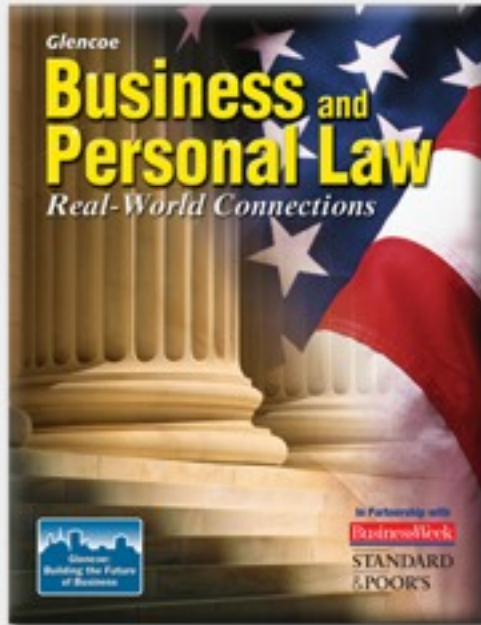


CHAPTER 5

Elements of a Contract



Section 5.1

Capacity and Legality

Parties to a contract must have the capacity to enter into the contract.

Persons who may lack contractual capacity include:

- minors
- persons with mental impairments
- intoxicated persons
- convicts

A minor is a person who has not reached the legal age of adulthood.

In most states, the legal age is 18.

Minors can be held to contracts that involve:

- car insurance
- rental agreements
- enlistment in the military

Some states also give limited capacity to married minors and minors who own businesses.

An otherwise valid contract may be illegal if it involves an agreement that:

- violates statutory law
- is contrary to public policy

An agreement violates statutory law if it:

- requires a party to commit a tort or a crime
- violates gambling laws
- involves an unlicensed person doing a job that requires a license

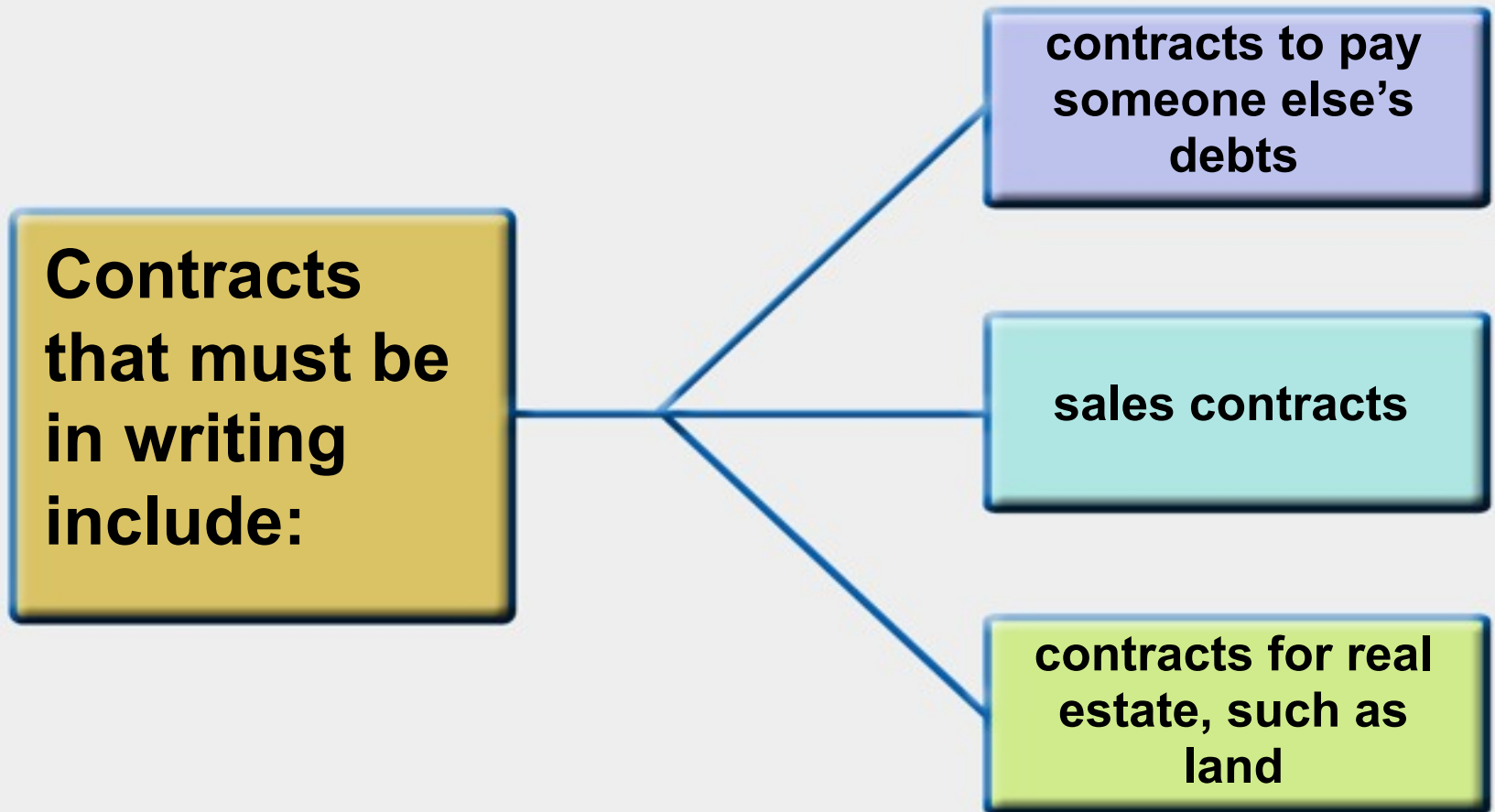
An agreement is contrary to public policy if it harms the public, or the good of society.

