

PART II

Test Bank

CHAPTER 1	Introduction to Agency and Business Organizations .....	112
CHAPTER 2	Sole Proprietorships.....	114
CHAPTER 3	Partnerships .....	116
CHAPTER 4	Limited Partnerships.....	119
CHAPTER 5	Limited Liability Partnerships and Limited Liability Limited Partnerships .....	121
CHAPTER 6	Limited Liability Companies.....	123
CHAPTER 7	Corporations .....	125
CHAPTER 8	Incorporations.....	127
CHAPTER 9	The Corporate Organization .....	129
CHAPTER 10	The Corporate Financial Structure.....	131
CHAPTER 11	Public Corporations and Securities Regulations.....	133
CHAPTER 12	Mergers, Acquisitions, and Other Changes to the Corporate Structure .....	136
CHAPTER 13	Foreign Corporation Qualification.....	138
CHAPTER 14	Corporate Dissolution.....	140
CHAPTER 15	Employee Benefits and Employment Agreements .....	142

## CHAPTER 1

### Introduction to Agency and Business Organizations

---

#### MULTIPLE CHOICE

- Agency is a legal relationship in which
  - the principal acts on behalf of the agent.
  - the principal becomes personally liable for all actions of the agent.
  - a written contract must specify all authority of the agent.
  - the agent acts for or represents the principal by the principal's authority.

ANS: **D**

- When used in relation to the agency relationship, the master
  - retains some control over his or her servant (employee).
  - gives his or her servant (employee) full discretion to act on the master's behalf.
  - hires the employee for a specific task for which the master is not responsible.
  - is not liable for any actions taken on his or her behalf by the servant (employee).

ANS: **A**

- A special type of power of attorney designed to continue for certain purposes even after the incapacity of the principal is referred to as a
  - special power of attorney.
  - will power of attorney.
  - durable power of attorney.
  - general power of attorney.

ANS: **C**

- An agency relationship may *not* be created
  - by express contract.
  - by conduct of the principal and agent.
  - without the principal's knowledge or consent.
  - by ratification.

ANS: **C**

- When the principal intentionally or negligently causes a third party to reasonably believe that an individual is acting as the principal's agent, and the third party relies on that belief, then
  - no agency relationship exists.
  - an express agency agreement is created.

- the purported agent assumes personal liability for his or her actions.
- an apparent agency may exist.

ANS: **D**

- An agent's duties to the principal include
  - the duty of loyalty.
  - the duty to act without compensation.
  - the duty to perform any tasks requested by the principal.
  - the duty to compensate the principal.

ANS: **A**

- The principal's duties to the agent do *not* include
  - the duty to compensate the agent as agreed on.
  - the duty to cooperate with the agent.
  - the duty to exercise reasonable care to avoid placing the agent in harm's way.
  - the duty to always put the agent's interests first.

ANS: **D**

- A principal is *not* liable for the torts of his or her agent if the
  - tort is committed by the agent acting in the scope of his or her employment by the principal.
  - agent's action is unrelated to the agency relationship.
  - principal is negligent or reckless in supervising the agent.
  - agent is acting under the principal's direction when committing the tort.

ANS: **B**

#### TRUE/FALSE

- Disputes concerning agency law are typically resolved under the contract or common law of the state where the agency was created.

ANS: **T**

- A power of attorney need not be put in writing.

ANS: **F**

- |   |  |
|---|--|
| <p>11. Unlike most contracts, consideration need not be exchanged to form an agency relationship.<br/>ANS: <b>T</b></p> <p>12. An agency may be created by ratification when the principal accepts the benefits derived from the agent acting on his or her behalf.<br/>ANS: <b>T</b></p> <p>13. An apparent agency can be created by the actions of an apparent agent alone, without any action by the principal.<br/>ANS: <b>F</b></p> <p>14. The doctrine of <i>respondeat superior</i> applies to the relationship between an employer and employee and <i>not</i> to the relationship between an employer and an independent contractor.<br/>ANS: <b>T</b></p> | <p>15. Under the doctrine of <i>respondeat superior</i>, an agent is <i>not</i> responsible for torts committed while working for an employer.<br/>ANS: <b>F</b></p> <p>16. Partners act as agents for the partnership and the other partners.<br/>ANS: <b>T</b></p> |
|---|--|