

# The nature of contracts

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Commercial transactions class

Lecture 1.01

## Introduction

### Setting

- Contracts are **enforceable** promises
- Contract principles facilitate commerce
- Even the U.S. Constitution references contracts
- Contract law is primarily state law

### Objective

By the end of this lecture, you should be able to:

1. Identify the basic definition and purpose of a contract
2. List the basic elements of a valid contract
3. Distinguish various ways that contracts can be classified

## The nature and application of contracts

Contracts allow businesses to protect expectations and manage risks

- Contracts are meant to satisfy the parties' expectations
- Every contract is premised on the notion that the parties will engage in good faith dealing
- Every contract contains a duty of good faith

Contracts are legally binding agreements between two or more parties

- Typically involve an exchange of goods or services for money
- A contract represents a promise between parties to fulfill certain obligations
- For a contract to be legally valid, it must meet certain requirements

A contract is a **legally enforceable promise**

- Contracts provide a framework for parties to engage in transactions with trust and confidence
- They allow for communication of expectations and provide legal recourse if a party fails to fulfill their obligations
- Contracts are therefore essential to the functioning of modern society

## Contract requirements

A valid contract has required elements

- The agreement of all parties (mutual assent)
  - Offer and acceptance

- The exchange of something of value (consideration)

## A contract must meet other requirements

- Legality
  - Purpose of the contract must be legal
- Capacity
  - Both parties must have legal standing to enter into a contract

## Contracts can be categorized in different ways

### Contracts may be classified according to status

- Valid
  - contract that satisfies all required elements
- Void
  - an agreement which lacks a required element of a valid contract
- Voidable
  - an agreement in which one party has the right to cancel an otherwise valid contract

### Some contracts may be unenforceable

- a valid contract that cannot be enforced by the court because of a legal defense
  - for instance, the statute of limitations may have run

### Contracts may be classified by contracting system

- Common law
  - contracts for services or real estate (for example, employment contracts or rental agreements)
- Uniform Commercial Code (UCC)
  - contracts for the sale goods
- Contracts for the International Sale of Goods (CISG)
  - contracts for the sale of goods between residents of different countries

### Contracts may be classified by level of contractual commitment

- Bilateral contract
  - legal detriment is incurred through mutual promises (a promise for a promise)
- Unilateral contract
  - one party's legal detriment arises from its action or inaction (a promise for an action)

### Contracts may be classified by level of explicitness

- Explicit
  - terms are explicitly defined by parties, either orally or in writing
    - Statute of frauds requires some contracts to be in writing to be enforceable

- Businesses generally favor explicit written contracts to minimize risk.
- Implied
  - terms are implied by the parties' behavior or through custom

## Conclusion

What did we learn today?

- Contracts allow businesses to protect expectations and manage risks
- A valid contract must have certain elements
- Contracts can be categorized in different ways