



### **Paper 3- Fundamentals of Laws and Ethics**

## Paper-3: Fundamentals of Laws and Ethics

Full Marks: 100

Time allowed:3 hours

### Section A

#### 1. Answer the following questions:

Choose the correct answer from the given four alternatives:

[1 × 25 = 25]

- (i) All Contracts
  - (A) Should be in writing
  - (B) Should be oral
  - (C) Should be registered
  - (D) **None of the above**
- (ii) A void agreement
  - (A) is illegal
  - (B) is not void ab-intio
  - (C) **may or may not be illegal**
  - (D) none of the above
- (iii) Which of the following statements is false in respect of formal contract?
  - (A) It should be in a particular form
  - (B) It should be in writing and witnessed
  - (C) **It should have consideration**
  - (D) Consideration is not necessary
- (iv) An advertisement for sale goods by auction
  - (A) **Amount to an invitation to offer**
  - (B) Amount to an offer to hold such sale
  - (C) Amount to an implied offer
  - (D) Amount to a general offer
- (v) The communication of acceptance through telephone is regarded as complete when
  - (A) Acceptance is spoken on phone
  - (B) **Acceptance comes to the knowledge of party proposing**
  - (C) Acceptance is put in course of transmission
  - (D) Acceptor has done whatever is required to be done by him
- (vi) Consideration contemplated under Indian Law is
  - (A) Past consideration only
  - (B) Present consideration only
  - (C) **Past present or future consideration**
  - (D) Monetary consideration only
- (vii) Which one of the following statements about the doctrine of privity is correct
  - (A) Only a party to the contract can sue

## MTP\_Foundation\_Syl2016\_June,2019\_Set 2

---

- (B) Stranger to a contract cannot sue  
(C) A contract is enforceable by stranger  
(D) **Both(A) & (B)**
- (viii) While obtaining the consent of the promise, keeping silence by the promisor when he has a duty to speak about the material facts, amounts to consent obtained by:  
(A) Coercion  
(B) Misrepresentation  
(C) Mistake  
(D) **Fraud**
- (ix) If the words " Not negotiable" are used with special crossing in a cheque, the cheque is  
(A) **not transferable**  
(B) transferable  
(C) negotiable under certain circumstances  
(D) none of the above
- (x) The grace period for payment of a negotiable instrument other than payable on demand is ..... days/month  
(A) 7 days  
(B) **3 days**  
(C) 1 month  
(D) 15 days
- (xi) Is offer of performance discharge of obligation  
(A) **Yes**  
(B) No  
(C) Depends  
(D) Any of the above
- (xii) A contracts to sing for B for a consideration Rs 5,000 which amount is paid in advance. A becomes unwell and is not able to perform suffers a loss of Rs 10,000. A is liable to pay B  
(A) Rs 15,000  
(B) **Rs 10,000**  
(C) RS 5,000  
(D) Nothing
- (xiii) Ordinary damages will be awarded in cases where  
(A) **The loss naturally flows from the breach of contract**  
(B) The loss is remotely connected with the breach of contract  
(C) The loss is unusual and arises out of special circumstances peculiar to the contract  
(D) None of these
- (xiv) The Negotiable Instruments Act is applicable to  
(A) **Whole of India**  
(B) Whole of India except Jammu & Kashmir state  
(C) Whole of India except Jammu & Kashmir City  
(D) None of the above

## MTP\_Foundation\_Syl2016\_June,2019\_Set 2

---

- (xv) Cheque is a  
(A) Promissory note  
(B) **bill of exchange**  
(C) both (A) and (B) above  
(D) None of the Above
- (xvi) An Auction sale is complete on the  
(A) Delivery of goods  
(B) Payment of price  
(C) **Fall of hammer**  
(D) None of the above
- (xvii) A promises to pay B a sum of money if a certain ship does not return within a year. The ship is sunk within a year. The contract is  
(A) **Enforceable**  
(B) Void  
(C) Voidable  
(D) illegal
- (xviii) In a Contingent contract which even is contingent  
(A) Main Event  
(B) **Collateral event**  
(C) Both(A) & (B)  
(D) None of the above
- (xix) Liability of the joint promisor  
(A) Joint  
(B) Several  
(C) **Joint and several**  
(D) None of the above
- (xx) The Exceptions to the rule A Stranger to a contract cannot sue are  
(A) Beneficiaries in the case of trust  
(B) Family settlement  
(C) Assignment of contract  
(D) **All of the above**
- (xxi) An Agreement to create legal liability  
(A) Is not enforceable by law  
(B) Is a void agreement  
(C) **Is enforceable by law**  
(D) None of the above
- (xxii) An offer stands revoked  
(A) If the fact of the death or insanity is known to offeree  
(B) By counter offer  
(C) By rejection of offer  
(D) **All the above**

