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Name:_____ Class:_____ Date:_____

Chapter 01: Law and Legal Reasoning

1. In the United States, the law consists of written laws and court decisions.
   a. True
   b. False

ANSWER: True

2. All laws establish rights, duties, and privileges that are consistent with the values and beliefs of a society or its ruling group.
   a. True
   b. False

ANSWER: True

3. The legal rules that control the actions of a business, reflect past and current thinking about how similar businesses should and should not act.
   a. True
   b. False

ANSWER: True

4. The study of business law does *not* involve an ethical dimension.
   a. True
   b. False

ANSWER: False

5. Compartmentalizing the law into discrete topics indicates that each business transaction is subject to only one specific area of the law.
   a. True
   b. False

ANSWER: False

6. A constitution is a primary source of law.
   a. True
   b. False

ANSWER: True

7. A statute is a secondary source of law.
   a. True
   b. False

ANSWER: False

8. A secondary source of law is one that clarifies a source of primary law.
   a. True
   b. False

ANSWER: True

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Chapter 01: Law and Legal Reasoning

9. Legal encyclopedias, law review articles, and treatises are sources of primary law.
   a. True
   b. False

ANSWER: False

10. Even if it conflicts with the U.S. Constitution, a state constitution is supreme within the borders of that state.
   a. True
   b. False

ANSWER: False

11. The U.S. Constitution is the basis of all law in the United States.
   a. True
   b. False

ANSWER: True

12. Only if a state legislature passes a statute, does that law become part of the relevant state code of laws.
   a. True
   b. False

ANSWER: True

13. A citation is a regulation enacted by a city or county legislative body.
   a. True
   b. False

ANSWER: False

14. A local ordinance commonly has to do with a matter concerning only a local governing unit.
   a. True
   b. False

ANSWER: True

15. A federal statute applies to all states.
   a. True
   b. False

ANSWER: True

16. The UCC is a uniform law that most states have adopted to govern commercial transactions.
   a. True
   b. False

ANSWER: False

17. Federal, state, and local governments may establish an administrative agency to perform a specific function.
   a. True

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Chapter 01: Law and Legal Reasoning

b. False

ANSWER: True

18. Independent regulatory agencies are *not* subject to the authority of the President.
    a. True
    b. False

ANSWER: False

19. Rules issued by administrative agencies affect almost every aspect of the operations of a business.
    a. True
    b. False

ANSWER: True

20. Federal agency regulations take precedence over conflicting state regulations.
    a. True
    b. False

ANSWER: True

21. An administrative legislative rule is *not* legally binding on businesses.
    a. True
    b. False

ANSWER: False

22. The Administrative Procedure Act (APA) imposes strict procedural requirements that agencies must follow in legislative rulemaking and other functions.
    a. True
    b. False

ANSWER: True

23. If an agency fails to follow the rulemaking procedures imposed by the Administrative Act, the resulting rule may *not* be binding.
    a. True
    b. False

ANSWER: True

24. Common law is a body of law developed from judge's decisions in legal controversies.
    a. True
    b. False

ANSWER: True

25. Case law governs all areas of business not covered by statutory or administrative law.
    a. True

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b. False

ANSWER: True

26. Under the doctrine of *stare decisis*, judges are encouraged to follow the precedents established within their jurisdictions.

a. True

b. False

ANSWER: False

27. Controlling precedents are binding authorities.

a. True

b. False

ANSWER: True

28. A court might look at fairness, social values and customs, and public policy in deciding a case if there is no precedent.

a. True

b. False

ANSWER: True

29. In the IRAC method of case-briefing, the A stands for analysis.

a. True

b. False

ANSWER: False

30. There is one right answer to every legal question.

a. True

b. False

ANSWER: False

31. Because courts of law and equity have merged, there is no distinction between the two any longer.

a. True

b. False

ANSWER: True

32. Courts will *not* grant an equitable remedy unless the remedy at law is adequate.

a. True

b. False

ANSWER: False

33. Typically, in a civil case, a private party sues another private party who has failed to comply with a duty.

a. True

b. False

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Chapter 01: Law and Legal Reasoning

ANSWER: True

34. In a criminal case, the object is to obtain a remedy.
    a. True
    b. False

ANSWER: False

35. Civil law has to do with wrongs committed against society for which society demands redress.
    a. True
    b. False

ANSWER: False

36. The basis of a civil law system is a written code of laws.
    a. True
    b. False

ANSWER: True

37. International law derives from a variety of sources, including the laws of individual nations.
    a. True
    b. False

ANSWER: True

38. Power, Inc., is a corporation engaged in the business of producing, refining, and distributing energy resources. With respect to the firm's managers, legal concepts can be useful for Power's
    a. accounting and finance manager.
    b. human resources manager.
    c. marketing manager.
    d. silent partner.

ANSWER: d

39. An example of a primary source of law would be:
    a. legal encyclopedias.
    b. official comments to statutes.
    c. Constitutional law.
    d. legal treatises.

