

On April 1, a carpenter contracted with a homeowner to remodel the homeowner's home for \$10,000, the contract price to be paid on completion of the work.

On May 29, relying on his expectation that he would finish the work and have the homeowner's payment on June 1, the carpenter contracted to buy a car under the following terms: "\$10,000 in cash, if payment is made on June 1; if payment is made thereafter, the price is \$12,000."

The carpenter completed the work according to specifications on June 1 and demanded payment from the homeowner on that date. The homeowner, without any excuse, refused to pay. As a result, the carpenter became very excited, suffered a minor heart attack, and incurred related medical expenses of \$4,000. The reasonable value of the carpenter's services in remodeling the homeowner's home was \$13,000.

In an action by the carpenter against the homeowner, which of the following should be the carpenter's measure of recovery?

- A. \$10,000, the contract price.
- B. \$12,000, the contract price plus \$2,000, the bargain that was lost because the carpenter could not pay cash for the car on June 1.
- C. \$13,000, the amount the homeowner was enriched by the carpenter's services.
- D. \$14,000, the contract price plus \$4,000 for the medical expenses incurred because the homeowner refused to pay.

Explanation:

Consequential damages

Damages for losses stemming from nonbreaching party's special circumstances if breaching party:

knew of those special circumstances

OR

could have reasonably foreseen harm caused by breach

The primary goal of contract damages is to place the nonbreaching party in the same position it would have been in had the contract been performed. This includes **expectation damages** for the value of the breaching party's performance that was lost (eg, the **contract price**). But it only includes **consequential damages** for losses arising from the nonbreaching party's **special circumstances** if the breaching party:

knew about the nonbreaching party's **special circumstances** *or*

could have **reasonably foreseen the harm**, in light of the nonbreaching party's special circumstances, that would result from a breach.

Here, the homeowner refused to pay after the carpenter completed all the contractual work. As a result, the carpenter can recover the \$10,000 contract price for the work done (expectation damages). But the carpenter *cannot* recover \$2,000 for the loss of the bargain on the car or \$4,000 for the medical expenses incurred (consequential damages). That is because those losses were an *unforeseeable* result of the breach (**Choices B & D**). Therefore, the carpenter is entitled to \$10,000.

(Choice C) When a breaching party is unjustly enriched as a result of the breach, the nonbreaching party can seek restitution (ie, the value of the benefit conferred on the breaching party) as an *alternative* to expectation damages. However, this is not permitted when, as here, the work giving rise to the unjust-enrichment claim has been fully performed and the breaching party's only remaining obligation is payment of the contract price.

Educational objective:

The nonbreaching party is entitled to consequential damages for losses arising from its special circumstances only if the breaching party (1) knew about the special circumstances or (2) could have reasonably foreseen the harm, in light of the special circumstances, that would result from a breach.

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