

# **Paper 3 – Fundamentals of Laws and Ethics**

**Paper 3- Fundamentals of Laws and Ethics**

Full Marks: 100

Time allowed: 3 hours

**Section – A**

1. Answer all questions.

(a) Choose the correct answer out of the given four alternatives: [1×25 = 25]

- (i) A contract consist of
- (a) **Mutual promises or agreement enforceable by law**
  - (b) Agreement not enforceable by law
  - (c) Involuntary obligations
  - (d) None of the above
- (ii) Who is liable for necessaries supplied to a minor?
- (a) The guardian of the minor
  - (b) The minor
  - (c) **His property**
  - (d) None of the above
- (iii) An auction sale is complete on the -
- (a) delivery of goods
  - (b) payment of price
  - (c) **fall of hammer**
  - (d) all of the above
- (iv) Where the sale is not notified to be subject to a right to bid on behalf of seller, and the Auctioneer knowingly takes any bid from the Seller or any such person, the sale shall be treated as \_\_\_\_\_ by the buyer.
- (a) unlawful
  - (b) illegal
  - (c) **immoral**
  - (d) fraudulent
- (v) A bill of exchange contains a/an
- (a) unconditional undertaking
  - (b) **unconditional order**
  - (c) conditional undertaking
  - (d) conditional order
- (vi) A foreigner
- (a) **is competent to enter into contract if he fulfils the conditions of section 11.**
  - (b) is not competent to enter into contract
  - (c) can enter into contract with permission of Central Govt.

- (d) can enter into contract with the permission of court
- (vii) A promised to marry none else than Miss B and in default to pay her a sum of ₹ 1,000. Subsequently A married Miss C and Miss B sued for recovery of ₹ 1,000. The contract is
- (a) Valid
  - (b) **Void**
  - (c) Voidable
  - (d) Enforceable
- (viii) Conditions are stipulations
- (a) **essential to the main purpose of the contract**
  - (b) collateral to the main purpose of the contract
  - (c) either 'a' or 'b'
  - (d) neither 'a' nor 'b'
- (ix) A promissory note contains a/an
- (a) unconditional undertaking
  - (b) **unconditional order**
  - (c) conditional undertaking
  - (d) conditional order
- (x) A contract is a contract
- (a) **from the time it is made**
  - (b) from the time its performance is due
  - (c) at the time from its performance
  - (d) none of the above
- (xi) A borrows from B ₹500 to bet with C. Can B recover the amount of his loan?
- (a) Yes, the agreement between them is collateral to a wagering agreement and hence enforceable.
  - (b) Yes, the agreement is not opposed to public policy.
  - (c) No, the agreement is a voidable agreement and can be avoided by A.
  - (d) **No, the agreement is wagering agreement and falls under section 23 and hence void.**
- (xii) Which of the following statements is true in connection with the contingent contract?
- (a) **The collateral event is contingent.**
  - (b) The collateral event may be certain or uncertain.
  - (c) The contingency event may be the mere will of the promisor.
  - (d) The main event should be contingent.
- (xiii) Quasi-contracts are
- (a) not contracts in the real sense of the word.
  - (b) **relations which create certain obligations resembling those created by a**

**contract.**

- (c) implied contracts.
- (d) unenforceable contracts.

**(xiv)** If the performance of contract becomes impossible because the subject matter of contract has ceased to exist then

- (a) both the parties are liable.

**(b) neither party is liable.**

- (c) only offerer is liable.
- (d) only acceptor is liable.

**(xv)** A valid contract of sale

**(a) includes 'an agreement to sell'.**

- (b) does not include 'an agreement to sell'.
- (c) includes hire purchase contract.
- (d) includes contract for work and labour.

