

## PART II

### Test Bank

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<b>CHAPTER 1</b>	Introduction to Agency and Business Organizations .....	112
<b>CHAPTER 2</b>	Sole Proprietorships.....	114
<b>CHAPTER 3</b>	Partnerships .....	116
<b>CHAPTER 4</b>	Limited Partnerships.....	119
<b>CHAPTER 5</b>	Limited Liability Partnerships and Limited Liability Limited Partnerships .....	121
<b>CHAPTER 6</b>	Limited Liability Companies .....	123
<b>CHAPTER 7</b>	Corporations .....	125
<b>CHAPTER 8</b>	Incorporations.....	127
<b>CHAPTER 9</b>	The Corporate Organization .....	129
<b>CHAPTER 10</b>	The Corporate Financial Structure.....	131
<b>CHAPTER 11</b>	Public Corporations and Securities Regulations.....	133
<b>CHAPTER 12</b>	Mergers, Acquisitions, and Other Changes to the Corporate Structure .....	136
<b>CHAPTER 13</b>	Foreign Corporation Qualification.....	138
<b>CHAPTER 14</b>	Corporate Dissolution.....	140
<b>CHAPTER 15</b>	Employee Benefits and Employment Agreements .....	142

## CHAPTER 1

### Introduction to Agency and Business Organizations

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#### MULTIPLE CHOICE

- Agency is a legal relationship in which
  - the principal acts on behalf of the agent.
  - the principal becomes personally liable for all actions of the agent.
  - a written contract must specify all authority of the agent.
  - the agent acts for or represents the principal by the principal's authority.

ANS: **D**

- When used in relation to the agency relationship, the master
  - retains some control over his or her servant (employee).
  - gives his or her servant (employee) full discretion to act on the master's behalf.
  - hires the employee for a specific task for which the master is not responsible.
  - is not liable for any actions taken on his or her behalf by the servant (employee).

ANS: **A**

- A special type of power of attorney designed to continue for certain purposes even after the incapacity of the principal is referred to as a
  - special power of attorney.
  - will power of attorney.
  - durable power of attorney.
  - general power of attorney.

ANS: **C**

- An agency relationship may *not* be created
  - by express contract.
  - by conduct of the principal and agent.
  - without the principal's knowledge or consent.
  - by ratification.

ANS: **C**

- When the principal intentionally or negligently causes a third party to reasonably believe that an individual is acting as the principal's agent, and the third party relies on that belief, then
  - no agency relationship exists.
  - an express agency agreement is created.

- the purported agent assumes personal liability for his or her actions.
- an apparent agency may exist.

ANS: **D**

- An agent's duties to the principal include
  - the duty of loyalty.
  - the duty to act without compensation.
  - the duty to perform any tasks requested by the principal.
  - the duty to compensate the principal.

ANS: **A**

- The principal's duties to the agent do *not* include
  - the duty to compensate the agent as agreed on.
  - the duty to cooperate with the agent.
  - the duty to exercise reasonable care to avoid placing the agent in harm's way.
  - the duty to always put the agent's interests first.

ANS: **D**

- A principal is *not* liable for the torts of his or her agent if the
  - tort is committed by the agent acting in the scope of his or her employment by the principal.
  - agent's action is unrelated to the agency relationship.
  - principal is negligent or reckless in supervising the agent.
  - agent is acting under the principal's direction when committing the tort.

ANS: **B**

#### TRUE/FALSE

- Disputes concerning agency law are typically resolved under the contract or common law of the state where the agency was created.

ANS: **T**

- A power of attorney need not be put in writing.

ANS: **F**

11. Unlike most contracts, consideration need not be exchanged to form an agency relationship.  
ANS: T
12. An agency may be created by ratification when the principal accepts the benefits derived from the agent acting on his or her behalf.  
ANS: T
13. An apparent agency can be created by the actions of an apparent agent alone, without any action by the principal.  
ANS: F
14. The doctrine of *respondeat superior* applies to the relationship between an employer and employee and *not* to the relationship between an employer and an independent contractor.  
ANS: T
15. Under the doctrine of *respondeat superior*, an agent is *not* responsible for torts committed while working for an employer.  
ANS: F
16. Partners act as agents for the partnership and the other partners.  
ANS: T