

VISION INSTITUTE OF TECHNOLOGY, MADRAK  
UNIT -1 THE INDIAN CONTRACT ACT, 1872

## **OUTCOMES-**

**1. Introduction:** The Indian Contract Act, 1872, is based on English Common Law principles. It defines the legal framework for entering into contracts and the rights and obligations arising from them.

**2. Nature & Classification of Contracts:**

Nature of Contracts: Contracts are agreements enforceable by law.

Classification of Contracts: Contracts can be classified into various types, such as:

Valid Contracts

Void Contracts

Voidable Contracts

Unenforceable Contracts

**3. Offer and Acceptance:**

An offer is a proposal made by one party, and acceptance is the agreement to the terms of the offer.

**4. Consideration:**

Every contract must be supported by consideration, which is something of value exchanged between the parties.

**5. Capacity of Contract:**

Parties entering into a contract must have the legal capacity to do so.

Minors, persons of unsound mind, and those disqualified by law lack contractual capacity.

**6. Free Consent:**

Consent must be free from coercion, undue influence, fraud, misrepresentation, or mistake for a contract to be valid.

**7. Agreements Declared Void:**

Certain agreements are expressly declared void, such as those involving illegal activities or opposing public policy.

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**8. Contingent Contracts:**

A contingent contract is one where the performance depends on the happening or non-happening of a specific event.

**9. Quasi Contracts:**

These are obligations imposed by law in the absence of a contract to prevent unjust enrichment.

**10. Discharge of Contracts:**

Ways in which a contract may be discharged include performance, agreement, impossibility of performance, lapse of time, breach, etc.

**11. Breach of Contract:**

When a party fails to fulfill its contractual obligations, it constitutes a breach of contract.

**12. Remedies for Breach of Contract:**

Remedies include damages, specific performance, injunctions.

**13. Special Contracts:**

**Indemnity:** A contract by which one party promises to compensate the other for the loss suffered.

**Bailment:** Delivery of goods by one party to another for a specific purpose.

**Pledge:** A bailment of goods as security for the repayment of a debt or the performance of a promise.



## Introduction:

The Indian Contract Act, 1872, is a crucial legislation governing contracts in India. It defines the legal principles that underlie contracts, ensuring fairness and enforceability. A contract is essentially an agreement enforceable by law, consisting of an offer, acceptance, and consideration.

## Nature of Contracts:

Contracts are legally binding agreements that create rights and obligations between parties. The Act recognizes the autonomy of individuals to enter into contracts, subject to certain conditions. For a contract to be valid, it must have essential elements such as offer, acceptance, intention to create legal relations, lawful consideration, legal capacity, and free consent.



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**Classification of Contracts:** The Indian Contract Act of 1872 is a key piece of legislation that governs contracts in India. It was enacted with the purpose of regulating and enforcing contracts between parties. Let's delve into the various aspects of the Indian Contract Act, including its introduction, nature, classification of contracts, and specific provisions related to offer and acceptance, considerations, capacity of contract, free consent, agreements declared void, contingent contracts, quasi-contracts, discharge of contracts, breach of contract, remedies for breach of contract, and special contracts like indemnity, bailment, and pledge.

### CLASSIFICATION OF CONTRACTS

Contracts may be classified on the basis of their;

- (a) Enforceability or Formation
- (b) Validity
- (c) Performance or Execution

Classification of contracts		
Formation	Validity	Performance
✓ Express Contract	✓ Valid Contract	✓ Executed Contract
✓ Implied Contract	✓ Void Contract	✓ Executory Contract
✓ Quasi Contract	✓ Voidable Contract	✓ Unilateral Contract
	✓ Illegal Contract	✓ Bilateral Contract
	✓ Unenforceable Contracts	

### **Classification of Contracts:**

Contracts can be classified into various types, such as:

- 1. Valid Contract:** One that fulfills all the essential elements required by law.
- 2. Void Contract:** Lacks essential elements and is unenforceable.
- 3. Voidable Contract:** One where a party has the option to enforce or void the contract.
- 4. Unenforceable Contract:** A valid contract that cannot be enforced due to certain legal reasons.

