

Test Information
Guide:
College-Level
Examination
Program[®]

2015-16

Introductory
Business Law

CLEP TEST INFORMATION GUIDE FOR INTRODUCTORY BUSINESS LAW

History of CLEP

Since 1967, the College-Level Examination Program (CLEP®) has provided over six million people with the opportunity to reach their educational goals. CLEP participants have received college credit for knowledge and expertise they have gained through prior course work, independent study or work and life experience.

Over the years, the CLEP examinations have evolved to keep pace with changing curricula and pedagogy. Typically, the examinations represent material taught in introductory college-level courses from all areas of the college curriculum. Students may choose from 33 different subject areas in which to demonstrate their mastery of college-level material.

Today, more than 2,900 colleges and universities recognize and grant credit for CLEP.

Philosophy of CLEP

Promoting access to higher education is CLEP's foundation. CLEP offers students an opportunity to demonstrate and receive validation of their college-level skills and knowledge. Students who achieve an appropriate score on a CLEP exam can enrich their college experience with higher-level courses in their major field of study, expand their horizons by taking a wider array of electives and avoid repetition of material that they already know.

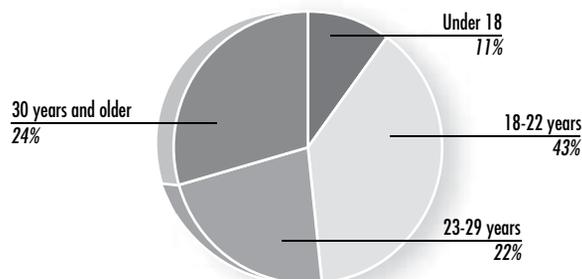
CLEP Participants

CLEP's test-taking population includes people of all ages and walks of life. Traditional 18- to 22-year-old students, adults just entering or returning to school, high-school students, home-schoolers and international students who need to quantify their knowledge have all been assisted by CLEP in earning their college degrees. Currently, 59 percent of CLEP's National (civilian) test-takers are women and 46 percent are 23 years of age or older.

For over 30 years, the College Board has worked to provide government-funded credit-by-exam opportunities to the military through CLEP. Military service members are fully funded for their CLEP exam

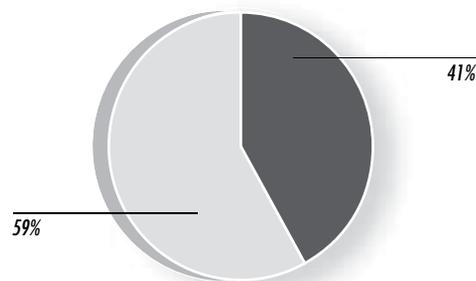
fees. Exams are administered at military installations worldwide through computer-based testing programs. Approximately one-third of all CLEP candidates are military service members.

2014-15 National CLEP Candidates by Age*



* These data are based on 100% of CLEP test-takers who responded to this survey question during their examinations.

2014-15 National CLEP Candidates by Gender



Computer-Based CLEP Testing

The computer-based format of CLEP exams allows for a number of key features. These include:

- a variety of question formats that ensure effective assessment
- real-time score reporting that gives students and colleges the ability to make immediate credit-granting decisions (except College Composition, which requires faculty scoring of essays twice a month)
- a uniform recommended credit-granting score of 50 for all exams
- “rights-only” scoring, which awards one point per correct answer
- pretest questions that are not scored but provide current candidate population data and allow for rapid expansion of question pools

CLEP Exam Development

Content development for each of the CLEP exams is directed by a test development committee. Each committee is composed of faculty from a wide variety of institutions who are currently teaching the relevant college undergraduate courses. The committee members establish the test specifications based on feedback from a national curriculum survey; recommend credit-granting scores and standards; develop and select test questions; review statistical data and prepare descriptive material for use by faculty (*Test Information Guides*) and students planning to take the tests (*CLEP Official Study Guide*).

College faculty also participate in CLEP in other ways: they convene periodically as part of standard-setting panels to determine the recommended level of student competency for the granting of college credit; they are called upon to write exam questions and to review exam forms; and they help to ensure the continuing relevance of the CLEP examinations through the curriculum surveys.

The Curriculum Survey

The first step in the construction of a CLEP exam is a curriculum survey. Its main purpose is to obtain information needed to develop test-content specifications that reflect the current college curriculum and to recognize anticipated changes in the field. The surveys of college faculty are conducted in each subject every few years depending on the discipline. Specifically, the survey gathers information on:

- the major content and skill areas covered in the equivalent course and the proportion of the course devoted to each area
- specific topics taught and the emphasis given to each topic
- specific skills students are expected to acquire and the relative emphasis given to them
- recent and anticipated changes in course content, skills and topics
- the primary textbooks and supplementary learning resources used
- titles and lengths of college courses that correspond to the CLEP exam

The Committee

The College Board appoints standing committees of college faculty for each test title in the CLEP battery. Committee members usually serve a term of up to four years. Each committee works with content specialists at Educational Testing Service to establish test specifications and develop the tests. Listed below are the current committee members and their institutional affiliations.

Patricia S. Wall, <i>Chair</i>	Middle Tennessee State University
Debra Burke	Western Carolina State University
Deborah Kemp	California State University — Fresno

The primary objective of the committee is to produce tests with good content validity. CLEP tests must be rigorous and relevant to the discipline and the appropriate courses. While the consensus of the committee members is that this test has high content validity for a typical introductory Business Law course or curriculum, the validity of the content for a specific course or curriculum is best determined locally through careful review and comparison of test content, with instructional content covered in a particular course or curriculum.

The Committee Meeting

The exam is developed from a pool of questions written by committee members and outside question writers. All questions that will be scored on a CLEP exam have been pretested; those that pass a rigorous statistical analysis for content relevance, difficulty, fairness and correlation with assessment criteria are added to the pool. These questions are compiled by test development specialists according to the test specifications, and are presented to all the committee members for a final review. Before convening at a two- or three-day committee meeting, the members have a chance to review the test specifications and the pool of questions available for possible inclusion in the exam.

At the meeting, the committee determines whether the questions are appropriate for the test and, if not, whether they need to be reworked and pretested again to ensure that they are accurate and unambiguous. Finally, draft forms of the exam are reviewed to ensure comparable levels of difficulty and content specifications on the various test forms. The committee is also responsible for writing and developing pretest questions. These questions are administered to candidates who take the examination and provide valuable statistical feedback on student performance under operational conditions.

