CHAPTER 9

Legal Capacity to Contract

9-1 Contractual Capacity of Individuals and Organizations

9-2 Limits on the Rights of Those Without Capacity
Contractual Capacity of Individuals and Organizations

GOALS

- Identify parties who lack contractual capacity
- Explain the role of capacity in organizations
WHAT IS CAPACITY?

- Contractual Capacity is defined by the law to mean the ability to understand the consequences of a contract.

contracts with minors

- Minors are defined as individuals under the age of majority to contract. (18 in most states).

- Minority, or the state of being below the age of majority, ends the DAY BEFORE the birthday of the age legally set as the age of majority.

- What’s Your Verdict? Page 161
Protections for Those Who Lack Capacity

- The contracts of most parties who lack capacity are considered voidable.

Protection:
- Disaffirmance
- Purchases of necessaries
- Must pay a reasonable price
Minors

- Contracts by minors are considered voidable
- Ratification cuts off disaffirmance.
- Bound if emancipated.
  - Sever child/parent relationship
  - States differ in their treatment of emancipated minors.
Mentally Incapacitated
- defined as a person that lacks the ability to understand the consequences of his or her contracts.
- All contracts are void.

The intoxicated
- Using legal or illegal drugs.
- Does the person have the ability to understand the consequences of his or her contracts?
- Intoxication is typically voluntary

Intoxication and incapacitation
WHO HAS CONTRACTUAL CAPACITY IN ORGANIZATIONS?

- Scope of authority in the business
- Employer grants authority to employee
- Assumption of authority based on job title

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9-2 Limits on the Rights of Those Without Capacity

GOALS

- Recognize the time frame during which a contract can be disaffirmed
- Identify contracts that cannot be disaffirmed
- Discuss the effects of misrepresentation of age on contractual responsibilities
WHEN CAN DISAFFIRMANCE OCCUR AND WHAT MUST BE DONE AT THAT TIME?

- A person lacking capacity can disaffirm a contract for necessaries or non-necessaries:
  - Any time while still under the incapacity
  - Within a reasonable time after attaining capacity
WHAT MUST BE DONE UPON DISAFFIRMANCE?

- Loss of value
- Obligations of party with capacity
DISAFFIRMANCE TIMELINE

Rights of Minors in Contracts for Goods and Services that Are Not Necessaries

- **Time Majority or Capacity Attained**
- **Period of Minority**
  - Right to disaffirm
- **Period of Majority**
  - Right to disaffirm lasts for a reasonable length of time after majority is attained.
  - Ratification or elapsing of a reasonable period for avoidance after entering majority cuts off the right to disaffirm.
CONTRACTS THAT CANNOT BE DISAFFIRMED

- Court-approved contracts
- Major commitments
- Banking contracts
- Insurance contracts
- Work-related contracts
- Sale of realty
- Apartment rental
CONTRACTUAL EFFECT OF MISREPRESENTING AGE

- Other party to the contract may collect damages
- Minor still may be able to disaffirm contract