

Law Module- Week 4: Contract Law and Obligations

Objective:

- ✚ Comprehend the basic elements of contracts.
- ✚ Recognize types of contracts and obligations.
- ✚ Understand remedies for breach of contract.

Introduction to Contracts

A contract is a legally binding agreement between two or more parties that creates obligations that the law will enforce. Contracts exist to ensure trust, predictability, and fairness in transactions.

Importance of Contracts:

1. Protects parties' rights
2. Provides remedies in case of disputes
3. Promotes business and economic stability

Example: Maria agrees to sell her laptop to Juan for ₱20,000. This agreement creates legal obligations: Maria must deliver the laptop, and Juan must pay the agreed amount.

Elements of a Valid Contract

To be enforceable, a contract must have the following essential elements:

Element	Definition	Example
Consent	Both parties agree voluntarily	Juan agrees to buy a phone; Maria agrees to sell
Object	The subject matter of the contract	Laptop, house, service
Cause / Legal Purpose	The reason must be lawful	Cannot create a contract for illegal drugs

Additional Requirements: Parties must have legal capacity (not minors or persons of unsound mind without guardian) Agreement must be free from fraud, duress, or undue influence

Scenario: Juan signs a contract to buy a car, but the dealer lies about the car's condition. The contract may be voidable due to fraud.

Types of Contracts

Type	Definition	Example
Bilateral	Both parties make promises to each other	Employee promises work; employer promises salary
Unilateral	Only one party makes a promise, fulfilled upon action	Reward for finding a lost dog
Express	Terms are clearly stated, written or oral	Written lease agreement
Implied	Terms inferred from actions or conduct	Buying groceries at a store implies payment
Void	Illegal or unenforceable	Contract to smuggle goods
Voidable	Valid but can be annulled under certain circumstances	Contract signed under duress

Example Scenario: Maria offers ₱5,000 reward for finding her lost cat (unilateral). Juan signs a lease for an apartment (bilateral & express).

1. Obligations in Law

Definition: An obligation is a legal duty to perform or refrain from performing an act.

Sources of Obligations:

❖ **Law:** Obligations imposed by legislation.

Example: Paying taxes.

❖ **Contracts:** Obligations arising from agreements.

Example: Delivering goods under a sales contract.

❖ **Quasi-Contracts:** Unjust enrichment.

Example: Receiving a benefit by mistake and required to return it.

❖ **Delicts / Torts:** Civil wrongs requiring compensation.

Example: Damaging someone's property.

Key Concept: Obligations may be active (do something) or passive (refrain from doing something).

Scenario Example: Juan must pay the electricity bill (active) and cannot tamper with the meter (passive).

Breach of Contract and Remedies

➤ Breach of contract occurs when a party fails to fulfill their contractual obligations.
Examples of Breach: Seller fails to deliver goods Buyer refuses to pay One party delivers defective goods.

Legal Remedies:

Remedy	Explanation	Example
Damages	Monetary compensation for loss	Seller delivers damaged goods; buyer compensated
Specific Performance	Court orders party to fulfill obligation	Seller must deliver the laptop as agreed
Rescission	Contract is cancelled and parties restored to original position	Contract signed under fraud is annulled

Case Study: Juan orders 100 shirts from Maria for resale. Maria only delivers 50 shirts.
Remedies: Juan may claim damages for undelivered shirts or seek specific performance.

Examples in Daily Life

1. Buying goods in a store: Implied contract; you pay for what you buy.
2. Employment: Bilateral contract; employee works, employer pays salary.
3. Rental agreements: Express and bilateral; tenant pays rent, landlord provides housing.
4. Reward for lost items: Unilateral contract; reward given if condition met.

Discussion Questions / Exercises

1. Identify 5 contracts you encounter in your daily life. Specify their type (bilateral/unilateral, express/implied).
2. Discuss a real-life situation where a contract could be voidable.
3. Create a flowchart showing contract formation → obligation → breach → remedies.
4. Analyze this scenario: Juan ordered a laptop, but it arrived defective. Which remedies are available, and which is most appropriate?

Summary

- ❖ A contract is a legally binding agreement creating obligations.
- ❖ Essential elements: Consent, object, lawful cause, legal capacity.

- ❖ Types of contracts include bilateral, unilateral, express, implied, void, and voidable
- ❖ Obligations arise from law, contracts, quasi-contracts, and delicts.
- ❖ Breach of contract allows remedies such as damages, specific performance, or rescission.

Homework

1. Research a recent case in your country involving a breach of contract. Write a 1-page summary explaining: Parties involved Type of contract Breach committed Remedy applied
2. Draw a table of 5 personal contracts you have (e.g., phone plan, subscription) and classify them by type and obligations.

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