Once the questions are developed and pretested, tests are assembled in one of two ways. In some cases, test forms are assembled in their entirety. These forms are of comparable difficulty and are therefore interchangeable. More commonly, questions are assembled into smaller, content-specific units called testlets, which can then be combined in different ways to create multiple test forms. This method allows many different forms to be assembled from a pool of questions.

Test Specifications

Test content specifications are determined primarily through the curriculum survey, the expertise of the committee and test development specialists, the recommendations of appropriate councils and conferences, textbook reviews and other appropriate sources of information. Content specifications take into account:

- the purpose of the test
- the intended test-taker population
- the titles and descriptions of courses the test is designed to reflect
- the specific subject matter and abilities to be tested
- the length of the test, types of questions and instructions to be used

Recommendation of the American Council on Education (ACE)

The American Council on Education's College Credit Recommendation Service (ACE CREDIT) has evaluated CLEP processes and procedures for developing, administering and scoring the exams. Effective July 2001, ACE recommended a uniform credit-granting score of 50 across all subjects (with additional Level-2 recommendations for the world language examinations), representing the performance of students who earn a grade of C in the corresponding course. Every test title has a minimum score of **20**, a maximum score of **80** and a cut score of **50**. However, these score values cannot be compared across exams. The score scale is set so that a score of **50** represents the performance expected of a typical C student, which may differ from one subject to another. The score scale is not based on actual performance of test-takers. It is derived from the judgment of a panel of experts (college faculty who teach an equivalent course) who provide information on the level of student performance that would be necessary to receive college credit in the course.

Over the years, the CLEP examinations have been adapted to adjust to changes in curricula and pedagogy. As academic disciplines evolve, college faculty incorporate new methods and theory into their courses. CLEP examinations are revised to reflect those changes so the examinations continue to meet the needs of colleges and students. The CLEP program's most recent ACE CREDIT review was held in June 2015.

The American Council on Education, the major coordinating body for all the nation's higher education institutions, seeks to provide leadership and a unifying voice on key higher education issues and to influence public policy through advocacy, research and program initiatives. For more information, visit the ACE CREDIT website at www.acenet.edu/acecredit.

CLEP Credit Granting

CLEP uses a common recommended credit-granting score of 50 for all CLEP exams.

This common credit-granting score does not mean, however, that the standards for all CLEP exams are the same. When a new or revised version of a test is introduced, the program conducts a standard setting to determine the recommended credit-granting score (“cut score”).

A standard-setting panel, consisting of 15–20 faculty members from colleges and universities across the country who are currently teaching the course, is appointed to give its expert judgment on the level of student performance that would be necessary to receive college credit in the course. The panel reviews the test and test specifications and defines

the capabilities of the typical A student, as well as those of the typical B, C and D students.* Expected individual student performance is rated by each panelist on each question. The combined average of the ratings is used to determine a recommended number of examination questions that must be answered correctly to mirror classroom performance of typical B and C students in the related course. The panel’s findings are given to members of the test development committee who, with the help of Educational Testing Service and College Board psychometric specialists, make a final determination on which raw scores are equivalent to B and C levels of performance.

*Student performance for the language exams (French, German and Spanish) is defined only at the B and C levels.

Introductory Business Law

Description of the Examination

The Introductory Business Law examination covers material that is usually taught in an introductory one-semester college course in the subject. The examination places not only major emphasis on understanding the functions of contracts in American business law, but it also includes questions on the history and sources of American law, legal systems and procedures, agency and employment, sales and other topics.

The examination contains approximately 100 questions to be answered in 90 minutes. Some of these are pretest questions that will not be scored. Any time candidates spend on tutorials or providing personal information is in addition to the actual testing time.

Knowledge and Skills Required

Questions on the test require candidates to demonstrate one or more of the following abilities in the approximate proportions indicated.

- Knowledge of the basic facts and terms (about 30–35 percent of the examination)
- Understanding of concepts and principles (about 30–35 percent of the examination)
- Ability to apply knowledge to specific case problems (about 30 percent of the examination)

The subject matter of the Introductory Business Law examination is drawn from the following topics. The percentages next to the main topics indicate the approximate percentage of exam questions on that topic.

5%–10% History and Sources of American Law/Constitutional Law

5%–10% American Legal Systems and Procedures

25%–35% Contracts

Meanings of terms
Formation of contracts
Capacity
Consideration
Joint obligations
Contracts for the benefit of third parties
Assignment/delegation
Statute of frauds
Scopes and meanings of contracts
Breach of contract and remedies
Bar to remedies for breach of contract
Discharge of contracts
Illegal contracts
Other

25%–30% Legal Environment

Ethics
Social responsibility of corporations
Government regulation/
administrative agencies
Environmental law
Securities and antitrust law
Employment law
Creditors' rights
Product liability
Consumer protection
International business law

10%–15% Torts

5%–10% Miscellaneous

Agency, partnerships and corporations
Sales

Sample Test Questions

The following sample questions do not appear on an actual CLEP examination. They are intended to give potential test-takers an indication of the format and difficulty level of the examination and to provide content for practice and review. Knowing the correct answers to all of the sample questions is not a guarantee of satisfactory performance on the exam.

Directions: Each of the questions or incomplete statements below is followed by five suggested answers or completions. Select the one that is best in each case.

1. The authority of a court to hear and decide cases is known as
 - (A) jurisdiction
 - (B) habeas corpus
 - (C) demurrer
 - (D) quo warranto
 - (E) stare decisis

2. In the landmark case of *Marbury v. Madison* (1803), the United States Supreme Court held that
 - (A) Chief Justice Marshall had exceeded his power under the United States Constitution in declaring an act of Congress unconstitutional
 - (B) Madison had properly withheld Marbury's appointment to be a justice
 - (C) Marbury was entitled to his appointment, and Madison was required to deliver it to him
 - (D) Marbury was entitled to his appointment, but the congressional statute granting the federal courts the power to compel Madison to deliver his appointment was unconstitutional
 - (E) Article III of the United States Constitution expressly granted the power of judicial review to the Supreme Court

3. A contract will be unenforceable if
 - (A) one party to the contract feels he or she has been taken advantage of
 - (B) a statute declares such a contract illegal
 - (C) performance becomes difficult
 - (D) public authorities voice disapproval of the contract
 - (E) the parties involved believe the contract to be illegal

4. Angela promises to work for Barbara during the month of July, and Barbara promises to pay Angela \$600 for her services. In this situation, what kind of contract has been made?
 - (A) Unilateral
 - (B) Executed
 - (C) Quasi
 - (D) Bilateral
 - (E) Bilingual

5. Which of the following is an essential element of fraud?
 - (A) Injury to a business interest
 - (B) Misrepresentation of a material fact
 - (C) Destruction of property
 - (D) Knowledge of the consequences of an act
 - (E) Mistake about the identity of the subject matter

6. Clyde received the following letter from Joe: “I will sell you the books you examined yesterday for \$10 each or \$100 for the entire set.” Clyde, not sure he would get much use from the books, told his brother, Michael, about the offer. Michael tendered Joe \$100 for the books, but Joe refused to sell the books to Michael.

