

13.17: What Is a Contract?

Learning Objectives

- Define “contract”
- Identify the four elements of a legally enforceable contract



The Business Law and the Legal Environment authors define contract as “a legally enforceable agreement,” noting that while we make a number of casual promises (e.g., “I’ll call you later”) and formal commitments in the course of a day, these agreements do not necessarily constitute a valid contract. The details of what each party is committing to in a contract are referred to as covenants. As we will discuss in the next section, there are several elements to a valid—read: legally enforceable—contract.

There are four required elements to an enforceable contract, outlined below:

1. **Offer & Acceptance.** A contract begins with an offer, where one party proposes an agreement that includes specific terms. An offer can be accepted in writing, in person, over the phone or by performance that clearly communicates the accepting party agrees to the buyer’s terms. Under the “Mailbox Rule” used in most states, an offer is deemed accepted when the accepting party places it in a mailbox or sends an email, even if the offering party never actually receives it.
2. **Consideration.** Consideration is the exchange of value. Value can be an exchange of money for property or services or an exchange of property and/or services as long as both parties receive a measurable benefit.
3. **Legal Capacity.** The parties must be at least 18 years old and of sound mind. A minor who signs a contract has the right to cancel it. A person with mental illness or disability or who is under the influence of drugs or alcohol or who signs under duress does not have the mental capacity to enter into a contract.
4. **Legality.** The contract must be for an activity that is legal. Courts will not enforce a contract to commit a crime—to commit murder or sell drugs, for example.

If any one of these elements is missing, a contract may be voided, releasing the parties from any associated obligations.

Note that the Statute of Frauds requires certain transactions to be contracted for in writing, including the lease or sale of a home, marriage, assumption of debt and any transaction that extends beyond one year from the date of signing.^[1]

Practice Question

<https://assessments.lumenlearning.co...essments/14348>

<https://assessments.lumenlearning.co...essments/14349>

The following video explains these requirements in greater detail.



You can view the [transcript for “Requirements for a Valid Contract”](#) (opens in new window) or the [text alternative for “Requirements for a Valid Contract](#) (opens in new window).

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1. Safrath, Bernadette A. "7 Required Elements of an Enforceable Contract." Sapling. Accessed June 12, 2019.
<https://www.sapling.com/11368503/7-required-elements-enforceable-contract>. ↵

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