

An elderly aunt owned two cars, a new one and an old one. She offered to sell the old car to her niece for \$500. Knowing that her aunt owned two cars, the niece tried to trick the aunt into selling the new car by drawing up a contract that stated: "I agree to sell my nicest car to my niece for \$500." The aunt noticed the niece's trick but signed the contract anyway, believing that it could not possibly refer to her new car, which was worth more than \$30,000. The niece attempted to pay the aunt \$500 several days later. However, the aunt refused to take the money or part with either car, stating that she had changed her mind in light of the niece's dirty trick.

If the niece sues the aunt for breach of contract, what will the court likely find?

- A. The aunt is contractually obligated to sell her new car for \$500.
- B. The aunt is contractually obligated to sell her old car for \$500.
- C. The aunt can elect to sell either car for \$500 or void the contract.
- D. There was no contract.

Explanation:

Contract formation generally occurs when both parties objectively manifest their assent to an exchange—eg, when the aunt and niece signed a written contract for the sale of the aunt's "nicest car." But sometimes there is a **misunderstanding** because the parties have attached **different meanings** to the **same material term**. This **prevents contract formation** under two circumstances:

- **Neither party knows** or has reason to know of the misunderstanding.
- **Both parties know** or have reason to know of the misunderstanding.

The result is different when only *one* party knows or has reason to know of the misunderstanding. In that case, a valid contract is formed, and the *unknowing* party's meaning of the term controls.

Here, the aunt believed that "nicest car" could not possibly refer to her new car and so understood the term to mean her old car. The niece knew this because the aunt had offered to sell her old car—not her new car. However, the niece intended "nicest car" to mean the aunt's new car. The aunt knew this because she noticed the niece's trick. Therefore, *both* parties knew of the misunderstanding, and the court will likely find that there was no contract.

(Choices A & B) Had the *niece* been unaware of the misunderstanding, her meaning ("new car") would control and the aunt would have been obligated to sell her new car. Alternatively, had the *aunt* been unaware of the misunderstanding, her meaning ("old car") would control and she would have been obligated to sell her old car. But since *both* parties knew of the misunderstanding, there was no contract.

(Choice C) A misunderstanding may prevent contract formation (as seen here), but it is never grounds to void (ie, cancel) a contract.

Educational objective:

A misunderstanding occurs when the contracting parties attach different meanings to the same material term. This prevents contract formation when neither OR both parties know or have reason to know of the misunderstanding.

References

- Restatement (Second) of Contracts § 20 (Am. Law Inst. 1981) (effect of misunderstanding).

Misunderstanding

