

## **Chapter 11**

### **Answer Key**

1. b. A void contract lacks some or all of the essential elements of a contract and so was never a contract in the eyes of the law. (194)
2. d. In a suit for specific performance, the court may force the buyer or seller to go through the sale and convert the property as previously agreed. (196)
3. b. To be legally valid, a contract does not require signatures of the parties. (193)
4. d. When the original offer is rejected by the seller, it ceases to exist. The buyer may accept or reject the seller's counteroffer. (198)
5. b. The amount of earnest money deposit is determined by agreement of the parties. Under the terms of most listing agreements a real estate broker is required to accept a "reasonable amount" as earnest money. (199)
6. c. The statute of limitations in every state limits the time within which parties to a contract may bring legal suit to enforce their rights. (196)
7. c. A voidable contract has all the legal elements of a contract but may be rescinded or disaffirmed by one or both parties based on some legal principle. (194)
8. c. The earnest money deposit is customary in real estate transactions to provide evidence of a buyer's intention to carry out the terms of the contract in good faith. (199)
9. b. A recession occurs when one party cancels or terminates the contract as if it had never been made. Cancellation terminates the contract without a return to the original position. (197)
10. d. Performance becomes an issue when a contract is terminated, not formed. (193, 195)
11. c. An option obligates an owner to sell at a fixed price within a certain period of time, but does not obligate the optionee to exercise the option. (203)
12. d. Equitable title occurs when the buyer and seller have executed a sales contract and the buyer acquires an interest in the land. Legal title will not pass until the transaction is closed. (200)

13. b. In a bilateral contract, both parties agree to do something and promises are exchanged. A unilateral contract is a one-sided agreement that does not obligate a second party. (192)
14. b. The contract is voidable because it contains all the essential elements of a contract, but could be rescinded due to a fraud. (194)
15. b. If a person signs a contract under duress, the contract could be later disaffirmed by that party. Each party must be able to make a prudent and knowledgeable decision without undue influence or the contract is voidable by the injured party. (194)
16. b. The statute of frauds requires real estate contracts to be in writing to be enforceable. An oral contract, although unenforceable, is still valid between parties. (191)
17. a. An option is granted when an owner (optionor) gives the potential purchaser (optionee) the right to purchase the property at a fixed price within a certain period of time. (202)
18. d. The broker is not a party to a real estate sales contract and could not be sued for non-performance in the event of a seller breach. (196)
19. c. In an assignment, rights are assigned to a third party, but the original party remains primarily liable unless specifically released. (195)
20. b. The offeror (the buyer) may revoke the offer at any time before the offer is accepted even if the person making the offer agreed to keep the offer open for a set period of time. At that point the earnest money deposit should be refunded to the buyer. (193)
21. a. Contingencies create a voidable contract; if the contingencies are rejected or not satisfied, the contract is void. (202)
22. b. A counteroffer is a new offer; it voids the original offer. (198)
23. d. Earnest money held by a broker must be held in a trust or escrow account. (199)
24. b. A contract made by a person who has been adjudicated insane, is void on the theory that the judgment is a matter of public record. (194)
25. b. When parties agree that a certain amount of money will compensate the nonbreaching party, that money is called liquidated damages. Earnest money may serve as liquidated damages in case the buyer defaults. (196)

- 26. b. If the offeree fails to accept the offer before it expires, then the offer is terminated and no contract exists between buyer and seller. (193)
- 27. b. Commingling, or mixing of funds, is illegal regardless of the size of an office. Conversion occurs when a broker uses escrow funds for his/her own use. (200)
- 28. b. A 16 year old person can sign a contract, but because the lessee is a minor, the lease is voidable. (194)