**(xvi)** Transfer of documents of title to the goods sold to the buyer, amounts to

- (a) actual delivery
- (b) symbolic delivery**
- (c) constructive delivery
- (d) None of the above

**(xvii)** Right of Stoppage in transit can be exercised by the Unpaid Seller, where he

- (a) has lost his right of lien.
- (b) still enjoys his right of lien.**
- (c) Either (a) or (b)
- (d) Neither (a) nor (b)

**(xviii)** The Sale of Goods Act, 1930 governs the transfer of property in

- (a) movable property**
- (b) immovable property
- (c) both movable and immovable property
- (d) all type of properties

**(xix)** Property in the goods 'in the Sale of Goods Act 1930 means'

- (a) Ownership of goods**
- (b) Possession of goods
- (c) Asset in the goods
- (d) Custody of goods

**(xx)** The term 'Unpaid Seller' includes

- (a) Agent of the Buyer
- (b) Agent of the Seller**
- (c) Agent of the Carrier/Transporter
- (d) All of the above

- (xxi) Right of Stoppage in transit may be exercised by the Unpaid Seller, by  
(a) taking actual possession of goods.  
(b) giving notice of his claim to the Carrier/Bailee who holds the goods.  
**(c) Either (a) or (b)**  
(d) Both (a) and (b)
- (xxii) The term 'Negotiable Instrument' is defined in the Negotiable Instruments Act, 1881, under section  
(a) 12  
**(b) 13**  
(c) 13A  
(d) 2(d)
- (xxiii) The Negotiable Instrument Acts 1881 came into force on  
(a) 9th December, 1881  
(b) 19th December, 1881  
**(c) 1st March, 1882**  
(d) None of the above
- (xxiv) If a minor draws, indorses, deliver or negotiates an instrument, such instrument binds  
(a) all parties to the instrument including the minor.  
(b) only the minor and not other parties to the instrument.  
**(c) all parties to the instrument except the minor.**  
(d) None of the above
- (xxv) A Promissory Note must be  
(a) in writing  
(b) unconditional  
(c) signed by the maker  
**(d) All of the above**

**(b) Match the following:**

**[1×5 = 5]**

	Column 'A'		Column 'B'
1.	Grace days	<b>A</b>	Express Offer
2.	Condition	<b>B</b>	Three days
3.	Legal Rules Regarding Offer	<b>C</b>	a person to whom an offer to enter into a contract has been made
4.	Offeree	<b>D</b>	The person who makes the proposal
5.	Offeror	<b>E</b>	Essential to the main purpose of the contract

**Answer:**

	Column 'A'		Column 'B'
1.	Grace days	<b>B</b>	Three days
2.	Condition	<b>E</b>	Essential to the main purpose of the contract
3.	Legal Rules Regarding Offer	<b>A</b>	Express Offer
4.	Offeree	<b>C</b>	a person to whom an offer to enter into a contract has been made
5.	Offeror	<b>D</b>	The person who makes the proposal

**(c) State whether the following statement is True (or) False.**

**[12×1 = 12]**

1. All contracts are agreements.  
**True**
2. An acceptance will be revoked at any time before the communication of acceptance is complete against the acceptor, but not afterwards. Is it true or not?  
**True**
3. A contract is said to be executed when it has been performed wholly on two sides.  
**True**
4. Can a mere mental resolve to make an offer unless such intention is also communicated to the other party has agreed to make such statement?  
**False**
5. After a transaction has ripened into a contract, does it require the consent of both parties to revoke or modify it?  
**True**
6. If the agreement is made by obtaining consent by doing an act forbidden by the Indian Penal Code, the agreement would be caused by fraud.  
**False**
7. Delivery of goods can be actual and constructive.  
**False**
8. Negotiable Instruments Act,1881 provides that a negotiable Instrument include promissory note, bill of exchange and cheque, only payable to bearer.  
**False**

9. The 'price' in a contract of sale means the money consideration for sale of goods.

**True**

10. A, intending to deceive B, falsely represents that five hundred mounds of Indigo are made annually at A's factory and, thereby, induces B to buy the factory. The contract is voidable.