ANSWER: c

40. *Secondary* sources of law include
    a. state constitutions.
    b. law review articles.
    c. laws passed by local governing bodies.
    d. regulations created by administrative agencies.

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Chapter 01: Law and Legal Reasoning

ANSWER: b

41. A constitution sets forth the government's general organization's:
    a. limits, but not powers.
    b. limits and powers.
    c. lack of limits or powers.
    d. powers, but not limits.

ANSWER: b

42. The basis of all law in the United States is
    a. the U.S. Constitution.
    b. laws passed by Congress.
    c. case law.
    d. regulations created by administrative agencies.

ANSWER: a

43. The _____ to the U.S. Constitution reserves to the states, all powers not granted to the federal government.
    a. 1st amendment
    b. 14th amendment
    c. 10th amendment
    d. bill of rights

ANSWER: c

44. Laws enacted by legislative bodies at any level of government make up the body of law generally referred to as:
    a. statutory law.
    b. the basis of all law in the United States.
    c. the supreme law of the land.
    d. uniform law.

ANSWER: a

45. On a challenge to a provision in a state constitution, that conflicts with a provision in the U.S. Constitution:
    a. neither provision will be enforced.
    b. both provisions will be enforced.
    c. the state provision will be enforced only within the borders of that state.
    d. the federal provision will be enforced.

ANSWER: d

46. The Montana legislature enacts a state law that violates the U.S. Constitution. This law can be enforced by:
    a. no one.
    b. the federal government only.

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c. the state of Montana only.
d. the United States Supreme Court only.

ANSWER: a

47. The Uniform Commercial Code provides a set of rules governing
a. among the states.
b. between the states and the federal government.
c. in countries that were once colonies of Great Britain.
d. in international markets.

ANSWER: a

48. The Uniform Commercial Code provides a set of rules governing:
a. commercial transactions.
b. state legislative adoptions.
c. congressional procedures.
d. administrative processes.

ANSWER: a

49. Administrative law includes:
a. all laws that affect business operations.
b. the rules, orders, and decisions of a government agency.
c. model laws developed by the National Conference of Commissioners.
d. laws enacted by a legislative body.

ANSWER: b

50. The _____, for example, is an agency within the U.S. Department of Health and Human Services.
a. *Uniform Commercial Code*
b. *Internal Revenue Service*
c. *Securities and Exchange Commission*
d. *Food and Drug Administration*

ANSWER: d

51. The Food and Drug Administration (FDA) is an executive agency. As an executive agency, the FDA is subject to the authority of:
a. no government official or entity.
b. the President.
c. Congress.
d. the U.S. Attorney General.

ANSWER: b

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Chapter 01: Law and Legal Reasoning

52. A main function of an administrative agency is _____.
   a. overruling previous cases
   b. rulemaking
   c. hearing cases
   d. enforcing the law

ANSWER: b

53. Legislative rulemaking under the APA, typically involves all but which one of the following three steps:
   a. a comment period
   b. notice of proposed rulemaking
   c. public hearing
   d. final rule

ANSWER: c

54. Administrative agencies also issue _____ that are not legally binding, but simply indicate how an agency plans to interpret and enforce its statutory authority.
   a. statutes
   b. codes
   c. interpretive rules
   d. case law

ANSWER: c

55. The Environmental Protection Agency (EPA) discovers that Fish Farm Inc. has violated an EPA regulation. If no settlement is reached, the EPA can:
   a. issue a formal complaint.
   b. do nothing.
   c. take the matter to the U.S. Supreme Court.
   d. immediately impose sanctions.

ANSWER: a

56. Home Care Company is charged with violating a rule of the Social Security Administration. Most likely, Home Care will be required to appear at a hearing presided over by:
   a. a federal appellate court judge.
   b. a federal district court judge.
   c. an administrative law judge.
   d. a U.S. Marshal.

ANSWER: c

57. Common law rules develop from:
   a. principles underlying judges' decisions in actual controversies.
   b. regulations issued by administrative agencies.

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c. statutes enacted by Congress and the state legislatures.

d. uniform laws drafted by legal scholars.

ANSWER: a

58. *Stare decisis* is best defined as:

a. a doctrine under which judges follow established precedents.

b. the authority to decide a specific dispute.

c. a judicial proceeding to redress a wrong.

d. a situation giving a person a right to begin a judicial proceeding.

ANSWER: a

59. A *precedent* is:

a. the chief executive officer of the United States and their authority.

b. a court decision that is used as an example for deciding subsequent cases with similar facts.

c. a lawsuit in which a number of persons join together for ease of filing.

d. the fundamental procedure by which the government exercises its authority.

ANSWER: b

60. Each court has a jurisdiction. *Jurisdiction* is best defined as:

a. a doctrine that follows established precedents.

b. the geographic area in which a court has the power to apply the law.

c. a judicial proceeding to redress a wrong.

d. a situation giving a person a right to begin a judicial proceeding.