# MTP\_Foundation\_Syl2016\_June,2019\_Set 2

- (xxiii) which one of the following does not qualify as 'goods' as defined in the Sale of Goods Act  
(A) money  
(B) animals  
(C) debt  
(D) **both 'a' & 'c'**

(xxiv) In case of appropriation of goods, which are the essential requirements:

- (A) The goods should conform to the description and quality stated in the contract  
(B) The goods must be in a deliverable state  
(C) The appropriation must be with the assent of the buyer  
(D) **All of the above**

(xxv) A paid Rs 500 to a government servant to get him a contract for the canteen. The Government servant could not get the contract. Can A recover RS 500 paid by him to the Government servant?

- (A) yes, the agreement is opposed to public policy  
(B) no, the agreement is opposed to public policy  
(C) no, the agreement is a voidable agreement and can be avoided by A  
(D) **no, the agreement falls under section 23 and hence illegal**

## 2. Match the following:

[1 X 5=5]

	Column A		Column B
(i)	Insurance Contract	(A)	Invitation to offer
(ii)	Advertisement for sale in newspaper	(B)	Sec.12(3) of Sale of Goods Act,1930
(iii)	Warranty	(C)	Contingent Contract
(iv)	Right Lien	(D)	Exp. 1(a) to Sec.6
(v)	Cheque in electronic form	(E)	Sec 47 of the Sale of Goods Act

Answer:

(i) C	(ii) A	(iii) B	(iv) E	(v)
-------	--------	---------	--------	-----

## 3. State whether the following statement is True or False:

[1 X 12=12]

- (i) The Indian Contract Act,1872 does not cover all types of contracts.  
(ii) Should both offer and acceptance be absolute, unqualified and unconditional.  
(iii) Voluntary transfer of possession of goods from one person to another is called delivery of goods.  
(iv) Conditions and warranties can be implied or expressed.  
(v) When the promisee does not accept the offer of performance, the promisor is not responsible for non-performance.  
(vi) Stranger to consideration can file a suit.  
(vii) Restitution of benefit is allowed in case of a minor.  
(viii) Caveat emptor means buyer be aware.  
(ix) 2 parties are involved in a Promissory note.  
(x) A bill which is Not an Inland bill is deemed to be a foreign bill.  
(xi) Generally the owner or any other person can transfer the property in goods.  
(xii) Is telegraphing lowest price on request a mere invitation for an offer.

(i) True	(ii) False	(iii) True	(iv) True	(v) True	(vi) True
----------	------------	------------	-----------	----------	-----------

(vii) False	(viii) True	(ix) True	(x) True	(xi) False	(xii) True
-------------	-------------	-----------	----------	------------	------------

#### 4. Answer any four of the following questions:

[7X4=28]

- (i) Undue Influence as per sec 16
- (ii) Remedies for Breach of contract(Any 3)
- (iii) Revocation of Offer
- (iv) What is a sound mind for the purpose of contracting
- (v) Define Knockout Agreement & Damping
- (vi) Distinction between a condition and a warranty
- (vii) Difference between Bill of Exchange and Cheque

#### Answer:

##### 4(i) UNDUE INFLUENCE: [Sec. 16]

Section 16 of the Indian Contract Act defines undue influence as under:

