

Chapter 11 Questions Real Estate Contracts

1. A void contract is one that
 - a. was not in writing.
 - b. was never legally enforceable.
 - c. was rescindable by agreement.
 - d. was voidable by only one of the parties.

2. The legal proceeding or legal action brought by either the buyer or the seller under a purchase contract to enforce the terms of the contract is known as
 - a. an injunction.
 - b. a lis pendens.
 - c. an attachment.
 - d. specific performance.

3. The essential elements of a contract include all of the following *EXCEPT*
 - a. offer and acceptance.
 - b. signatures of the parties
 - c. competent parties.
 - d. consideration.

4. If, upon the receipt of an offer to purchase his property subject to certain conditions, the seller makes a counteroffer, the prospective buyer is
 - a. bound by his original offer.
 - b. bound to accept the counteroffer.
 - c. bound by whichever offer is lower.
 - d. relieved of his original offer.

5. The amount of earnest money deposit is determined by
 - a. real estate licensing statutes.
 - b. agreement between the parties.
 - c. listing broker's office policy on such matters.
 - d. meeting the acceptable minimum of 5 percent of the purchase price.

6. If the buyer defaulted some time ago on a written contract to purchase a seller's real estate, the seller can still sue for damages if he is not prohibited from doing so by the
 - a. statute of frauds.
 - b. law of agency.
 - c. statute of limitations.
 - d. broker-attorney accord.

7. Which of the following best describes a voidable contract?
 - a. A contract that has no legal effect and never had any
 - b. An oral contract with no witnesses to the agreement
 - c. A contract that may be either enforced or declared void by one of the parties
 - d. A contract that has been accepted but the acceptance has not been communicated to the offeror

8. Which of the following gives the best evidence of the buyer's intention to carry out the terms of the real estate purchase contract?
 - a. The "subject to" clause
 - b. The agreement to seek mortgage financing
 - c. The earnest money deposit
 - d. The provision that "time is of the essence"

9. What action returns a contract's parties to their position before the contract, including return of any deposit?
 - a. Cancellation
 - b. Rescission
 - c. Substitution
 - d. Subordination

10. All of the following are essential to the formation of a contract EXCEPT
 - a. Offer
 - b. Acceptance
 - c. Consideration
 - d. Performance

11. An option
 - a. requires the optionee to complete the purchase.
 - b. gives the optionee an easement on the property.
 - c. binds the optionor for a specified time.
 - d. makes the seller liable for a commission.

12. When a prospective buyer makes a written purchase offer that the seller accepts, then the
 - a. buyer may take possession of the real estate.
 - b. seller grants the buyer possessory rights.
 - c. buyer receives legal title to the property.
 - d. buyer receives equitable title to the property.

13. A bilateral contract is one in which
 - a. only one of the parties is obligated to act.
 - b. the promise of one party is given in exchange for the promise of the other party.
 - c. something is to be done by one party only.
 - d. a restriction is placed in the contract by one party to limit the performance by the other.

14. At the time a buyer was negotiating the purchase of a lot on which to build a new home, the seller represented that the soil was firm enough to support the construction of a building when, in fact, the seller knew it was not. This contract is
 - a. void.
 - b. voidable by the buyer because of fraud.
 - c. voidable by the seller because of the mistake.
 - d. voidable by neither party because no harm was done yet.