**True**

11. P renders some service to D at D's desire. After a month D promises to compensate P for the service rendered to him, it is a future consideration

**False**

12. Caveat Emptor means buyer be aware.

**True**

2. Answer any four of the following questions:

**[7×4 = 28]**

- (i) "No Consideration No Contract". State the exceptions to it.
- (ii) How can a contract be discharged by agreement?
- (iii) List out the legal rules for consideration.
- (iv) What are the essential elements of contract of sale?
- (v) State the rules regarding an Auction.
- (vi) What are the requisites of a Bill of Exchange?

**Answer:**

(i) "No Consideration No Contract" – The following are the exceptions to it.

The general rule is *ex-nudopacto non oritur action* i.e. an agreement made without consideration is void. The following are the exceptions to it.

**1. Promise made out of natural love and affection**

An agreement made without consideration is valid if it is in writing and registered and is made on account of natural love and affection between parties standing in a near relation to each other.

**2. Promise to compensate for voluntary services**

An agreement made without consideration is valid if it is a promise to compensate a person who has already voluntarily done something for the promisor.

**3. Promise to pay time-barred debt**

A promise by a debtor to pay a time-barred debt is also enforceable. But the promise must be in writing. It must be signed by the promisor or his authorised agent. The promise may be to pay the whole or part of the debt.

### 4. Creation of Agency

No consideration is necessary to create an agency. Thus when a person is appointed as an agent, his appointment is valid even if there is no consideration.

### 5. Completed Gifts

Gifts once made cannot be recovered on the ground of absence of consideration. Absence of consideration will not affect the validity of any gift already made.

### 6. Contract of guarantee

No consideration is needed for a contract of guarantee.

### 7. Remission

Remission means lesser performance of the contract than what is actually to be performed

## (ii) Discharge of a contract by agreement:

The parties may agree to terminate the existence of the contract by any of the following ways:

### (i) Novation:

Substitution of a new contract in place of the existing contract is known as "Novation of Contract". It discharges the original contract. The new contract may be between the same parties or between different parties. Novation can take place only with the consent of all the parties.

### (ii) Alteration:

Alteration means change in one or more of the terms of the contract. In case of novation there may be a change of the parties, while in the case of alteration, the parties remain the same. But there is a change in the terms of the contract.

### (iii) Rescission:

Rescission means "cancellation". All or some of the terms of a contract may be cancelled. Rescission results in the discharge of the contract.

### (iv) Remission:

Remission means acceptance of a lesser performance than what is actually due under the contract. There is no need of any consideration for remission.

### (v) Waiver:

Waiver means giving up or foregoing certain rights. When a party agrees to give up its rights, the contract is discharged.

## (iii) Legal Rules Regarding Consideration:

### (i) Consideration must move at the desire of the promisor:

It must move at the desire of the promisor. Any act or abstinence at the desire of third party is not consideration.



**(ii) Consideration may move from the promisee or any other person:**

Consideration may be furnished even by a stranger under Indian Law. Consideration can be from any direction, even a stranger to contract can offer consideration. Under English law consideration must move from promisee and no one else.

**(iii) Consideration must be something of value:**

One of the important things to note about consideration is that consideration need not be adequate. So long as the consent of the parties is free inadequacy of consideration is immaterial. However inadequacy of consideration may be taken into account by the courts in determining the question whether the consent of the parties is free or not.

**(iv) It may be an act, abstinence or forbearance or a return promise:**

Promise to not to smoke is a negative act (abstinence),

Promise to not to refer the matter to court (abstinence).

Promise to perform at the wedding anniversary or birthday party (promise to do).

**(v) It may be past, present or future which the promisor is already not bound to do:**

According to Indian Law Consideration may be past, present or future. But under English Law Consideration may be present or future. Past consideration is no consideration according to English Law.