If Michael sued Joe, the court would probably hold that Michael

- (A) can accept the offer because he is Clyde’s brother
- (B) can accept the offer if he will do so within a reasonable period of time
- (C) cannot accept the offer until Clyde’s rejection is communicated to Joe
- (D) cannot accept the offer because it was not made to him
- (E) cannot accept the offer unless he does so in writing

7. All of the following have the right to enforce a contract EXCEPT

- (A) an assignee
- (B) a transferee
- (C) a third-party creditor beneficiary
- (D) a third-party donee beneficiary
- (E) a third-party incidental beneficiary

8. A method of discharging a contract that returns each party to his or her original position is

- (A) an assignment
- (B) an accord
- (C) a revocation
- (D) a rescission
- (E) a novation

9. In a legal action alleging \$100,000 of damages suffered for breach of contract, the plaintiff is a citizen of New York and the defendant is a corporation organized under the laws of California. Considering the details of this case, a United States district court will

- (A) have jurisdiction based on diversity of citizenship
- (B) have jurisdiction because the legal action is for breach of contract
- (C) not have jurisdiction because the legal action is for breach of contract
- (D) apply the federal common law of contracts
- (E) lack jurisdiction because the parties from different states apply New York law under the legal doctrine *lex loci delicti*

10. Benson, a seventeen-year-old college freshman, was adequately supplied with clothes by his father. Smith, a clothing merchant, learned that Benson was spending money freely and solicited clothing orders from him. Benson bought \$750 worth of luxury clothing from Smith on credit. Benson failed to pay Smith.

If Smith sued Benson, the court would probably hold that

- (A) Benson is liable for the \$750 because by accepting and wearing the clothes he ratified the contract
- (B) Benson is not liable for the reasonable value of the clothing because Smith solicited the sales
- (C) Benson can disaffirm the contract, return the clothing, and escape liability
- (D) Benson is liable for the \$750 because under these circumstances the clothing was a necessity
- (E) Benson’s father is liable to Smith for the \$750

11. The enforcement of a contract may be barred, according to the operation of law, by
- (A) an assignment
 - (B) a delegation
 - (C) a material breach
 - (D) the statute of limitations
 - (E) a novation
12. The purpose of a grand jury is to
- (A) indict the accused and to require him or her to stand trial
 - (B) decide guilt or innocence of the accused
 - (C) sentence the accused
 - (D) convict the accused
 - (E) review police activity and procedure
13. Which of the following promises would be enforceable by the majority of courts?
- (A) Avery finds Bond's dog and returns it to Bond. Later, Bond promises to pay Avery a reward.
 - (B) Husband, in consideration of the love and affection given him by Wife, promises to pay her \$1,000.
 - (C) Avery is extremely ill and placed in a hospital. Avery's neighbor, Bond, mows Avery's yard while Avery is recuperating. Later, Avery promises to pay Bond the reasonable value of his services.
 - (D) Avery owes Bond \$100, but the collection of this debt is barred by the statute of limitations. Later, Avery writes Bond a letter promising to pay Bond the \$100.
 - (E) Daughter mows the family yard. In absence of an express agreement, Daughter can claim an implied promise on Father's part to pay for her services.
14. Base Electric Company has entered an agreement to buy its actual requirements of brass wiring for six months from the Valdez Metal Wire Company, and Valdez Metal Wire Company has agreed to sell all the brass wiring Base Electric Company will require for six months. The agreement between the two companies is
- (A) valid and enforceable
 - (B) unenforceable because of lack of consideration
 - (C) unenforceable because it is too indefinite
 - (D) lacking in mutuality of obligations
 - (E) illusory
15. Ordinarily an employer is liable for which of the authorized acts committed by an employee for the benefit of the employer and in the scope of the employment?
- I. Torts
 - II. Contracts
 - III. Misrepresentations
- (A) I only
 - (B) II only
 - (C) III only
 - (D) II and III only
 - (E) I, II, and III

16. Abbott was orphaned at the age of five. For the next fifteen years his material needs were met by his uncle, Barton. On his thirtieth birthday, Abbott wrote Barton and promised to pay him \$100 per month as long as Barton lived. Abbott never made any payments. Barton died ten months later. If Barton's estate sued Abbott for the amount of the promised payments, the court would probably hold that Barton's estate is
- (A) not entitled to recover because past consideration will not support Abbott's promise
 - (B) not entitled to recover because of the statute of limitations
 - (C) not entitled to recover unless it can be shown that Barton's relatives were in desperate need
 - (D) entitled to recover on the promise
 - (E) entitled to recover because of Barton's previous aid to Abbott
17. An agreement among creditors that each will accept a certain percentage of his or her claim as full satisfaction is called
- (A) accord and satisfaction
 - (B) creditor agreement
 - (C) composition with creditors
 - (D) liquidation
 - (E) bankruptcy
18. Which of the following decisions could NOT be made by an appellate court?
- (A) Ordering a case to be tried in the appellate court
 - (B) Affirming a decision of a lower court
 - (C) Instructing a lower court to enter a judgment in accordance with the appellate court's opinion
 - (D) Remanding a case for a new trial
 - (E) Reversing the decision of a lower court
19. Upon delivery of nonconforming goods, a buyer may do which of the following?
- I. Reject all the goods.
 - II. Accept all the goods.
 - III. Accept those units that conform and reject the rest.
- (A) I only
 - (B) III only
 - (C) I and II only
 - (D) II and III only
 - (E) I, II, and III
20. All of the following are usual functions performed by judges of trial courts having general jurisdiction EXCEPT
- (A) issuing writs of habeas corpus
 - (B) conducting pretrial conferences in civil cases
 - (C) determining questions of fact in equity cases
 - (D) guiding the jury on questions of law in criminal and civil cases
 - (E) imposing pretrial settlements on parties who cannot agree
21. Which of the following will apply if the parties to a contract knew or should have known that a word has a customary usage in their particular trade or community?
- (A) No contract will result if the parties cannot voluntarily agree on the definition of the word.
 - (B) The meaning of the word cannot be challenged once a contract is signed.
 - (C) Parol evidence may be used to define the meaning of the word.
 - (D) Courts will not impose a definition that is contrary to the meaning supported by one party.
 - (E) A mistaken assumption regarding the definition by one of the parties will result in a voidable contract.