- (i) A contract is said to be induced by "undue influence" where the relations subsisting between the parties are such that one of the parties is in a position to dominate the will of the other and uses that position to obtain an unfair advantage over the other.
- (ii) In particular and without prejudice to the generality of the forgoing principle, a person is deemed to be in a position to dominate the will of another—
  - (a) Where he holds a real or apparent authority over the other, or where he stands in a fiduciary relation to the other; or
  - (b) Where he makes a contract with a person whose mental capacity is temporarily or permanently affected by reason of age, illness, or mental or bodily distress.
- (iii) Where a person, who is in a position to dominate the will of another, enters into a contract with him, and the transaction appears, on the face of it or on the evidence adduced, to be unconscionable, the burden of proving that such contract was not induced by undue influence shall lie upon the person in a position to dominate the will of the other

##### 4(ii) Remedies for Breach of Contract:

###### 1. Suit for Rescission of the contract:

Rescission means the cancellation of a contract. When there is a breach of contract by one party, the other party may sue to treat the contract as rescinded. When the court grants rescission, the aggrieved party is free from all his obligations under the contract. He becomes entitled to compensation for any damage which he suffered.

###### 2. Suit for damages:

Remedy by way of damages is the most common remedy available to the injured party. When a contract is breached, the injured party is entitled to file a suit for damages. Damages are a monetary compensation allowed to the injured party by the court for the loss or injury suffered by him. The fundamental principle underlying damages is not punishment but compensation.

###### 3. Suit upon Quantum meruit:

Quantum meruit means as much as is merited or as much as earned. In other words, it means

payment in proportion to the amount of work done. A right to sue on a quantum meruit arises where a contract partly performed by one party has become discharged by the breach of the other party. The claim on quantum meruit arises in the following cases.

- a. where the contract is discovered to be void.
- b. When something has been done without any intention to do so gratuitously.
- c. Where one party refuses to perform the contract.

#### **4. Suit for specific performance of the contract:**

In certain special cases of breach of contract, damages are not an adequate remedy. The court may, in such cases, order specific performance of the contract. The defaulting party will be forced to perform the act promised under the contract. It is granted only in the following cases:

- a. Where compensation in money is not an adequate relief.
- b. Where there is no standard for ascertaining the actual damage caused by the non-performance.
- c. Where compensation in money cannot be obtained.

#### **5. Suit for Injunction:**

Injunction is an order of the court restraining a person from doing a particular act. The court, by issuing injunction restrains a person from doing what he has promised not to do. Injunction may be temporary or permanent. It is a preventive relief granted at the discretion of the court.

#### **4(iii) Section 6 of the Act provides the modes for revocation of an offer or acceptance.**

(a) By the communication of notice of revocation by the proposer to the other party. The offer or may revoke his proposal any time before the letter of acceptance is posted to him and not afterwards. Similarly acceptance can be revoked any time before the letter of acceptance is received by the offer or.

(b) By the lapse of the time prescribed in such proposal for its acceptance, or, if no time is so prescribed, by the lapse of a reasonable time, without communication of the acceptance; What is a reasonable time is a question of fact in each case.

(c) By the failure of the acceptor to fulfill a condition precedent to acceptance.

(d) By the death or insanity of the proposer, if the fact of the death or insanity comes to the knowledge of the acceptor before acceptance. Where an offeree writes his acceptance but dies before posting, the offer lapse and posting of the letter after his death will not create a contract.

(e) If a counter offer is made to it. Where the offer is accepted with some modification in terms of the offer or with some other condition not forming part of the offer, such qualified acceptance amounts to a counter offer.

(f) If an offer not accepted according to prescribed or usual mode. However, the offeror gives notice to the offeree within the reasonable time that the acceptance is not according to the prescribed or usual mode of acceptance.

(g) An offer comes to an end if the law is changed so as to make the contract contemplated by the offer illegal or incapable of performance

#### **4(iv) Sound Mind person for the Purposes of Contracting (Section 12)**

A person is said to be of sound mind for the purposes of making a contract if, at the time when

he makes it, he is capable of understanding it and of forming a rational judgment as to its effect upon his interests.

A person who is usually of unsound mind, but occasionally of sound mind, may make a contract when he is of sound mind.

A person who is usually of sound mind, but occasionally of unsound mind, may not make a contract when he is of unsound mind.

Illustrations:

(a) A patient in a lunatic asylum, who is at intervals of sound mind, may contract during those intervals.

(b) A sane man, who is delirious from fever or who is so drunk that he cannot understand the terms of a contract or form a rational judgment as to its effect on his interests, cannot contract whilst such delirium or drunkenness lasts.