15. Broker Kenneth arrives to present a purchase offer to Dorita, an invalid, and finds her son and his wife also present. In the presence of Broker Kenneth, both individuals persistently urge Dorita to accept the offer, even though it is much lower than the price she has been asking for her home. If Dorita accepts the offer, she may later claim that
- Kenneth should not have brought her such a low offer for her property.
 - she was under duress from her son and daughter-in-law, and therefore, the contract is voidable.
 - Kenneth defrauded her by allowing her son and his wife to see the purchase offer he brought to her.
 - her consumer protection rights have been usurped by her son and daughter-in-law.
16. The law that requires real estate contracts to be in writing to be enforceable is the
- law of descent and distribution.
 - statute of frauds.
 - parole evidence rule.
 - statute of limitations.
17. If an owner takes his property off the market for a definite period of time in exchange for some consideration, but he grants an individual the right to purchase the property within that period for a stated price, this is called a(n)
- option.
 - contract of sale.
 - right of first refusal.
 - installment agreement.
18. Breach of contract is refusal or failure to comply with the terms of a contract. If the seller breaches the purchase contract, the buyer may do all of the following *EXCEPT*
- sue the seller for specific performance.
 - rescind the contract and recover the earnest money.
 - sue the seller for damages.
 - sue the broker for nonperformance.

19. To assign a contract for the sale of real estate means to
- record the contract with the county recorder's office.
 - permit another broker to act as agent for the principal.
 - transfer one's rights under the contract.
 - allow the seller and the buyer to exchange positions.
20. The broker receives an earnest money deposit with a written offer to purchase that includes a ten-day acceptance clause. On the fifth day, before the offer is accepted, the buyer notifies the broker that she is withdrawing the offer and demands the return of her earnest money deposit. In this situation
- the buyer cannot withdraw the offer because it must be held open for the full ten days.
 - the buyer has the right to revoke the offer at any time until it is accepted and recover the earnest money.
 - the seller and the broker have the right to each retain one-half of the deposit.
 - the broker declares the deposit forfeited and retains it for his services.
21. All of the following are correct about contingencies EXCEPT
- They create a contract that is unenforceable
 - They must specify what is required to satisfy the contingency
 - They must identify who will pay for any costs involved
 - Common contingencies include mortgage and inspection contingencies
22. On Monday the seller offers to sell his vacant lot to the buyer for \$12,000. On Tuesday, the buyer counteroffers to buy for \$10,500. On Friday the buyer withdraws the counteroffer and accepts the original offer of \$12,000. Under these conditions
- there is a valid agreement because the buyer accepted the seller's offer exactly as it was made.
 - there is not a valid agreement because the buyer's counteroffer was a rejection of the seller's offer and, once it was rejected, it cannot be accepted later.
 - there is a valid agreement because the buyer accepted before the seller advised the buyer that the offer is withdrawn.
 - there is not a valid agreement because the seller's offer was not accepted within 72 hours.

23. Broker Peder listed the Kleins' property for sale under an exclusive-right-to-sell agreement. Today, Toby, one of Peder's salespeople, obtained a signed offer to purchase the property along with a certified check for 5 percent of the purchase price as earnest money. What should Toby do with the earnest money check?
- a. Give it to the Kleins.
 - b. Hold it until closing.
 - c. Deposit the money in his personal account.
 - d. Give the money to Peder for deposit in the brokerage trust account.
24. A broker took a listing and later discovered that the client had been declared legally incompetent before signing the listing. The listing is now
- a. binding because the broker was acting as the owner's agent in good faith.
 - b. of no value to the broker because it is void.
 - c. the basis for the recovery of a commission if the broker produces a buyer.
 - d. renegotiable.
25. Money that serves to compensate a seller in the event of a buyer default is known as
- a. actual damages
 - b. liquidated damages
 - c. escrow funds
 - d. earnest money
26. In order for a contract to be valid, the offeree must accept the offer before
- a. the payment of any money.
 - b. the offer expires.
 - c. the close of the 10th business day following the offer.
 - d. the offeror makes a similar offer to a third party.

27. The mixing of trust funds with a broker's personal funds is
- a. conversion
 - b. commingling
 - c. legal in most states
 - d. permitted in offices with fewer than three agents
28. A lease agreement is signed by a lessee who is 16 years of age. Which of the following is true?
- a. A 16-year-old person cannot sign a lease.
 - b. The lease agreement is voidable.
 - c. The lease agreement is valid provided the security deposit is increased.
 - d. The lease agreement is void.