22. Webster insured her residence with Old Home Insurance Company. Assuming that the policy contained no provision with respect to assignment, which of the following statements is correct?
- (A) Webster may assign the policy to any person having capacity to contract.
 - (B) If Webster suffers an insured loss, she may assign the amount due under the policy to anyone.
 - (C) If Webster sells her residence, she must assign the policy to the purchaser.
 - (D) If Webster suffers an insured loss, she may assign the amount due under the policy only to a party furnishing material or labor for repair of the residence.
 - (E) Webster may assign the policy to any person having capacity to contract who agrees to pay the premium.
23. Recovery in quasi contract is based on a judgment that determines the presence of
- (A) an unjust enrichment
 - (B) an express contract
 - (C) an implied in fact contract
 - (D) a violation of the statute of frauds
 - (E) a mutual mistake
24. The commerce clause of the United States Constitution authorizes
- (A) Congress to tax corporations
 - (B) Congress to regulate interstate commerce
 - (C) courts to hear disputes between states and the federal government
 - (D) states to regulate their own commerce
 - (E) states to police the public anywhere
25. Maxine initiates a lawsuit against Jason by filing and serving Jason with a summons and complaint, and Jason responds to Maxine's complaint with a document called an answer. Maxine's complaint and Jason's answer are referred to as
- (A) legal briefs
 - (B) pleadings
 - (C) discovery documents
 - (D) motions
 - (E) appeals
26. Acting in a manner that results in the greatest good for the greatest number is an ethical principle known as
- (A) utilitarianism
 - (B) cost-benefit analysis
 - (C) rights theory
 - (D) the golden rule
 - (E) Kantianism
27. Which of the following best defines the employment at will doctrine?
- (A) Employers can terminate employees for good cause only.
 - (B) Employees can quit for good reason only.
 - (C) Employers can terminate employees for any reason that is not discriminatory and employees can quit for any reason.
 - (D) Employees can quit for any reason.
 - (E) Employers can terminate employees for good cause and employees can quit for good reason.

28. Smith suddenly attacks Jones as Jones walks down the street. In this case, Smith has committed
- (A) negligence
 - (B) a contractual act
 - (C) a criminal act only
 - (D) a tortious act only
 - (E) a criminal act and a tortious act
29. Using nonpublic material information to buy or sell securities is known as
- (A) short-swing profits
 - (B) insider trading
 - (C) a “blue sky” transaction
 - (D) an under-the-counter trade
 - (E) an over-the-counter trade
30. Which of the following administrative agencies regulates unfair trade practices and the formation of monopolies that restrain competition?
- (A) The National Labor Relations Board
 - (B) The Securities and Exchange Commission
 - (C) The Federal Reserve Board
 - (D) The Federal Trade Commission
 - (E) The Consumer Protection Agency
31. Which of the following is a distinction that can be drawn between civil and criminal law?
- (A) Civil cases involve a jury and criminal cases do not.
 - (B) The burden of proof in a civil case is “a preponderance of the evidence” standard, while the burden of proof in a criminal case is “beyond a reasonable doubt” standard.
 - (C) Civil cases involve a wrong against society, while criminal cases involve a loss to only one specific victim.
 - (D) Civil cases are all statutory, while criminal cases are based on statutes and case law.
 - (E) There is no distinction between civil and criminal law.
32. Curtis is injured while performing his duties for his employer, Choice Banking Company. In most states, Curtis will be compensated for his injuries under which of the following?
- (A) Intentional tort
 - (B) Negligence
 - (C) Worker’s Compensation
 - (D) Common Law Contract
 - (E) The Fair Labor Act
33. Barry sneaks up behind Caesar and hits him over the head with a bat. Caesar suffers a concussion and incurs damages exceeding \$50,000.00. Under these facts, Caesar will most likely win a suit against Barry for
- (A) assault
 - (B) battery
 - (C) conversion
 - (D) false imprisonment
 - (E) negligence
34. Proximate cause means that the
- (A) defendant will be held liable for all the damages caused by his breach of duty
 - (B) defendant will be held liable for only those damages that were reasonably foreseeable and a natural and probable consequence of his breach of duty
 - (C) plaintiff’s injury would not have occurred but for the defendant’s breach of duty
 - (D) plaintiff’s injury would not have occurred unless the defendant’s breach of duty was a substantial factor in bringing about the injury
 - (E) plaintiff’s injury occurred because of the defendant’s breach of duty

35. Zack and Josh open a coffee shop. They have no written agreement, but intend to sell coffee and bagels together in order to make a profit. Which of the following describes Zack's and Josh's business relationship?
- (A) They are sole proprietors.
 - (B) They are silent partners.
 - (C) They are limited partners.
 - (D) They are shareholders.
 - (E) They are partners.
36. Fred is an attorney who wants to advertise that he is Austin's best lawyer. He buys a billboard and posts his message. The State Bar of Texas wants him to take down the billboard. Which of the following constitutional principles best supports Fred's position?
- (A) The Fourth Amendment
 - (B) The right against self-incrimination
 - (C) The First and Fourteenth Amendments
 - (D) Freedom of assembly
 - (E) The Declaration of Independence
37. Larry delivers newspapers for a living; he hires Fred to help with his route, paying him 5 cents per paper. Fred runs into a customer's car while delivering papers. Which of the following statements is true?
- (A) As partners, Larry and Fred are jointly liable for the damage.
 - (B) If Larry does business as a corporation, he can be sued individually.
 - (C) Since Fred was driving the car, he is the only one who can be responsible.
 - (D) The facts suggest that the doctrine of respondeat superior would apply.
 - (E) If Fred does not have insurance, it means that the customer can never recover any of his damages to the car.
38. Al Rubin, a used car dealer, has a sports car for sale. A customer is interested in buying it. Al tells him, "It's a super car." Later, the customer discovers that his next-door neighbor's car can outperform his and he visits his attorney saying, "I want to sue Al." Which of the following would be the attorney's best answer?
- (A) Al cannot be sued successfully for fraud because the statement made was not in writing.
 - (B) Al has engaged in fraud because the customer relied on his statement.
 - (C) Fraud requires malice; therefore, Al cannot be held accountable.
 - (D) Al's statement is probably considered an opinion; therefore, he cannot be held accountable.
 - (E) Al cannot be successfully sued because fraud is only a criminal matter.
39. Which of the following is true of federal administrative agencies?
- (A) They occupy less importance today than they did in the nineteenth century.
 - (B) They may investigate, but they cannot make rules.
 - (C) They are all part of the executive branch.
 - (D) Their actions are subject to judicial review.
 - (E) They are not subject to constitutional scrutiny.
40. A bailment contract deals with which of the following?
- (A) The posting of a bond to guarantee that a defendant will appear in court when required
 - (B) The establishment of a contract where one party tries to bail out of a bad situation
 - (C) The owner of an article of personal property temporarily relinquishing possession and control of it to another
 - (D) The leasing of unimproved land
 - (E) The sale of personal property