(c) Going by the spirit of the section it is clear that a person is of sound mind if he fulfills the following two conditions.

(i) He/she is capable of understanding the contract.

(ii) He/she is capable of forming a rational judgment about the effects of such contract on his interest.

#### 4(v) Knockout Agreement:

It is sort of tacit understanding/agreement among the intending bidders to stifle competition by not bidding against each other in an auction sale. Such agreements are illegal and the seller can protect his interest against such agreement by reserving his right to bid at the auction or by fixing a reserve price.

#### Damping:

Damping is an act to dissuade the intending buyer from bidding or from raising the price by pointing out defects in the goods or by doing some other acts which prevent persons from forming a fair estimate of the price of the goods. Damping is illegal and the auctioneer can withdraw the goods from auction.

#### 4(vi) Distinction between a condition and a warranty

Basis of Distinction	Condition	Warranty
Value	A Condition is a stipulation which is essential to the main purpose of the contract.	A Warranty is a stipulation which is collateral to the main purpose of the contract
Rights	The aggrieved party can repudiate the contract of sale in case there is a breach of a condition	The aggrieved party can claim damages only in case of breach of a warranty
Treatment	A breach of condition may be treated as a breach of a warranty. This would happen where the aggrieved party is contended with damages only.	A breach of a warranty cannot be treated as a breach of a condition.

# MTP\_Foundation\_Syl2016\_June,2019\_Set 2

---

## 4(vii) Difference between Bill Of Exchange and Cheque

Point of Difference	Bill Of Exchange	Cheque
Parties	3 parties - drawer, drawee and Payee	3 parties - drawer, banker and payee
Nature	Contains an unconditional order to the drawee to pay the payee	Drawn on specified banker to pay on demand
Acceptance	Necessary if the bill is payable after sight	Not necessary.
Liability	Liability of drawer is conditional and secondary upon nonpayment by drawee.	Liability of drawer is conditional and secondary upon non-payment by banker
Notice of dishonor	On demand or after a specified time. Cannot be made payable to bearer on demand.	On demand even to bearer if so made
Payable	Not possible	Can be crossed.
Crossing	Required to establish the fact of dishonour.	Not required
Nothing and protesting in case of dishonor	Available if payable after specified time (usance bill)	Not available.
Grace period	Available if payable after specified time (usance bill)	Not available.
Other Features	Number, date, place not essential. Must be stamped.	Number, date, place, essential. Need not be stamped.

## Section B

### 5. Choose the correct answer from the given four alternatives:

**[1X12=12]**

(i) The society for Business Ethics was Started in

- (A) 1950
- (B) 1960
- (C) 1970
- (D) **1980**

(ii) Ethics in compliance means.....

- (A) **It is about obeying to rules and authority**
- (B) It deals with the moral principles behind the operation and regulation of marketing
- (C) It deals with the duties of a company to ensure that products and production processes do not cause harm
- (D) None of the above

(iii) Business Ethics is a code of conduct which businessmen should follow while conducting their .....

- (A) **Normal activities**
- (B) Special activities
- (C) Specific activities
- (D) None of the above

(iv) An expert who is confidentially available to solve the ethical dilemmas is known as.....

- (A) Ethics guide
- (B) Ethics trainer
- (C) **Ethic Coach**
- (D) None of the above

(v) Which of the following statements about business ethics is true?

- (A) It concerns the impact of a business activities on society
- (B) **It refers the principles and standards that determine acceptable behavior in the world of business**
- (C) It relates to an individual's values and moral standards and the resulting business decisions he or she makes
- (D) What is ethical is determined by the public, government regulators, interest groups, competitors and individual's personal moral values

(vi) ..... made it important for business to have an ethics code,something in writing about what one ought to do, and what to strive for:

- (A) The Ethics & Code Conduct Act,2000
- (B) The Sarbanes-Ethics of Code Conduct Act,2001
- (C) **The Sarbanes-Oxley Act,2002**
- (D) None of the above

(vii) Following is not a professional characteristics:

- (A) **Competition(Under Cutting)**
- (B) Competency
- (C) Character
- (D) Compensation

