

Chapter 13 – Agency and Employment

I-Study

In this chapter you learned about agency. Agency is a relationship in which one person represents another person in a business transaction with a third party. A person hired to represent another person is called the agent. The person who hires the agent is called the principal. The person the principal and agent do business with is the third party. Agents can sign business deals, make contracts, and perform other business tasks for a principal. Agency relationships are created by agreement or by operation of law. The law can create an agency relationship by estoppel, by ratification, or by statute.

Actual authority is the real power a principal gives to an agent. Apparent authority is authority that a third party believes an agent has while acting on behalf of the principal. Actual authority may be express or implied. Express authority comes from the orders, commands, or instructions a principal explicitly gives an agent. Implied authority is additional authority an agent needs to carry out the express authority. Power of attorney is a formal writing granting someone authority to act as an agent, and can be general, limited, or durable. Different types of agents include general agents, special agents, subagents, agents' agents, and co-agents.

I-Quiz

1. If a principal hires two or more agents they are considered
 - A. co-agents.
 - B. sub-agents.
 - C. independent contractors.
2. The real power a principal gives to an agent is called
 - A. actual authority.
 - B. apparent authority.
 - C. limited authority.
3. When a person performs an act that was not authorized by a principal, but the principal accepts it, it is called
 - A. agency by estoppel.
 - B. agency by ratification.
 - C. agency by statute.
4. Any writing that grants somebody the authority to act as an agent is called
 - A. estoppel.
 - B. limited authority.
 - C. power of attorney.

Answer Key

- 1. A**
- 2. A**
- 3. B**
- 4. C**