41. A court will most likely dismiss a tort claim for an assault that was committed five years ago on the grounds that
- (A) there is no longer reasonable ground for the plaintiff to fear the defendant's threats
 - (B) the statute of limitations has run out or expired
 - (C) the case is nonjusticiable
 - (D) the defendant is entitled to a default judgment
 - (E) the court lacks subject-matter jurisdiction over the case
42. All of the following are foundations for business ethics EXCEPT
- (A) religion
 - (B) philosophy
 - (C) law
 - (D) business practices of competitors
 - (E) cultural norms
43. In general, an appeal of an administrative decision to the courts must show that
- (A) the case has been proved beyond a reasonable doubt
 - (B) administrative remedies have been exhausted
 - (C) a serious economic loss has been incurred
 - (D) the case has been proven by the greater weight of the evidence
 - (E) the administrative agency was unfair
44. The Civil Rights Act of 1964 protects victims of
- (A) all forms of discrimination
 - (B) religious discrimination
 - (C) age discrimination
 - (D) discrimination on the basis of HIV-positive status
 - (E) discrimination based on sexual orientation
45. Manuel is hired by Star Players Theater to design and maintain the theatre's Web site. Mango Theater learns of Manuel's work and convinces him to leave Star Players to come work for Mango. Mango Theater is probably liable for the tort of
- (A) misappropriation
 - (B) unfair competition
 - (C) breach of contract
 - (D) wrongful interference with a contractual relationship
 - (E) disparagement of a business relationship
46. Kate's corporation has accumulated a large number of accounts payable and lost its largest customer. Kate thinks that she can save the business by reorganizing it. Which of the following chapters of the bankruptcy code would she most likely use to protect the business from creditors while reorganizing?
- (A) Chapter 1
 - (B) Chapter 7
 - (C) Chapter 11
 - (D) Chapter 13
 - (E) Chapter 14
47. Alexandra drops her credit card in a department store while looking in her purse for her car keys. Amanda finds Alexandra's card and uses it to charge \$1,000.00 in merchandise. Alexandra does not discover the loss of her card until the following day, and she immediately notifies the credit company. The maximum amount for which Alexandra may be held liable to the credit card company is
- (A) \$1,000
 - (B) \$ 500
 - (C) \$ 100
 - (D) \$ 50
 - (E) \$ 10

48. All of the following are related to international business EXCEPT
- (A) import quotas
 - (B) tariffs
 - (C) the World Trade Organization
 - (D) the North American Free Trade Agreement
 - (E) the Uniform Partnership Act
49. Yummy Soup Company broadcast a television commercial designed to show how thick its chicken soup was, implying that it was full of chunks of chicken. In fact, the soup in the commercial was loaded with potatoes so that it would look thicker than it really was. The Federal Trade Commission (FTC) prohibited use of the commercial. If Yummy Soup filed a suit against the FTC to continue the commercial, the suit would most likely
- (A) succeed because puffing in advertisements is an accepted practice
 - (B) succeed because neither Yummy nor its advertising agency had the required intent to deceive the consumer
 - (C) succeed because Yummy's First Amendment right of free speech supersedes the FTC's right to regulate marketing
 - (D) fail because fairness in advertising is an implied responsibility under the commerce clause
 - (E) fail because the FTC has statutory authority to regulate deceptive advertising
50. Which of the following is true about the concept of strict liability?
- (A) It requires proof of intent.
 - (B) It does not require a showing of negligence.
 - (C) It is a concept related to the sale of stock.
 - (D) It does not apply to the third-party bystanders.
 - (E) It requires privity of contract.
51. Which of the following contracts would not be required to be in writing under the statute of frauds?
- (A) A contract to purchase a condominium
 - (B) A contract to play at a wedding that will take place in two years
 - (C) A contract to lease an apartment for eighteen months
 - (D) A contract to work at a job for life
 - (E) A contract to purchase an \$800 camera
52. The concept of judicial review originated
- (A) as the result of a decision by the United States Supreme Court
 - (B) as the result of a federal statute
 - (C) as the result of a decision by a state supreme court
 - (D) in the United States Constitution
 - (E) in the Declaration of Independence
53. Oscar's neighbor built a tennis court with extremely bright lights to be able to play at night. The lights are so bright that they illuminate Oscar's house and keep everyone from sleeping. Oscar's repeated requests of his neighbor to turn down the lights have gone unheeded. Oscar could sue his neighbor to get a remedy under the legal theory of
- (A) assault
 - (B) breach of warranty
 - (C) nuisance
 - (D) conversion
 - (E) anticipatory breach

