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622-Problems in Commercial Law
Spring, 2004

Final Examination
Thursday, April 1, 2004
4:15 – 5:45 PM

Instructions

1. There is one essay question on this examination.
2. During the examination you may consult any materials that I have distributed in class, and any outlines or materials you have prepared yourself or with other students in the class. You may not use any books that you purchased or have borrowed from the library or anyone else, and you may not use notes or other materials prepared by students who have taken the course in the past.
3. You need not cite Code sections, but you may do so.
4. You will have 1 ½ hours to complete this examination.

Mary was an accountant who specialized in preparing tax returns for individuals and small businesses. She was in need of a new computer and visited her friend Paul who was employed by Entails, but who assembled computers for sale in his spare time. Mary described her needs and Paul said that he would be happy to assemble a computer for her. She said that she wanted "an Entails" chip because she had heard that it was the best. Paul agreed to use an Entails chip. He also told her that the machine would contain nothing but parts manufactured in the United States.

The price Paul quoted was \$6,000. Mary asked if she could pay for it over the next year at a rate of \$500 per month and Paul said that was fine.

When Paul assembled the machine, he used a "Minnor" chip instead of one made by Entails because he thought it was better and it was less expensive. Also, most of the parts he used were produced in Japan. When he was finished, he delivered it to Mary and Mary signed the following document that Paul had produced:

June 1

As agreed by the oral contract that we made, I promise to pay Paul or order \$ 6,000 in equal installments of \$500 each, the first installment being due on July 1.

If at any time the holder of this note is in need of money, all unpaid installments of this note shall become immediately due and I will pay them upon demand.

If Paul or any subsequent holder of this note has to sue me to collect it, I agree to pay all costs of collection including an attorney fee.

S/Mary

On June 15, Paul changed the amount of the note from \$6,000 to \$16,000. He wrote his name on the back of the note and sold it to Alice for \$15,000. Paul did not tell Mary that he had sold the note. Barry stole the note from Alice on June 1. On July 1, Mary sent Paul her check for \$500 in payment of the 1st installment and Paul cashed her check.

On July 15, Barry sold the note to Cathy for \$12,000. Barry did not indorse the note. Cathy was reluctant to purchase the note from Barry because she had heard that Barry was a bad person who had swindled others, but she decided that

she couldn't pass up such a good deal. On August 1, Cathy asked Mary to pay the installment due on that date. Cathy refused saying that the computer was not what she ordered and that she intended to return it to Paul. Cathy was upset and said, "Well, if you are going to be difficult, I want you to pay the entire \$6,000 because I need the money."

1. Discuss Cathy's rights against Mary.
2. Discuss Cathy's rights against Paul, Alice, and Barry.