



Commercial Law

Educational Objectives

After learning the content of this assignment, you should be able to:

1. Summarize the significance of each of the following in relation to the creation and performance of a contract for the sale of goods:
 - Uniform Commercial Code Article 2
 - Types of sales contracts
 - Formation of sales contracts
 - Breach of sales contracts and remedies for the breach
2. Summarize the significance of each of the following in the sale of goods that occurs at a distance or over time:
 - Uniform Commercial Code Article 3
 - Types of commercial paper
 - Transfer and negotiation
 - Holders in due course
3. Describe the creation and uses of the following:
 - Warehouse receipt
 - Bill of lading
4. Explain the following aspects of secured transactions in (or for) the sale of goods:
 - Uses of security interests
 - Forms of security interests
 - Attachment of security interests
 - Perfection of security interests
 - Rights of perfected and unperfected security interests



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Educational Objectives, continued

- Default
5. Explain how each of the following helps to ensure fair treatment of consumers in dealings with suppliers of goods and services:
- Fair trade laws
 - Consumer credit laws
 - Bankruptcy

Outline

- ▶ **Sales Contracts**
 - A. UCC Article 2
 - B. Types of Sales Contracts
 - C. Formation of Sales Contracts
 - 1. Offer
 - 2. Acceptance
 - 3. Consideration
 - 4. Statute of Frauds
 - D. Performance
 - 1. Title and Risk of Loss
 - 2. Delivery Terms
 - 3. Inspection
 - 4. Time for Delivery
 - 5. Conforming and Nonconforming Goods
 - 6. Express and Implied Warranties
 - E. Breach of Sales Contracts and Remedies
 - 1. Revocation of Acceptance
 - 2. Excuses for Nonperformance
 - 3. Seller's Remedies
 - 4. Buyer's Remedies
- ▶ **Negotiable Instruments**
 - A. UCC Article 3
 - B. Types of Commercial Paper
 - C. Transfer and Negotiation
 - 1. Primary and Secondary Liability
 - 2. Endorsements
 - D. Holders in Due Course
- ▶ **Documents of Title**
 - A. UCC Article 7
 - B. Documents of Title
 - 1. Warehouse Receipt
 - 2. Bill of Lading
 - 3. Delivery Order
- ▶ **Secured Transactions**
 - A. UCC Article 9
 - B. Forms of Secured Transactions
 - C. Forms of Collateral
 - D. Attachment
 - E. Perfecting a Security Interest
 - F. Rights of Perfected and Unperfected Security Interests
 - G. Satisfaction of a Secured Debt
 - H. Default
- ▶ **Consumer Protection Laws**
 - A. Fair Trade Laws
 - 1. Federal Trade Commission Act
 - 2. State Unfair Trade Practices Acts
 - 3. Magnuson-Moss Warranty Act
 - B. Consumer Credit Laws
 - 1. Truth in Lending Act
 - 2. Electronic Fund Transfer Act
 - 3. Fair Credit Reporting Act
 - 4. Equal Credit Opportunity Act
 - C. Bankruptcy
 - 1. Federal Bankruptcy Act
 - 2. Liquidation Proceedings

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tips

The SMART Online Practice Exams product contains a final practice exam. You should take this exam only when you have completed your study of the entire course. It will be your best indicator of how well prepared you are.



For each assignment, you should define or describe each of the Key Words and Phrases and answer each of the Review and Application Questions.

Educational Objective 1

Summarize the significance of each of the following in relation to the creation and performance of a contract for the sale of goods:

- Uniform Commercial Code Article 2
- Types of sales contracts
- Formation of sales contracts
- Breach of sales contracts and remedies for the breach

Key Words and Phrases

Statutes of fraud

Risk

COD (collect on delivery)

Implied warranty of merchantability

Implied warranty of fitness for a particular purpose

Implied warranty of title



Review Questions

- 1-1. Identify the type of transactions for which the Uniform Commercial Code (UCC) Article 2 applies.

- 1-2. Contrast unilateral contracts with bilateral contracts.

- 1-3. Describe the two situations under which an oral contract for the sale of goods for \$500 or more is enforceable.