ANSWER: b

61. Applying the relevant rule of law to the facts of a case requires a judge to find previously decided cases that, in relation to the case under consideration, are

a. as different as possible.

b. as similar as possible.

c. at odds.

d. *exactly identical.*

ANSWER: b

62. There are no precedents on which the court deciding the case *Algorithm Corp. v. Beta Bytes, Inc.,* can base its decision. The court can consider, among other things,

a. the opinions of the friends and relatives of the judge.

b. *the results of a poll of those in the courtroom.*

c. government policy based on widely held social values and customs.

d. opinions of courts from other jurisdictions.

ANSWER: c

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Chapter 01: Law and Legal Reasoning

63. In *Beto v. Car Dealership*, a state supreme court held that a minor could cancel a contract for the sale of a car. Now a trial court in the same state is deciding *Dora v. Even Steven Autos, Inc.,* a case with similar facts. Under the doctrine of *stare decisis*, the trial court is likely to:

a. allow the minor to cancel the contract.
b. not follow the decision of the *Beto* case.
c. order the minor to cancel the contract.
d. require the minor to fulfill the contract.

ANSWER: a

64. In the case of *Sales Corp. v. Transport Co.*, the court may rule contrary to a precedent if the court decides that the precedent:

a. is incorrect or inapplicable.
b. is not in line with the judge's personal values.
c. would lead to unintended consequences.
d. would not bring about the result the judge prefers.

ANSWER: a

65. A _____ is a legal authority that a court may consult for guidance, but that is not binding on the court.

a. legal authority
b. applicable statute
c. persuasive authority
d. reference authority

ANSWER: c

66. In the IRAC method of case briefing the R stands for:

a. remedy
b. rule of law
c. reference
d. restitution

ANSWER: b

67. Federico and Gwen are involved in a court proceeding to enforce a right. This is:

a. an action.
b. *stare decisis*
c. an injunction.
d. a remedy.

ANSWER: a

68. In a suit against Karen, Luke obtains an *injunction.* This is:

a. an order to do or refrain from doing a certain act.
b. a departure from precedent.

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c. a payment of damages or money.
d. the cancellation of a contract.

ANSWER: a

69. At one time, a court of law could grant as a remedy only:
a. monetary damages.
b. an order to perform a contract.
c. a judicial proceeding for resolution of a dispute.
d. an injunction.

ANSWER: a

70. _____ is law that has to do with wrongs committed against society for which society demands redress.
a. Civil law
b. Statutory law
c. Bill of Rights
d. Civil law

ANSWER: d

71. In a civil case, the object is to:
a. resolve a dispute to the satisfaction of all concerned parties.
b. take coercive action against a violating party.
c. punish a wrongdoer to deter others from similar actions.
d. obtain a remedy to compensate the injured party.

ANSWER: d

72. If a nation violates international law then _____ , will be the one to enforce any violation
a. the U.S. Supreme Court
b. the Uniform Commercial Code
c. no one can enforce it
d. the other nations

ANSWER: d

73. Distinguish between primary and secondary sources of law and give specific examples of each.

ANSWER: There are numerous sources of American law. A source that establishes the law on a particular issue is called a primary source of law. Primary sources include the following:
• The U.S. Constitution and the constitutions of the various states.
• Statutory law—including laws passed by Congress, state legislatures, and local governing bodies.
• Regulations created by administrative agencies, such as the federal Food and Drug Administration.
• Case law (court decisions).
We describe each of these important primary sources of law in the following pages. (See

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the appendix at the end of this chapter for a discussion of how to find statutes, regulations, and case law.)

A secondary source of law is a book (or article) that summarizes and clarifies a primary source of law. Legal encyclopedias, compilations (such as *Restatements of the Law*, which summarize court decisions on a particular topic), official comments to statutes, treatises, articles in law reviews published by law schools, and articles in other legal journals are examples of secondary sources of law. Courts often refer to secondary sources of law for guidance in interpreting and applying the primary sources of law discussed here.

74. What is the doctrine of *stare decisis*? In the American legal system, how is it applied, and what is its effect?

ANSWER: In a common law legal system, past judicial decisions are binding in current disputes with similar facts. This feature of common law, which is the basis of the American legal system, is unique, because unlike the law in other legal systems, it is judge-made law. Within the common law system, when possible, judges attempt to be consistent and to base their decisions on the principles suggested by earlier cases. The body of principles and doctrines that form the common law emerged over time as judges applied the principles announced in earlier cases to subsequent legal controversies.

The practice of deciding cases with reference to former decisions (or precedents)—the cornerstone of the American legal system—is called the doctrine of *stare decisis*. Under this doctrine, judges are obligated to follow the precedents established within their jurisdictions. This helps courts to be more efficient and makes the law more stable and predictable.

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