**(vi) It must not be unlawful:**

The consideration or object of an agreement is lawful, unless —

- It is forbidden by law;
- or is of such a nature that, if permitted, it would defeat the provisions of any law;
- or is fraudulent;
- or involves or implies injury to the person or property of another;
- or the Court regards it as immoral, or opposed to public policy

**(iv) Essential Elements of Contract of Sale:**

Following are the essential elements of a valid contract of sale. They are:

1. Two parties. - Seller and Buyer
2. Subject matter. - Goods (Movable property)
3. Transfer of Property - Transfer of ownership rights i.e. absolute ownership (General Property).
4. Delivery - Immediate. Delivery in installments. Deliver; at a future date.
5. Price - It means money consideration for sale of goods.
6. A contract of sale may be absolute or conditional.
7. Essential elements of a valid contract.

**(v) Rules regarding an auction. (Sec. 64):**

In the case of sale by auction –

- (a) Where goods are put up for sale in lots, each lot is prima facie deemed to be the subject of a separate contract of sale. [Sec 64(1)]
- (b) The sale is complete when the auctioneer announces its completion by the fall of the hammer or in other customary manner, and, until such announcement is made, any bidder may retract his bid. [Sec 64(2)]
- (c) A right to bid may be reserved expressly by or on behalf of the seller and, where such rights is expressly so reserved, but not otherwise, the seller or anyone person on his behalf may, subject to the provisions hereinafter contained, bid at the auction, [Sec 64(3)]
- (d) Where the sale is not notified to be subject to a right to bid on behalf of the seller, it shall not be lawful for the seller to bid himself or to employ any person to bid at such sale, or for the auctioneer knowingly to take any bid from the seller or any such person, and any such person, and any sale contravening this rule may be treated as fraudulent by the buyer. [Sec 64(4)]
- (e) The sale may be notified to be subject to a reserved or upset price.
- (f) If the seller makes use of pretended bidding to raise the price, the sale is voidable at the option of the buyer.

**(vi) Requisites of a Bill of Exchange:**

- 1) A bill of Exchange must be drawn unconditionally, though the acceptor, or the indorser may make his liability conditional, direction of payment by the drawer must not be made to depend upon a contingency. Therefore, it is the essence of a bill of exchange that it should be payable at all events and it must appear so on its face.
- 2) The consideration of a bill of exchange should, be paid only by way of money only.
- 3) The amount to be paid should be certain.
- 4) The time of payment must be indicated in the bill with certainty.
- 5) There should be an order to pay. Order in this section does not mean a command, but a request or a direction.
- 6) It is essential that a bill of exchange should point out with certainty the party who enters into the contract imported by its terms. Thus, the signature of the drawer is necessary and there cannot be a bill, even if the instrument if accepted without the signature of the drawer.
- 7) It must indicate a drawee who should be called on to accept or pay it. The drawee must be named or otherwise indicated in the bill with reasonable certainty.
- 8) It should specifically mention the date and place the payment or the place where it is drawn.
- 9) Every Bill of Exchange must be stamped according to the provisions of The Indian Stamp Act, 1899.

**Section B**

**1. Answer all questions.**

**(a) Choose the correct answer out of the given four alternatives:**

**[1×12 = 12]**

1. Ethics has evolved with evolution of
  - (a) **Society**
  - (b) Culture
  - (c) Problems
  - (d) Politics
  
2. Which one is not the 7 Principles of Public Life?
  - (a) Leadership
  - (b) Integrity
  - (c) Honesty
  - (d) **Content**
  
3. "It is difficult but not impossible to conduct strictly honest business" is famous quote by
  - (a) Adam Smith
  - (b) **Mahatma Gandhi**
  - (c) Peter Drucker
  - (d) Indira Gandhi
  
4. Which of the following is not a 'Code of Conduct'?
  - (a) Code of Ethics
  - (b) Code of Practices
  - (c) Code of Behaviour
  - (d) **Code of Management**
  
5. Reasons why a "good understanding of business ethics" is important, can be stated as follows:
  - (a) **Healthy Competition**
  - (b) Conduct
  - (c) Accountability
  - (d) Application
  
6. The main aim or objective of business is
  - (a) increase in profit.
  - (b) **consumer satisfaction.**
  - (c) to become a business leader.
  - (d) creation of job opportunities.
  