54. Juan hired Matt, a licensed architect and home builder, to build a house for him according to Matt's architectural plans. Matt built and delivered the house, but the house collapsed after 13 years due to defective design. Which of the following is true if Juan sued Matt for negligence?
- (A) Matt was negligent per se in constructing the house.
 - (B) Juan could be successful in his suit if the state's statute of repose has not yet expired.
 - (C) Juan may not sue Matt because Matt was not grossly negligent or willful in his conduct.
 - (D) Juan will automatically win his suit against Matt if Juan can successfully invoke the doctrine of *res ipsa loquitur*.
 - (E) Juan has no legal ground to sue Matt, since Juan has lived in the house for 13 years.
55. A contract is illusory and lacks mutuality when one party
- (A) reserves the right to cancel the agreement at any time
 - (B) promises to perform on a specified day
 - (C) promises to pay a certain sum of money for the performance of a certain act
 - (D) promises to forbear a legal right in exchange for the promise of the other party
 - (E) gives a promise in exchange for the promise of the other party
56. John Roberts contracts to convey land to Sarah Simmons in consideration of Sarah's promise to pay \$5,000 to his wife, Rhonda, with whom John wishes to make a settlement. Rhonda would have a contract claim against Sarah in Rhonda's status as
- (A) wife
 - (B) obligee
 - (C) creditor
 - (D) intended beneficiary
 - (E) benefactor
57. Homeowner orally promises to sell her house to Mr. and Mrs. Youngpeople, who promise to buy it. The Youngpeoples then draft a letter containing the terms of the agreement, sign it, and send it to Homeowner. Under these circumstances the contract may be enforced against
- (A) both Homeowner and the Youngpeoples
 - (B) the Youngpeoples only
 - (C) Homeowner only
 - (D) neither party because of the parol evidence rule
 - (E) neither party because of the statute of limitations
58. Ms. Jones was leaving class in a hurry and in the process knocked her friend Ms. Smith down a flight of steps, causing serious injury to Smith. Smith wishes to recover for her injuries. Smith's action would be brought in
- (A) criminal law for assault and battery
 - (B) criminal law for trespass on a person
 - (C) criminal law for invasion of a person's privacy
 - (D) tort law on the grounds of negligence
 - (E) tort law on the grounds of assault and battery
59. ABC Company, incorporated under the laws of Delaware, has its principal place of business in the state of Georgia. ABC sells its merchandise at retail outlets located in all 50 states but sells the greatest percentage of its products in the five southern states of Alabama, Florida, Georgia, North Carolina, and South Carolina.
- For purposes of diversity jurisdiction in the federal courts, ABC is considered to be a citizen of
- (A) Georgia and Delaware
 - (B) Delaware only
 - (C) Georgia only
 - (D) the five southern states
 - (E) all 50 states

60. Statutory law is best defined as
- (A) common law
 - (B) case decisions
 - (C) legislative enactments
 - (D) constitutional law
 - (E) administrative law
61. The process of selecting a jury in civil litigation is known as
- (A) voir dire
 - (B) *res ipsa loquitur*
 - (C) *causa mortis*
 - (D) indictment
 - (E) certiorari
62. A department store publishes an advertisement in a local newspaper for a 60-inch large-screen, high-definition plasma TV. The price is listed as \$200, but this is a typographical error, and it should have been \$2,000. Customer Chris demands the right to purchase one of the TVs at the quoted price. Which of the following statements is correct under general contract law?
- (A) The department store must sell the product which Chris demands at the quoted price.
 - (B) Chris has accepted the department store's firm offer to sell.
 - (C) The department store has made an offer.
 - (D) Chris has made an offer to buy the TV at \$200, which the department store may accept or reject.
 - (E) The ad was an offer for a unilateral contract, and Chris must accept it by purchasing the TV.
63. Alex bid on a used automobile at the Grand Buys car dealership for \$7,000. Alex negotiated a loan from Grand Buys, made a down payment of \$500, and drove off with the vehicle without any kind of insurance. An hour later, while driving 30 miles per hour over the legal speed limit, Alex collided with a tree, and his car was totally demolished. Three months later, having received no payments from Alex and his loan, Grand Buys tried to collect the loan. It will be able to collect UNLESS
- (A) Alex was drunk at the time of the accident
 - (B) Alex is still hospitalized after the accident
 - (C) Alex was one month short of his eighteenth birthday when he purchased the car
 - (D) the book value of the car was only four thousand dollars when Alex bought it
 - (E) the car came with a 90-day warranty
64. Marcus makes the following statement to Evan, while trying to sell Evan his boat: "This boat has the original engine!" By making such a statement, Marcus has most likely created
- (A) an express warranty
 - (B) an implied warranty of fitness
 - (C) an implied warranty of merchantability
 - (D) a warranty that the boat is seaworthy
 - (E) no warranty at all
65. It is common in international business contracts to include a clause that will excuse a party in the contract for nonperformance because of the occurrence of certain acts such as war, embargo, governmental restrictions, and labor strikes. This clause is known as
- (A) an exculpatory clause
 - (B) a forum-selection clause
 - (C) a force majeure clause
 - (D) a choice-of-law clause
 - (E) a sovereign immunity clause

66. Granny Smith told her grandson, Ned, that she was going to leave him \$5,000 when she died because of all the things he had done for her over the years. After Granny died, Ned learned that she had not included him as a beneficiary in her will and had not left him any money. Ned sues her estate, claiming that he is entitled to the \$5,000 she promised him.

The court will probably hold that Ned is

- (A) entitled to the money
- (B) entitled to the money only if he can provide written evidence of the promise
- (C) entitled to be paid the fair value for the services rendered to Granny
- (D) not entitled to the money, because there was no valid consideration exchanged
- (E) not entitled to the money, because the value of the services rendered was not equal to the value of the promise

67. Dr. Hidalgo was attending her son's soccer game when she heard a woman calling for help and asking that someone call 911. Dr. Hidalgo ran over to the woman and found that the woman's husband was unconscious on the ground and not breathing. Dr. Hidalgo rendered medical aid, saving the man's life. Can Dr. Hidalgo recover payment from the man for her services?

- (A) Yes; under quasi contract, the man must pay a reasonable amount for the medical services.
- (B) Yes; under implied-in-fact contract, the man must pay the current rate for the medical services.
- (C) Yes; under promissory estoppel, the man must pay a reasonable amount for the medical services.
- (D) No; the man never consented to the treatment and therefore there was neither a contract nor an obligation to pay.
- (E) No; the man is not obligated to pay because there was no express contract.

68. Billy and Joey were playing baseball in Billy's front yard. Billy hit the ball hard and it flew into the neighbor's yard, breaking the neighbor's front window. Billy would be legally bound to pay for the broken window under the concept of

- (A) trespass
- (B) respondeat superior
- (C) invasion of privacy
- (D) battery
- (E) assault

69. Cathie takes a bite of the burger she just purchased from Burger World Foods. The burger contains a piece of metal, and Cathie breaks one of her teeth, incurring substantial dental bills. Under which of the following theories can Cathie best recover for her injuries?

- (A) Breach of the implied warranty of fitness for a particular purpose
- (B) Breach of the implied warranty of merchantability
- (C) Breach of the express warranty
- (D) Breach of intentional tort law
- (E) Breach of contract

70. Under which of the following situations would a principal be liable for the tortious act of its agent under the doctrine of respondeat superior?

- (A) The agent had no authority (actual or apparent) to commit the act.
- (B) The agent's act was a criminal act against a third person, and the principal had not directed the act and had no knowledge of the agent's propensity to commit such an act.
- (C) The agent was an employee of the principal and the act was within the scope of the employee's duties.
- (D) The agent was an independent contractor acting without authority.
- (E) The agent, an employee of the principal, caused an automobile accident after he deviated greatly from his assigned delivery route.

