

Chapter 1 - Law of Contract

A contract is a legally binding agreement between two or more parties. It is enforceable by law.

Elements of a Legally Binding Contract:

1. **Offer** → A request/promise to make a contract, made verbally, in writing or by conduct. To be a valid offer, terms must be set out clearly and completely.
2. **Acceptance** → The agreement of the other party to all terms of the original offer without any changes in the conditions. It can be accepted verbally, in writing or by conduct.
3. **Consideration** → what each party offers as evidence of their acceptance, must be quid pro quo, real, legal and valuable but need not be of equal market value.
4. **Intention to contract** → all parties to the contract must have meant/intended to create a legally binding contract that could go to court. All business agreements are intended to be legally binding, whereas social/private agreements are not.
5. **Consent to contract** → each party must give genuine agreement of their own free will to making the contract. They must not have been pressured/ intimidated, there must be no misrepresentation or dishonesty or genuine mistakes.
6. **Capacity to contract** → Parties entering a contract must have the legal right/power/ability to do so. They must be over 18, of sound mind, and must not be company directors or diplomats acting ultra vires.
7. **Legality of form** → certain contracts must be drawn up in writing to become legally binding – stocks, sale or purchase of land, insurance and hire purchase agreements.
8. **Legality of purpose** → the purpose of the contract must be legal and not involve crime.

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How Can a Contract be Terminated?

1. **Performance** → all parties fulfil their contractual obligations e.g. band performs contract
2. **Agreement** → all parties decide to terminate the contract e.g. ticket sales are too low to be profitable so all parties agree to cancel the concert
3. **Frustration** → where some unforeseen event prevents the contract from being completed e.g. the band's lead singer dies
4. **Breach of contract** → where one party breaks a condition (key/essential element) of the contract e.g. the band decides not to show up for the concert

Remedies for Breach of Contract:

- **Rescind (cancel) the contract** – abandon the contract. Returns both parties to the same position they were in before they entered the contract.
- Sue for **financial compensation** for any losses incurred. (Robbie Williams sacked Manager, awarded £1.7m)
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- Seek '**specific performance**' which is where a court orders the other party to keep their side of the agreement.