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**Valid Contract: Example:** A agrees to sell his car to B for a certain amount, and B agrees to buy it. This is a valid contract as it contains all the essential elements.

**Void Contract: Example:** A agrees to sell drugs to B, which is illegal. This contract is void as it involves an unlawful object.

**Voidable Contract: Example:** A, a minor, buys a mobile phone on credit. A can avoid the contract as he is a minor and lacks the capacity to contract.

**Unenforceable Contract: Example:** A and B enter into an oral agreement for the sale of land. Since the law requires such agreements to be in writing, this contract is unenforceable.

## Offer and Acceptance

**Offer:** An offer is a proposal made by one party with the intention of creating a legal relationship upon acceptance.

**Example:** A offers to sell his bicycle to B for ₹500. Here, A is the offeror, and the act of offering to sell the bicycle is the offer.

### **Acceptance:**

Acceptance is the assent to the terms of the offer, creating a binding contract.

**Example:** B agrees to buy A's bicycle for ₹500. B's agreement constitutes acceptance, and a valid contract is formed.

Examples to Illustrate Offer and Acceptance:

### **Unilateral Offer:**

**Example:** A announces a reward of ₹1,000 to anyone who finds and returns his lost dog. B, who was unaware of the reward, finds the dog and returns it. B's act of finding and returning the dog constitutes acceptance of the unilateral offer.

### **Cross Offers:**

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**Example:** A writes to B offering to sell his car for ₹10,000. Simultaneously, B writes to A offering to buy the same car for ₹10,000. Both parties have made identical offers, and there is no valid acceptance until the parties become aware of each other's offers.

**Specific Offer:**

**Example:** A offers to sell his antique watch to B for ₹5,000 and specifies that the offer will remain open until the end of the month. B accepts the offer on the 25th of the month. The acceptance is valid as it was made within the specified time frame.

**Acceptance by Conduct:**

**Example:** A sends goods to B's shop along with a letter stating that if B does not return the goods within 7 days, it will be considered an acceptance of the offer to purchase. If B does not return the goods within the specified time, acceptance is deemed to have occurred through conduct.

**1. Consideration:**

Definition: Consideration is something of value that is given or promised to the promisor by the promisee in exchange for the promise. It is an essential element of a valid contract.

**Essentials of Consideration:**

- Must move at the desire of the promisor.
- May be past, present, or future.
- Must be real and not illusory.
- Must be something that is not already a duty or an obligation.

**Examples:**

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**Sale of Goods:**

Scenario: A agrees to sell his laptop to B for ₹500. The laptop is the subject matter, and the payment of ₹500 by B is the consideration. In this case, the consideration is the price paid for the laptop.

**Services Agreement:**

Scenario: C agrees to paint D's house for ₹1,000. The act of painting the house by C is the consideration, and the payment of ₹1,000 by D is the reciprocal consideration. Both parties benefit from the exchange.

**Forbearance:**

Scenario: E promises not to file a lawsuit against F for a certain act. In return, F promises to pay ₹5,000 to E. Here, the forbearance of legal action by E and the payment by F constitute valid consideration.

**2. Capacity of Contract:**

Definition: Capacity refers to the legal competency of a person to enter into a contract. Not everyone has the legal capacity to be a party to a contract.

**Persons with No Capacity:**

- Minors (persons below the age of majority).
- Persons of unsound mind.
- Persons disqualified by law.

**Examples:**

**Minors:**

Scenario: G, a 16-year-old, buys a smartphone. Since G is a minor, the contract is voidable at G's option. G can choose to affirm or void the contract upon reaching the age of majority.

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**Persons of Unsound Mind:**

Scenario: H, who is mentally unstable, enters into a contract to sell a car. The contract is void since H lacks the capacity to understand the nature and consequences of the contract.

**Persons Disqualified by Law:**

Scenario: I, an undischarged insolvent, enters into a contract to purchase land. Such a contract is void since an insolvent person is disqualified by law from entering into certain types of contracts.