7. Business Ethics is based on well accepted
  - (a) **Moral and Social values**

- (b) Social values
  - (c) Moral values
  - (d) None of the above
8. Business Ethics helps to
- (a) create wealth
  - (b) **stop business malpractices**
  - (c) expand business
  - (d) None of the above
9. Ethics has become important because of
- (a) Globalization
  - (b) Communication
  - (c) **Both (A) and (B)**
  - (d) Computerisation
10. The study of Ethics is divided into operational areas.
- (a) 3
  - (b) **4**
  - (c) 2
  - (d) 5
11. Business Ethics is also called as
- (a) Absolute Ethics
  - (b) Permanent Ethics
  - (c) **Corporate Ethics**
  - (d) None of the above
12. Following is not a Professional characteristics:
- (a) **Competition**
  - (b) Character
  - (c) Competency
  - (d) Compensation

**(b) State whether the following statement is True or False:**

**[1×6 = 6]**

- (i) In business ethics, the stakeholder theory of business ethics maintains that managers have an ethical responsibility to manage a firm for the benefit of all its stockholders, and for people who have a claim on a company.  
**False**
- (ii) Business ethics is losing importance because of consumer movement.  
**False**
- (iii) Business ethics create a good image for the business and businessmen.

**True**

(iv) Business can survive so long it enjoys the patronage of consumer.

**True**

(v) Business ethics is not mandatory for the survival of business.

**False**

(vi) There is a difference between normative and practical ethics

**True**

**3. Answer any two of the following questions:**

**[6×2 = 12]**

- |   |          |
|---|----------|
| <b>(i) Discuss the concept of Value-free Ethics</b>     | <b>6</b> |
| <b>(ii) Differentiate between ethics and morals</b>     | <b>6</b> |
| <b>(iii) Write a note on the character of business.</b> | <b>6</b> |

**Answer:**

**(i) Value - free Ethics**

It would seem that business is an ethically neutral or value-free activity. In other words, the only value business is concerned with is the monetary value. It is not in the interest of business to mix ethical values. An ancient Arabic wisdom states, 'Live together like brothers and do business like strangers.'

Business should be kept free from other social relationships and obligations. The only successful relationship that exists in business is that of a vendor and a customer. It is also said that 'for the merchant, even honesty is a financial speculation.' Indeed, for a businessman every factor in the business is measured in terms of money. The volatility that we see in the stock market is a clear example of the speculative nature of business, which is directly proportional to the prevailing attitude of the people

**(ii) Difference between Ethics and Morals**

	<b>Ethics</b>	<b>Morals</b>
1.	Root word in Greek is 'ethikos' which Means 'Character'.	Root word in Greek is 'mos' which means 'custom'
2.	Deals with right and wrong conduct.	Deals with principles of right and wrong.
3.	Deals with individual character.	Deals with customs set by groups.
4.	Character is personal attribute.	Customs are determined by groups or Some authority like religion or culture.
5.	Ethics is the response of an individual to	Morals are general principles, e.g.

a specific situation. E.g. whether in that situation, it is ethical to state the truth.	"You should speak truth.
---	--------------------------

### (iii) Character of Business

'There are two fools in every market: one asks too little, one asks too much,' so says a Russian proverb. Is there a concept called balanced profit? The business in a society reflects its character. Transparency International, in its corruption perception index, gives Finland, Denmark, and New Zealand the first place with 9.4 points. India is way down at 72, with just 3.5 points on a scale of 10. We may gloat over our cultural heritage and religious and ethical glories of the past, but we stand exposed before the world as a corrupt society. Corruption prevails in all walks of life, whether political, social, or economic. If we have to improve our business, we have to improve our business behaviour.