71. The rule that determines that a case will not be heard by a court if the plaintiff took too long from when the action arose to start the suit is called the
- (A) statute of limitations
 - (B) statute of frauds
 - (C) statute of repose
 - (D) rule against perpetuity
 - (E) rule of longevity
72. Which of the following clauses is NOT enforceable in a written contract?
- (A) A clause regarding arbitration
 - (B) A clause regarding choice of law
 - (C) A clause regarding choice of forum
 - (D) A clause regarding liquidated damages that imposes a penalty
 - (E) A clause regarding time being of the essence in contractual performance
73. If a large company induces an employee at a small corporation to breach her employment agreement and work for the large company, then the small corporation may do which of the following?
- (A) Bring a suit against the large company for the tort of bad faith.
 - (B) Bring a suit against the large company for the tort of intentional interference with contractual relations.
 - (C) Bring a suit against the employee for the tort of intentional interference with contractual relations.
 - (D) Bring a suit against the employee to try to recover all the past wages and compensation it paid to the employee.
 - (E) Bring a suit against the large company for breach of contract.
74. Which of the following is true of the Foreign Corrupt Practices Act?
- (A) It is based on a United Nations convention.
 - (B) It applies only to the countries of the European Union.
 - (C) It is a United States federal statute that applies only to United States companies.
 - (D) It prohibits the payment of any bribes to United States companies.
 - (E) It is a state statute that originated in California.
75. A national discount chain has a well-known name. A local department store opens with a name that has the same pronunciation as the name of the national discount chain and is spelled differently by only one letter. The local store derives its name from the name of its owner. The local store has most likely
- (A) infringed upon another business' copyright
 - (B) infringed upon another business' trademark
 - (C) infringed upon another business' patent
 - (D) infringed upon another business' trade secret
 - (E) infringed upon another business
76. A male defendant is charged with breaking and entering with the intent to steal goods from a store. If he claims that he was forced to commit the crime by another individual who threatened him, his affirmative defense is known as
- (A) a general denial
 - (B) an alibi
 - (C) entrapment
 - (D) coercion
 - (E) insanity

77. The doctrine of respondeat superior can be used by an injured party to hold
- (A) an employer responsible for the torts of its employee
 - (B) an employee responsible for the torts of its employer
 - (C) a manufacturer liable for a defective product
 - (D) a retailer liable for selling a defective product
 - (E) a wholesaler liable for a defective product
78. Which of the following elements is NOT necessary to establish liability for negligence?
- (A) Proximate cause
 - (B) Breach of duty
 - (C) Injury
 - (D) Malice
 - (E) Foreseeability
79. Which of the following, if passed, would likely be found constitutional, and therefore valid, by a court of law?
- (A) A city ordinance that prohibits the burning of the United States flag as part of a peaceful protest
 - (B) A state law that prohibits the sale and possession of child pornography
 - (C) A city ordinance that bans organizations that support hate from assembling in public
 - (D) A federal agency policy requiring its employees to speak only English while at work
 - (E) A state law that prohibits teaching the theory of evolution in public schools
80. A 17-year old signs a contract with a car dealer to lease a new luxury automobile. Two months later, the young man turns 18 years old and continues to drive the automobile and make payments on the lease for another 10 months following his birthday. At that time, he decides that he no longer wants to keep the automobile, and so he returns it to the dealer and stops making the required monthly lease payments. If the dealer sues the young man for breach of contract, a court will likely hold that the lease is
- (A) not enforceable against the young man because he was a minor at the time he signed it
 - (B) enforceable against the young man because there was adequate and sufficient consideration for the contract
 - (C) unenforceable because it is contrary to public policy to lease cars to minors
 - (D) enforceable against the young man because he implicitly affirmed and ratified the contract after he turned of majority age
 - (E) unenforceable because a person must be 21 years old to contract in most states

Test Measurement Overview

Format

There are multiple forms of the computer-based test, each containing a predetermined set of scored questions. The examinations are not adaptive. There may be some overlap between different forms of a test: any of the forms may have a few questions, many questions, or no questions in common. Some overlap may be necessary for statistical reasons.

In the computer-based test, not all questions contribute to the candidate’s score. Some of the questions presented to the candidate are being pretested for use in future editions of the tests and will not count toward his or her score.

Scoring Information

CLEP examinations are scored without a penalty for incorrect guessing. The candidate’s raw score is simply the number of questions answered correctly. However, this raw score is not reported; the raw scores are translated into a scaled score by a process that adjusts for differences in the difficulty of the questions on the various forms of the test.

Scaled Scores

The scaled scores are reported on a scale of 20–80. Because the different forms of the tests are not always exactly equal in difficulty, raw-to-scale conversions may in some cases differ from form to form. The easier a form is judged to be, the higher the raw score required to attain a given scaled score. **Table 1** indicates the relationship between number correct (raw score) and scaled score across all forms.

The Recommended Credit-Granting Score

Table 1 also indicates the recommended credit-granting score, which represents the performance of students earning a grade of C in the corresponding course. The recommended B-level score represents B-level performance in equivalent course work. These scores were established as the result of a Standard Setting Study, the most recent

having been conducted in 2000. The recommended credit-granting scores are based upon the judgments of a panel of experts currently teaching equivalent courses at various colleges and universities. These experts evaluate each question in order to determine the raw scores that would correspond to B and C levels of performance. Their judgments are then reviewed by a test development committee, which, in consultation with test content and psychometric specialists, makes a final determination. The standard-setting study is described more fully in the earlier section entitled “CLEP Credit Granting” on page 5.

Panel members participating in the most recent study were:

Perry Binder	Clayton College and State University
Susan Denbo	Rider University
Cynthia Drumm	Otterbein College
Kenneth Frank	Brenau University
Ilene Goldberg	Rider University
Linda Harrison	Nova Southeastern University
Charles Hartman	Cedarville College
Richard Harvey	Fairmont State College
Joseph Kenna	Immaculata College

After the recommended credit-granting scores are determined, a statistical procedure called scaling is applied to establish the exact correspondences between raw and scaled scores. Note that a scaled score of 50 is assigned to the raw score that corresponds to the recommended credit-granting score for C-level performance, and a high but usually less-than-perfect raw score is selected and assigned a scaled score of 80.

