

Law of Obligations II

5 December 2011

- The duration of the examination is 75 minutes (from 9:00 am to 10:15 am).
- During the course of the examination, candidates may freely consult materials of their own, including online resources.
- On each Answer sheet, candidates must write their **student number only**. Please do **not** write your name or major subject of study.
- ALL candidates must attempt **the following two (2)** Questions.

[1] Question 1

Anam Estate Management (“**Anam**”) represents **Bob** who owns a building. **Charles** was looking for a suitable venue for a restaurant. **Charles** leased the first floor of **Bob**’s building through **Anam**. The agent from **Anam** and **Charles** had agreed that the lease is for two years and **Charles** does not have to restore the first floor to its original condition at the end of the lease. **Charles** decorated the venue tastefully with considerable investment. But the restaurant business was not going well. **Charles** had difficulty paying monthly rent. When the rent was in arrears for 3 months, **Bob** terminated the lease agreement and demanded **Charles** to vacate the first floor and remove all the decorations as well as the restaurant sign. **Charles** disagreed and demanded **Bob** to reimburse the costs of interior decoration (including curtains) as well as the shop sign. **Bob** refused to make reimbursement claiming that **Bob** did not authorise **Anam** to agree to a waiver of the duty to restore. In any event, according to **Bob**, since **Charles** failed to pay the rent and the lease is terminated due to **Charles**’ default, **Charles** may not rely on the terms of the lease contract. **Charles**, however, claims that the termination of lease shall not have retro-active effect. As the parties agreed that **Charles** does not have the duty to restore the premises to their original condition, **Charles** claims that he is entitled to reimbursement of the costs of interior decoration and the shop sign.

How should this dispute be resolved?

[2] Question 2

A Co. is a supplier of air conditioning units which are fitted to luxury cars. **A Co.** recently decided to embark on a joint venture with **B Co.** which has a great deal of reputation for high quality air-conditioning equipment designing. The two companies agreed that they would equally participate in the profit and loss of their joint venture. They traded under the name of AB Manufacturing. **A Co.** took the responsibility of sales and marketing and **B Co.** was responsible for designing and technical assistance in the course of developing and manufacturing of new models of air conditioning units.

A Co. concluded a deal with K automobile whereby 10,000 air conditioning units are to be supplied at 5 billion KRW. Although the units are to be produced by AB Manufacturing, the contract with K automobile was in the name of **A Co.** alone. **B Co.** understood and agreed to this because K automobile has an established procedures and programme for vetting its part

suppliers. **A Co.** has passed the vetting programme and has the status of “approved supplier of K automobile”.

After the contract with **A Co.** was signed, K automobile subsequently demanded 10% reduction of contract price. **A Co.** found it hard to refuse K automobile’s demand because if part suppliers do not “cooperate” with automobile manufacturer’s demand to reduce the price, they may lose the status of “approved supplier”. **B Co.**, however, disagreed with **A Co.** and insisted that **A Co.** must decline to comply with K automobile’s unilateral demand to reduce the contract price. When **A Co.** decided to accept K automobile’s demand to accept the price reduction, **B Co.** claimed that the loss from the 10% price reduction must be borne by **A Co.** alone because the loss was due entirely to **A Co.**’s decision to maintain its own “approved supplier” status at the expense of the joint interests of **A Co.** and **B Co.**

Discuss how this dispute must be resolved.

[End of questions. You must answer **both questions.**]