(viii) Business ethics calls for avoidance of

- (A) Competition
- (B) Publicity
- (C) **Monopoly**
- (D) Self Interest

(ix) Ethics executives abide by..... relating to their business activities

- (A) Laws
- (B) Rules
- (C) **laws,rules and regulations**

# **MTP\_Foundation\_Syl2016\_June,2019\_Set 2**

---

- (D) None of above
- (x) Business ethics is ..... in nature
- (A) Absolute  
(B) Not Absolute  
(C) **Permanent**  
(D) None of the above
- (xi) Feature that is Not present in business ethics are
- (A) It has universal application  
(B) **It is absolute in Nature**  
(C) It depends from business to business  
(D) It cannot be enforced by law
- (xii) This is not of the 7 Principles of Public Life
- (A) Integrity  
(B) Honesty  
(C) **Content**  
(D) Accountability
6. State whether the following statement is True or False: [1 X 6=6]
- (i) The Study of ethics is a Systematic Science  
(ii) Corporation ethics is the study of business situations, activities and decisions where issues of right and wrong are addressed.  
(iii) Holders of public office should take decisions solely in terms of the public interest.  
(iv) Ethics refers to the study and development of one's ethical standards.  
(v) In Business ethics, the stakeholder theory of business ethics maintains that managers have an ethical responsibility to manage a firm for the benefit of all its stockholders, and for people who have a claim on a company.  
(vi) "it Is Difficult but not impossible to conduct strictly honest business" is famous quote by Adam Smith
- |         |           |           |          |          |           |
|---------|-----------|-----------|----------|----------|-----------|
| (i)True | (ii)False | (iii)True | (iv)True | (v)False | (vi)False |
|---------|-----------|-----------|----------|----------|-----------|
7. Answer any two of the following question: [6 X 2=12]
- (i) Discuss Ethics as a Principle  
(ii) Difference between Ethics and Morals  
(iii) Need for Business Ethics  
(a)Survival of Business  
(b)Safeguarding consumers right

**Answer:**

**7(i)** Ethics as a Principle :

We have established that social evolution has developed definite principles of civic behaviour, which have attained the status of principles. By principle, we understand that something proceeds and depends on it for its cause. For instance, when one kicks a football, force is the principle that propels it into motion and the ball remains in motion till the force lasts. In other words, the physical world functions strictly according to the laws of physics. It is expected that people also submit their behaviour, both in thoughts and in actions, to these principles. An action is valid as long as it reflects the principle, just as the speed of the moving ball depends on the force it receives.

All moral actions are directed towards their object, the good, which is the principle of all happiness. This is not only the sole purpose of our existence but our co-existence with others as well. We cannot be happy alone; we can only be happy together. The universal idea of the good is applied to individual instances. Individuals are good in their own particular way, and are good in so far as they share the essence of goodness. The universal good is a pure or general idea. It is formed through a process of abstraction of the essence from individuals or particulars.

## 7(ii) Difference between Ethics and Morals

Ethics	Morals
Root word in Greek is 'ethikos' which means 'Character'	Root word in Greek is 'mos' which means 'custom',
Deals with right and wrong conduct.	Deals with principles of right and wrong.
Deals with individual character.	Deals with customs set by groups.
Character is personal attribute.	Customs are determined by groups or some authority like religion or culture.
Ethics is the response of an individual to a specific situation. E.g. whether in that situation, it is ethical to state the truth.	Morals are general principles, e.g. "You should speak truth."

## 7(iii)(a) Survival of business :

Business ethics are mandatory for the survival of business. The businessmen who do not follow it will have short-term success, but they will fail in the long run. This is because they can cheat a consumer only once. After that, the consumer will not buy goods from that businessman. He will also tell others not to buy from that businessman. So this will defame his image and provoke a negative publicity. This will result in failure of the business. Therefore, if the businessmen do not follow ethical rules, he will fail in the market. So, it is always better to follow appropriate code of conduct to survive in the market.

## (b) Safeguarding consumers' rights :

Consumer sovereignty cannot be either ruled out or denied.

Business can survive so long it enjoys the patronage of consumer. The consumer has many rights such as right to health and safety, right to be informed, right to choose, right to be heard, right to redress, etc. But many businessmen do not respect and protect these rights. Business ethics are must to safeguard these rights of the consumers.

