

Chapter 11 Sales Law and Product Liability

1

Source: Bohlman/Dundas, The Lwegal, Ethical,
& International Environment of Business

Uniform Commercial Code

- Article 2 of the UCC governs sales of goods and modifies the common law of contracts in some areas
- UCC respects principles of freedom of contract
- UCC imposes additional general standards of good faith, diligence, and reasonableness on the parties' behavior
- Open terms
- Special rules for merchants

2

Source: Bohlman/Dundas, The Lwegal, Ethical,
& International Environment of Business

Goods

- Identification
- Risk of loss
- Future goods

3

Source: Bohlman/Dundas, The Lwegal, Ethical,
& International Environment of Business

Title

- Warranty of title
- Passage of title
- Voidable title

4

Source: Bohlman/Dundas, The Lwegal, Ethical,
& International Environment of Business

Risk of Loss—No Breach of Contract

- In a shipment contract, risk of loss passes to the buyer upon delivery of goods to the carrier
- In a destination contract, risk of loss passes to the buyer upon tender of delivery at the proper destination specified in the contract
- Where a third party is holding the goods and there is a document of title, risk of loss passes to the buyer on receipt of the document of title
- Where the parties do not use documents of title, risk of loss passes to the buyer

5

Source: Bohlman/Dundas, The Lwegal, Ethical,
& International Environment of Business

Risk of Loss—Breach of Contract

- Seller ships nonconforming goods
- Buyer first accepts and later revokes
- Goods have been identified to the contract and the buyer breaches (repudiates)

6

Source: Bohlman/Dundas, The Lwegal, Ethical,
& International Environment of Business

Trial Sales

- Sales on approval
- Sale or return

7

Source: Bohlman/Dundas, The Lwegal, Ethical, & International Environment of Business

Performance—Remedies—Sellers

- Buyer accepts goods; seller is entitled to contract price
- Buyer repudiates contract; seller can recover the difference between the market price and contract price and incidental damages less expenses saved by buyer's breach
- If the seller is not made whole, the measure of damages is the profit, including overhead, that the seller would have earned if the buyer had performed including incidental expenses
- If seller cannot identify the goods to the contract, the measure of damages is the contract price

8

Source: Bohlman/Dundas, The Lwegal, Ethical, & International Environment of Business

Performance—Remedies—Buyers

- Money damages
 - Compensatory
 - Consequential
 - Incidental
- Equitable remedies
 - Specific performance
- Cover

9

Source: Bohlman/Dundas, The Lwegal, Ethical, & International Environment of Business

Performance—Rights

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|----------------------------|--------------------|
| • Buyers | • Sellers |
| • Inspection | • Payment |
| • Revocation of acceptance | • Impracticability |

10

Source: Bohlman/Dundas, The Lwegal, Ethical, & International Environment of Business

Product Liability—Negligence

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|--|---------------------------------|
| • Negligence | • Defenses |
| • Duty of care manufacturer owed injured party | • Due care |
| • Breach of that duty | • Assumption of risk |
| • Proximate cause | • Plaintiff was negligent |
| • Damages | • Plaintiff misused the product |
| | • Plaintiff altered the product |

11

Source: Bohlman/Dundas, The Lwegal, Ethical, & International Environment of Business

Product Liability—Strict Liability

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|---|--------------------------|
| • Strict liability | • Defenses |
| • Defendant must sell the product in a defective condition | • Assumption of risk |
| • Defendant must be engaged in the manufacture of the product | • Comparative negligence |
| • Product must be unreasonably dangerous | |
| • Defective cause must be the proximate cause of the injury | |
| • Goods must not have been substantially changed from the time the product was sold until the time when the injury occurred | |
| • Misrepresentation | |

12

Source: Bohlman/Dundas, The Lwegal, Ethical, & International Environment of Business

Duty to warn

- Duty to warn
 - Business knows or should know of hazards
 - Not obvious

13

Source: Bohlman/Dundas, The Lwegal, Ethical, & International Environment of Business

Grimshaw v. Ford Motor Co. Landmark Case

- The California Court of Appeals held that Ford was guilty on every issue in the appeal
- Top officials of Ford were found guilty of not taking possible injuries or death to users of their vehicles into account when deciding to install flak suits or bladders at a cost of \$20.9 million

14

Source: Bohlman/Dundas, The Lwegal, Ethical, & International Environment of Business

Warranties

- Express
 - Affirmation flowing from the free will of the seller
- Implied
 - Implied warranty of merchantability
 - Implied warranty of fitness for a particular purpose
 - Disclaimers
 - Buyers examination of goods
 - Modification or exclusion

15

Source: Bohlman/Dundas, The Lwegal, Ethical, & International Environment of Business

Magnuson-Moss Warranty Act

- Designed to prevent deception in warranties by making them easier to understand
- Information must be in “readily understood language”

16

Source: Bohlman/Dundas, The Lwegal, Ethical, & International Environment of Business

Summary

- Uniform Commercial Code
- Goods
- Title
- Risk of Loss—No Breach of Contract
- Risk of Loss—Breach of Contract
- Trial Sales
- Performance—Remedies—Sellers
- Performance—Remedies—Buyers
- Performance--Rights
- Product Liability—Negligence
- Product Liability—Strict Liability
- Grimshaw v. Ford Motor Co.
- Warranties
- Magnuson-Moss Warranty Act

17

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