Study Resources

Most textbooks used in college-level business law courses cover the topics in the outline given earlier, but the approaches to certain topics and the emphases given to them may differ. To prepare for the Introductory Business Law exam, it is advisable to study one or more college textbooks, which can be found in most college bookstores. When selecting a textbook, check the table of contents against the knowledge and skills required for this test.

Visit clep.collegeboard.org/test-preparation for additional business law resources. You can also find suggestions for exam preparation in Chapter IV of the *Official Study Guide*. In addition, many college faculty post their course materials on their schools' websites.

Answer Key

- | | |
|-------|-------|
| 1. A | 41. B |
| 2. D | 42. D |
| 3. B | 43. B |
| 4. D | 44. B |
| 5. B | 45. D |
| 6. D | 46. C |
| 7. E | 47. D |
| 8. D | 48. E |
| 9. A | 49. E |
| 10. C | 50. B |
| 11. D | 51. D |
| 12. A | 52. A |
| 13. D | 53. C |
| 14. A | 54. B |
| 15. E | 55. A |
| 16. A | 56. D |
| 17. C | 57. B |
| 18. A | 58. D |
| 19. E | 59. A |
| 20. E | 60. C |
| 21. C | 61. A |
| 22. B | 62. D |
| 23. A | 63. C |
| 24. B | 64. A |
| 25. B | 65. C |
| 26. A | 66. D |
| 27. C | 67. A |
| 28. E | 68. A |
| 29. B | 69. B |
| 30. D | 70. C |
| 31. B | 71. A |
| 32. C | 72. D |
| 33. B | 73. B |
| 34. B | 74. C |
| 35. E | 75. B |
| 36. C | 76. D |
| 37. D | 77. A |
| 38. D | 78. D |
| 39. D | 79. B |
| 40. C | 80. D |

Table 1: Introductory Business Law Interpretive Score Data

American Council on Education (ACE) Recommended Number of Semester Hours of Credit: 3

Course Grade	Scaled Score	Number Correct
	80	87-89
	79	86
	78	85
	77	84
	76	83
	75	82
	74	81
	73	80
	72	79
	71	78
	70	77
	69	76
	68	75
	67	74
	66	73
	65	71-72
	64	70-71
	63	69-70
	62	68-69
	61	67-68
B	60	66-67
	59	65-66
	58	64-65
	57	63-64
	56	62-63
	55	61-62
	54	60-61
	53	59-60
	52	58-59
	51	57-58
C	50*	56
	49	55
	48	54
	47	53
	46	51-52
	45	50-51
	44	49-50
	43	48-49
	42	47-48
	41	46-47
	40	45-46
	39	44-45
	38	43-44
	37	42-43
	36	41-42
	35	40-41
	34	39-40
	33	38-39
	32	37-38
	31	36-37
	30	34-36
	29	33-35
	28	32-34
	27	31-33
	26	30-32
	25	29-30
	24	28-29
	23	27-28
	22	26-27
	21	25-26
	20	0-25

*Credit-granting score recommended by ACE.

Note: The number-correct scores for each scaled score on different forms may vary depending on form difficulty.

Validity

Validity is a characteristic of a particular use of the test scores of a group of examinees. If the scores are used to make inferences about the examinees' knowledge of a particular subject, the validity of the scores for that purpose is the extent to which those inferences can be trusted to be accurate.

One type of evidence for the validity of test scores is called content-related evidence of validity. It is usually based upon the judgments of a set of experts who evaluate the extent to which the content of the test is appropriate for the inferences to be made about the examinees' knowledge. The committee that developed the CLEP Introductory Business Law examination selected the content of the test to reflect the content of Introductory Business Law courses at most colleges, as determined by a curriculum survey. Since colleges differ somewhat in the content of the courses they offer, faculty members should, and are urged to, review the content outline and the sample questions to ensure that the test covers core content appropriate to the courses at their college.

Another type of evidence for test-score validity is called criterion-related evidence of validity. It consists of statistical evidence that examinees who score high on the test also do well on other measures of the knowledge or skills the test is being used to measure. Criterion-related evidence for the validity of CLEP scores can be obtained by studies comparing students' CLEP scores with the grades they received in corresponding classes, or other measures of achievement or ability. CLEP and the College Board conduct these studies, called Admitted Class Evaluation Service or ACES, for individual colleges that meet certain criteria at the college's request. Please contact CLEP for more information.

Reliability

The reliability of the test scores of a group of examinees is commonly described by two statistics: the reliability coefficient and the standard error of measurement (SEM). The reliability coefficient is the correlation between the scores those examinees get (or would get) on two independent replications of the measurement process. The reliability coefficient is intended to indicate the

stability/consistency of the candidates' test scores, and is often expressed as a number ranging from .00 to 1.00. A value of .00 indicates total lack of stability, while a value of 1.00 indicates perfect stability. The reliability coefficient can be interpreted as the correlation between the scores examinees would earn on two forms of the test that had no questions in common.

Statisticians use an internal-consistency measure to calculate the reliability coefficients for the CLEP exam.¹ This involves looking at the statistical relationships among responses to individual multiple-choice questions to estimate the reliability of the total test score. The SEM is an estimate of the amount by which a typical test-taker's score differs from the average of the scores that a test-taker would have gotten on all possible editions of the test. It is expressed in score units of the test. Intervals extending one standard error above and below the true score for a test-taker will include 68 percent of that test-taker's obtained scores. Similarly, intervals extending two standard errors above and below the true score will include 95 percent of the test-taker's obtained scores. The standard error of measurement is inversely related to the reliability coefficient. If the reliability of the test were 1.00 (if it perfectly measured the candidate's knowledge), the standard error of measurement would be zero.

An additional index of reliability is the conditional standard of error of measurement (CSEM). Since different editions of this exam contain different questions, a test-taker's score would not be exactly the same on all possible editions of the exam. The CSEM indicates how much those scores would vary. It is the typical distance of those scores (all for the same test-taker) from their average. A test-taker's CSEM on a test cannot be computed, but by using the data from many test-takers, it can be estimated. The CSEM estimate reported here is for a test-taker whose average score, over all possible forms of the exam, would be equal to the recommended C-level credit-granting score.

Scores on the CLEP examination in Introductory Business Law are estimated to have a reliability coefficient of 0.89. The standard error of measurement is 3.77 scaled-score points. The conditional standard error of measurement at the recommended C-level credit-granting score is 4.06 scaled-score points.

¹ The formula used is known as Kuder-Richardson 20, or KR-20, which is equivalent to a more general formula called coefficient alpha.