### **3. Free Consent:**

**Definition:** Free consent implies that the parties to a contract must agree upon the same thing in the same sense without any external pressure, coercion, undue influence, fraud, misrepresentation, or mistake.

Elements of Free Consent:

- Absence of coercion.
- Absence of undue influence.
- Absence of fraud.
- Absence of misrepresentation.
- Absence of mistake.

**Examples:**

#### **Coercion:**

Scenario: J threatens to harm K's family if K does not sell his car to J for a very low price. The agreement is not based on free consent because it involves coercion.



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**Undue Influence:**

Scenario: L, a person in a position of trust, influences M to enter into a contract that benefits L disproportionately. This contract lacks free consent due to undue influence.

**Fraud:**

Scenario: N makes a false statement to O about the quality of a product to induce O to purchase it. The contract is voidable at O's option due to fraud.

**Misrepresentation:**

Scenario: P, a seller, falsely represents the mileage of a used car to Q, the buyer. Q relies on this information to purchase the car. The contract is voidable due to misrepresentation.

**Mistake:**

Scenario: R intends to sell his antique painting to S, mistakenly thinking it is a replica. If S is aware of R's mistake and takes advantage of it, the contract lacks free consent.

**1. Agreements Declared Void:**

Certain agreements are expressly declared void under the Indian Contract Act. These include agreements that are opposed to public policy, involve illegal considerations, or are expressly declared void by law.

**Examples:**

**Agreement in Restraint of Trade:**

Scenario: X and Y agree that X will not engage in the business of selling smartphones for the next 10 years in a specified geographical area. This agreement is void as it imposes an unreasonable restraint on X's trade.

**Agreement for Unlawful Consideration:**

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Scenario: Z promises to sell illegal drugs to W, and W promises to pay a large sum of money in return. This agreement is void due to the illegal consideration involved.

### 2. Contingent Contracts:

Definition: A contingent contract is one where the performance depends on the happening or non-happening of a specific event.

#### Examples:

##### Insurance Contract:

Scenario: A insures his house against fire. The contract is contingent on the occurrence of a fire. If a fire happens, the insurance company is bound to compensate A; if not, A continues to own the house without receiving any compensation.

##### Sale of Goods Contingent on Approval:

Scenario: B agrees to buy a painting from C, but the sale is contingent on B's approval of the painting after viewing it in person. If B is dissatisfied upon viewing, the contract is not binding.

### 3. Quasi Contracts:



Quasi contracts are not actual contracts but are legal obligations imposed by law to prevent unjust enrichment.

#### Examples:

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Supply of Necessaries to a Person Incapable of Contracting:

Scenario: D provides essential medical supplies to E, who is unconscious. Even though there was no explicit contract, D can recover the reasonable cost of the supplies under a quasi-contractual obligation.

### **Payment by Mistake:**

Scenario: F pays G twice for the same service due to an accounting error. G is under a quasi-contractual obligation to repay the excess amount received.

### **4. Discharge of Contracts:**

Contracts can be discharged by various means, including performance, agreement, impossibility of performance, lapse of time, and breach.

Examples:

Performance:

Scenario: H agrees to paint I's house for a specified sum. Once H completes the painting, the contract is discharged by performance.

### **Agreement:**

Scenario: J and K agree to mutually cancel their contract for the sale of goods. The agreement to cancel the contract discharges both parties from their obligations.

### **5. Breach of Contract:**



A breach occurs when a party fails to fulfill its contractual obligations.

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Examples:

**1.Non-payment of Consideration:** Scenario: L agrees to deliver goods to M upon payment of ₹10,000. If M fails to make the payment, it constitutes a breach of contract.

**2.Failure to Perform on Time:**

Scenario: N agrees to complete a construction project by a certain date. If N fails to meet the deadline without a valid excuse, it is a breach of contract.

**6. Remedies for Breach of Contract:**

When a breach occurs, the innocent party has various remedies, including damages, specific performance, injunction, and quantum meruit.

Examples:

Damages:

Scenario: O contracts to sell rare books to P. If O fails to deliver the books, P may be entitled to damages equal to the value of the books.

