gives them tips on how to study that material more effectively
2. An outline of the chapter
3. A comprehensive list of key terms and phrases which the student is to define
4. A set of multiple choice questions
5. Discussion questions

Test Bank

Fifteen multiple choice, twenty-five true-false and five essay questions for each chapter

Transparencies

A set of acetate transparencies are available to qualified adopters

We would like to thank the editors at Allyn and Bacon for their comments and suggestions in the preparation of the final version of this work, as well as the many

professors of business law who reviewed the manuscript at various stages. Many of their suggestions were incorporated in the final draft of this text. We are particularly indebted to Professor Frank Land whose thorough review of the manuscript and suggestions were of invaluable help in the preparation of this edition. In particular, Professor Land was a major contributor to the chapter on Liability of Accountants and Other Professionals.

Once again we would like to thank our spouses Karen Leete and Martin Fox, for their support of this project. Without their moral support the job would have been immeasurably more difficult.

In the final analysis an author is responsible for his own work. We hope that this edition continues the well received philosophy of previous editions and that it is an improvement upon them.

B.A.L.
K.H.F.

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