- 1-4. Compare the costs paid by a seller with cost-insurance-freight (CIF) delivery terms to those paid in a free on board (FOB) place of shipment sale.



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- 1-5. Describe the two exceptions to the rule that a shipment of nonconforming goods constitutes a breach of contract.
- 1-6. Describe the remedy for a seller that discovers the buyer is insolvent once the goods are en route.

Educational Objective 2

Summarize the significance of each of the following in the sale of goods that occurs at a distance or over time:

- **Uniform Commercial Code Article 3**
- **Types of commercial paper**
- **Transfer and negotiation**
- **Holders in due course**

Key Words and Phrases

Uniform Commercial Code (UCC)

Primary liability

Secondary liability



Personal defense

Real defense

Review Questions

- 2-1. Describe the Uniform Commercial Code (UCC) requirements for an instrument to be negotiable.

- 2-2. Why is salability an essential characteristic for negotiable instruments?

- 2-3. How can the payee of a negotiable instrument negotiate it to another specific person?



2-4. Describe a holder in due course.

Application Question

2-5. Describe these endorsements found on separate instruments, on each of which John Doe is payee, and point out the liabilities, if any, incurred by John Doe:

a. Pay to the order of Howard Roe /s/ John Doe

b. For deposit /s/ John Doe

c. Pay to the order of Susan Coe without recourse /s/ John Doe



Educational Objective 3

Describe the creation and uses of the following:

- Warehouse receipt
- Bill of lading

Key Words and Phrases

Warehouse receipt

Bill of lading

Carrier

Bailment

Bailor

Bailee

Consignor

Consignee



Review Questions

3-1. Describe what is defined as a document of title under UCC 1-201 (b) (16).

3-2. Identify the information included on a warehouse receipt.

3-3. List the purposes served by a bill of lading.

Educational Objective 4

Explain the following aspects of secured transactions in (or for) the sale of goods:

- Uses of security interests
- Forms of security interests
- Attachment of security interests
- Perfection of security interests
- Rights of perfected and unperfected security interests
- Default

Key Words and Phrases

Collateral



Security interest

Pledge

Chattel

Perfected security interest

Constructive notice

Holder in due course

Lien

Review Questions

4-1. Describe the chattel mortgage form of secured transactions.



- 4-2. Identify the five general forms of collateral.

- 4-3. Describe the three requirements for an attachment to occur as a security interest in property.

- 4-4. Explain why a debtor should request a termination statement once a secured debt has been repaid.

- 4-5. Describe how a creditor could use the right to regain possession to foreclose on an unpaid debt.



Educational Objective 5

Explain how each of the following helps to ensure fair treatment of consumers in dealings with suppliers of goods and services:

- Fair trade laws
- Consumer credit laws
- Bankruptcy

Key Word or Phrase

Bankruptcy law

Review Questions

- 5-1. Describe the Federal Trade Commission (FTC) Act.
- Compare the FTC Act to the Sherman Anti-Trust Act.

- Does the FTC Act apply to the insurance industry?

- 5-2. Describe practices typically prohibited by state unfair trade practices acts.



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a. Compare state unfair trade practices acts with the FTC Act.

b. Describe state unfair trade practices acts specific to insurance.

5-3. Compare the Magnuson-Moss Act with the Uniform Commercial Code (UCC) provisions relating to warranties.

a. Compare provisions of the Magnuson-Moss Act with those of the UCC regarding implied warranties.

b. Why do manufacturers characterize warranties as limited warranties when they are essentially full warranties?

5-4. Describe the purpose of the Truth in Lending Act.



- a. Describe the Fair Credit Billing Act, an amendment to the Truth in Lending Act.

- b. Describe the Fair Debt Collection Practices Act, an amendment to the Truth in Lending Act.

5-5. Describe the two avenues of relief provided by bankruptcy law.

Application Question

- 5-6. John and Mary Doe apply for Chapter 7 bankruptcy relief and enter liquidation proceedings. What is the goal of their bankruptcy?
- a. List the parties to the bankruptcy proceeding.

 - b. John is halfway through the process of repaying federally guaranteed student loans for his MBA program. Is it likely that those loans will be discharged in the bankruptcy?

