

Chapter 14 – Agency Authority and Termination

I-Study

In this chapter you learned about duties and liability in an agency relationship, and how an agency relationship ends. An agent's duties to a principal include obedience, good faith, loyalty, an accounting, good judgment, and skill. A principal's duties to an agent include compensation, reimbursement, indemnification, and cooperation. *Respondeat superior* is a legal doctrine that holds a master, or principal, responsible for the torts of his or her servant, or agent. Negligent hiring is when a proprietor hires a person who is incompetent. Negligent retention is when a proprietor fails to fire a contractor after learning that he or she is incompetent. A non-delegable duty is a duty that cannot be delegated, or transferred, to another party.

Agency relationships can be terminated by operation of law or by the acts of the parties. An agency relationship can be ended by operation of law due to the death of the principal or the agent, bankruptcy, impossibility of performance, or illegality. An agency relationship can be ended by the acts of the parties due to completion of performance, mutual agreement, the agent's withdrawal, or the agent's discharge. When an agency relationship ends, the principal must give notice to all third parties.

I-Quiz

1. Payment for money spent by an agent on behalf of a principal is
 - A. compensation.
 - B. reimbursement.
 - C. indemnification.
2. An agency relationship is a fiduciary relationship, which means it is based on
 - A. trust.
 - B. money.
 - C. judgment
3. Vicarious liability is based on the principle of
 - A. indemnification.
 - B. respondeat superior
 - C. double responsibility.
4. An agency can end by operation of law due to
 - A. mutual agreement.
 - B. the principal discharging the agent.
 - C. impossibility of performance.

Answer Key

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