

Chapter 7 Lecture Notes: Legal and ethical nature of business

- Law is the bare minimum that we require you abide by: laws are complex, different from place to place, they change, and they are NOT perfect
- Law: statutory law, administrative rules and decisions, common law
 - o **Statutory law:** laws enacted by votes of the people, or by representatives
 - o **Administrative rules and decisions:** laws written by regulatory agencies, empowered by the government, regulate the behavior
 - o **Common law:** created through court system, case law; interpreted laws to individual situations (settling disputes)
- Torts: a wrongful act that injures someone
 - o Intentional: acts such as fraud
 - o Unintentional: negligence
- Civil vs. Criminal Law
 - o **Civil:** breaches of duty between two parties, such as businesses or people, defrauding on a contract
 - Plaintiff vs. defendant
 - **Compensatory damages vs. exemplary damages**
 - o **Criminal:** breaches of duty to society, shooting someone
- **Statute of Limitations:** certain wrongful acts must be proven within a stated period of time.
- **Mediator:** negotiate a settlement
- **Arbitration:** when an independent party reviews the facts and makes a decision
- US Courts: Federal courts and state courts: deal with **different levels of trials** (state or federal); place where it is decided whether or not an illegal act took place
 - o Judge oversees and manage the court, juries decide guilt or innocence
 - **COURT MUST HAVE JURISDICTION!** = Authority to resolve a dispute
- **Federal courts:** deal with cases between two or more different states, and deal with cases involving federal law
 - o **First tried in a district or special court**
 - o **Court of Appeal:** second level of federal courts; 11 different sections in the US; if the judgment of a trial is still questioned, the case goes to court of appeal.
 - o **US Supreme Court:** 3rd and highest level of federal court; can choose not to hear a case
- **State Courts:** deal with **intrastate disputes**; each state has its own court system
 - o State supreme court: **highest level** of state court

- o Appellate Courts: 3rd level of state courts; if either party doesn't agree on the decision made by the inferior or trial courts, they can appeal to the appellate court; judges make decisions
- o **Trial Courts:** 2nd level of state courts; also called circuit courts, superior courts, district courts; use judges and juries to decide disputes.
- o **Inferior Courts:** 1st level of state courts; judge hears the facts and makes a decision
- Laws that affect business:
 - o **Contracts-** when two or more parties enter into an agreement; governed by **Uniform Commercial Code**; **oral** (aren't legitimate) v. **written** contracts; **statutes of frauds:** it is clearly stated in these statutes what contract must be in writing to be enforceable by law in that particular state! (time limits)
 - **Expressed contract:** details of the contract are clearly stated and agreed upon by parties involved
 - **Implied contract:** circumstances and facts imply that a contract exists (ex: auto mechanic to repair your car)
 - o **Property-** item of value that a person or business owns
 - **real** (land and items permanently attached to the land) versus **personal** (cars, inventory, movable machines)
 - **tangible** (equipment, land, buildings) versus **intangible** (copywrites, patents, trademarks, and financial securities)
 - **private** versus **public**
 - **leasing; eminent domain:** if you own something privately and the public wants it; you'll get compensated for market value
 - o **Sales:** transfers the ownership of property
 - **Warranty:** seller's promise or guarantee regarding the property's quality and quantity. It can be **implied-** food or **expressed-** TV; very expressed for what is warranted and what isn't);
 - **Doctrine of strict Liability:** holds a seller liable for damages, incurred by the buyer or other parties, when the product was unreasonably unsafe (ex: unsafe food)
 - o **Regulation:** regulate business activities
 - **antitrust laws:** foster competition by preventing business from restraining and thus controlling trade
 - Sherman antitrust act was amended by the Clayton Act and Robinson-Patman act
 - **Illegal acts:** Price fixing & price discrimination, monopolies, oligopolies
 - **Consumer Protection Laws:** Federal Trade Commission protects consumers

- **Truth-in-lending laws:** inform a borrower of ALL the terms of the debt (including interest rate).
- **Equal Opportunity Act:** no discrimination based on race, gender, religion, sex, etc
- **Fair Debt Collection Practices Act:** prohibits lenders from using abusive collection tactics ex: harassment
- **Gramm-Leach-Bliley Act:** protects borrowers privacy
- **Fair Credit Reporting Act:** ensures credit information is accurate
- **Consumer Protection Safety Act:** created Consumer Protection Safety Commission that sets product safety standards
- **Environmental Laws**
 - **Environmental protection agency:** deal with protecting the environment against the production that businesses submit
- **Laws dealing with property safety**
 - Consumer protection safety act: wont allow sales of dangerous products
 - Consumer protection safety commission
- o **Agency & Employment:**
 - Employees as agents: **principal are their bosses**
 - **Indemnification:** protects employee from doing things that are really illegal but someone made them do it
 - **Fiduciary:** one who is entrusted with responsibility and expected to act in the best interest of the business ex: responsibility for airplane
 - Employment Law: fair labor standards act: minimum wage, child labor isn't allowed; worker safety; workman's compensation: gives money for injuries, leaves of absence
- o **Financial Capital:**
 - **Debt and Liability: borrowed money**
 - **Financial instrument:** documents that represent debt and equity
 - **stock certificate:** money an owner uses to create the business ; debt is contractual
 - How does the business get debt and equity?
 - **Debt:** gets it by using **financial intermediaries** or **capital markets (doesn't use a financial intermediary)**
 - **Owner's equity:** a business gets money from owners by selling stock in capital markets
- o **Special Issues: Debt**
 - Commercial paper: financial substitute for money: promise to pay in the future