BLOGS

Multiple Choice Questions on Agency in Contract Law

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1. Who is an “Agent” under the Indian Contract Act, 1872?

a) A person employed to represent another in dealings with third parties
b) A person who only acts for himself
c) A person who cannot delegate authority to others
d) A person who is a government employee only

Answer: a) A person employed to represent another in dealings with third parties

Explanation: Section 182 of the Indian Contract Act, 1872, defines an “agent” as a person employed to do any act for another or represent another in dealings with third persons. The person who appoints the agent is called the “principal.”

2. Which of the following is NOT a valid mode of creating an agency?

a) Express agreement
b) Implied agreement
c) Operation of law
d) By mistake

Answer: d) By mistake

Explanation: An agency can be created by express agreement (oral or written), implied agreement (conduct or relationship), or by operation of law (such as necessity or estoppel). However, an agency cannot arise by mistake, as there must be a clear intention to create an agency relationship.

3. What is the doctrine of “Holding Out” in agency law?

a) A principal is bound by the acts of an agent when third parties reasonably believe the agent has authority
b) An agent must always disclose his principal’s identity

c) An agent can act against the principal's instructions

d) A minor can be a principal under agency law

Answer: a) A principal is bound by the acts of an agent when third parties reasonably believe the agent has authority

Explanation: The doctrine of "Holding Out" is a form of implied authority where if a principal, by words or conduct, represents that a person is his agent, the principal is bound by the agent's actions even if no actual authority exists.

4. An agency can be terminated in all the following ways EXCEPT:

a) By mutual agreement

b) By revocation by the principal

c) By the death of the agent

d) By resignation of the principal

Answer: d) By resignation of the principal

Explanation: An agency terminates by mutual agreement, revocation by the principal, renunciation by the agent, death or insanity of either party, or the completion of the agency's purpose. The principal does not "resign" in an agency relationship.

5. What is the legal effect of an agent acting beyond his actual and apparent authority?

a) The agent is personally liable for such acts

b) The principal is automatically bound

c) The contract is always void

d) The agent and principal are equally liable

Answer: a) The agent is personally liable for such acts

Explanation: If an agent acts beyond both actual and apparent authority, the principal is not bound, and the agent becomes personally liable for any loss caused to third parties.

6. Which of the following is an example of an agent acting with "Ostensible Authority"?

a) An agent signs a contract without informing the principal

b) A principal knowingly allows a third party to believe that a person is his agent

c) An agent refuses to follow instructions from the principal

d) A person acts as an agent without any legal basis

Answer: b) A principal knowingly allows a third party to believe that a person is his agent

Explanation: Ostensible or apparent authority arises when a principal, by conduct, leads third parties to believe that an agent has authority, even if no actual authority exists.

7. Who is liable for contracts made by an agent acting on behalf of a disclosed principal?

a) The principal
b) The agent
c) The agent and principal jointly
d) Neither the agent nor the principal

Answer: a) The principal

Explanation: When an agent acts on behalf of a disclosed principal within the scope of his authority, the principal is liable for the contracts made. The agent is not personally liable unless otherwise agreed.

8. Under what circumstances can an agent delegate his authority?

a) When the principal consents
b) When the act is purely ministerial
c) When the agency is created for a single task
d) Both a and b

Answer: d) Both a and b

Explanation: The general rule is that “delegatus non potest delegare” (a delegate cannot further delegate). However, exceptions exist when the principal consents or when the act is of a purely mechanical nature (ministerial).

9. What is an agent’s duty towards his principal?

a) To act in good faith
b) To obey lawful instructions
c) To avoid conflict of interest
d) All of the above

Answer: d) All of the above

Explanation: An agent owes fiduciary duties to his principal, including acting in good faith, following lawful instructions, avoiding conflicts of interest, and exercising due care.

10. If an agent is guilty of fraud, who is liable?

a) Only the agent

b) Only the principal

c) Both the agent and the principal

d) Neither the agent nor the principal

Answer: c) Both the agent and the principal

Explanation: If an agent commits fraud while acting within the scope of his authority, the principal is also liable under the principle of vicarious liability.