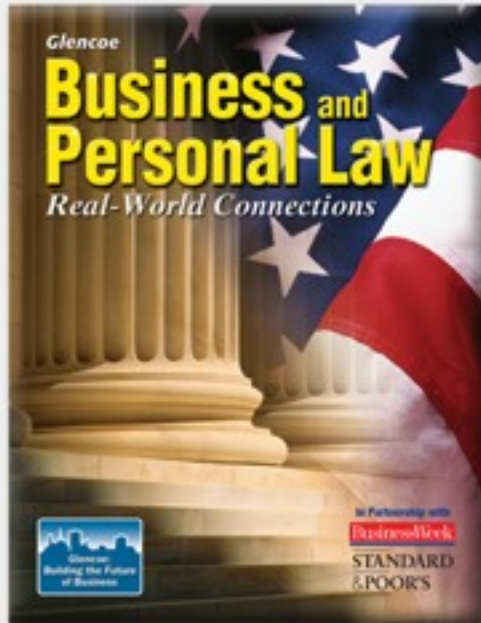
Agreements that run counter to public policy include agreements to:

- eliminates competition among businesses
- obstruct justice
- induce a breach of duty or fraud

The **Statute of Frauds** requires that some contracts be in writing.

This is so there is evidence that the contract exists and has specific terms.





Section 5.2

Consideration

Consideration in a contract is the exchange of benefits and detriments.

A **benefit** is something a party receives.

A **detriment** is something a party gives up.

Consideration in a contract requires three things:

- it must involve a bargained-for exchange
- it must involve something of value
- it must be legal

A bargained-for exchange is when one promise is made in exchange for another promise.

The thing of value exchanged as consideration in a contract can be:



Money



Property



A Service

The law has no specific value requirements on consideration.

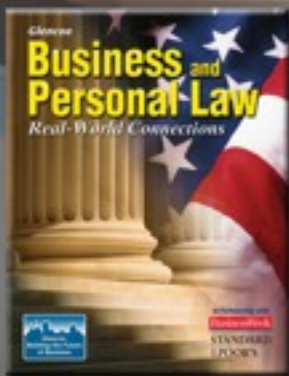
All that matters is that the parties agreed freely on the value and the price.

Sometimes the parties to a contract disagree over the amount of consideration owed.

The amount is said to be in **dispute**.

The dispute can be settled through **accord and satisfaction**.

This occurs when one party agrees to accept less than full payment to end the contract.



CHAPTER 5

Elements of a Contract