**Specific Performance:**

Scenario: Q agrees to sell a unique piece of art to R. If Q breaches the contract, R may seek a court order for specific performance, compelling Q to sell the art.

**7. Special Contracts:**

**Indemnity:**

Definition: Indemnity is a promise to compensate for any loss or damage that another party may suffer.

Example:

Scenario: S guarantees T against any loss that T may suffer due to a business transaction. If T incurs a loss, S is obligated to indemnify T.

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**Bailment:**

Definition: Bailment is the delivery of goods by one party to another for a specific purpose, with an obligation to return or dispose of the goods.

Example:

Scenario: U lends V a laptop for a month. U is the bailor, V is the bailee, and the laptop is the bailed property. V must return the laptop after the specified period.

**Pledge:**

Definition: Pledge is a type of bailment where goods are delivered as security for the repayment of a debt or the performance of a promise.

Example:

Scenario: W borrows money from X and pledges her jewelry as security. If W fails to repay the loan, X has the right to sell the jewelry to recover the amount.

S.No	Basis	Contract	Agreement
1	Definition	A contract is an agreement enforceable by law	An Agreement is every promise or every set of promises forming consideration
2	Enforceability	Every contract is enforceable	Every promise is not enforceable.
3	Inter relationship	A contract includes an agreement.	An agreement does not include a contract.
4	Validity	Only legal agreements are called contracts.	An agreement may be both legal and illegal.
5	Legal Obligation	Every contract contains a legal obligation.	It is not necessary for every agreement to have legal obligation.

## 100 MCQ

1. What is the main purpose of the Indian Contract Act, 1872?

- a) Regulation of businesses
- b) Governance of criminal offenses
- c) Enforcement of social norms
- d) Regulation of contracts

**Answer: d) Regulation of contracts**

2. Which section of the Indian Contract Act deals with the 'Definition of Contract'?

- a) Section 1
- b) Section 2
- c) Section 10
- d) Section 15

**Answer: b) Section 2**

3. What is a voidable contract?

- a) A contract that is invalid from the beginning

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- b) A contract that is valid but can be set aside at the option of one or more parties
- c) A contract that is enforceable by law
- d) A contract that is declared void by a court

**Answer: b) A contract that is valid but can be set aside at the option of one or more parties**

4. Consideration is an essential element of a valid contract. Which section of the Indian Contract Act deals with consideration?

- a) Section 2(f)
- b) Section 10
- c) Section 25
- d) Section 32

**Answer: c) Section 25**

5. What is a contingent contract?

- a) A contract that depends on the will of the parties
- b) A contract in which the performance is uncertain
- c) A contract that is declared void
- d) A contract without consideration

**Answer: b) A contract in which the performance is uncertain**

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6. An offer must be communicated to the offeree to be valid. This principle is covered under which section of the Indian Contract Act?

- a) Section 4
- b) Section 7
- c) Section 9
- d) Section 13

**Answer: b) Section 7**

7. When does a contract become void due to impossibility of performance?

- a) At the time of acceptance
- b) At the time of offer
- c) After the contract is formed
- d) Before the contract is formed

**Answer: d) Before the contract is formed**

8. What is a quid pro quo in the context of contracts?

- a) A bilateral contract
- b) A consideration



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- c) An offer
- d) Acceptance

**Answer: b) A consideration**

9. Who are disqualified from entering into a contract based on the capacity of the parties?

- a) Minors and persons of unsound mind
- b) Minors and corporations
- c) Corporations and persons of unsound mind
- d) Minors, corporations, and persons of unsound mind

**Answer: a) Minors and persons of unsound mind**

10. What is the effect of coercion on a contract?

- a) It makes the contract void
- b) It makes the contract voidable at the option of the coerced party
- c) It has no effect on the contract
- d) It makes the contract illegal

**Answer: b) It makes the contract voidable at the option of the coerced party**

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11. Which section of the Indian Contract Act defines 'Free Consent'?

- a) Section 11
- b) Section 13
- c) Section 14
- d) Section 15

**Answer: c) Section 14**

12. When does a contract become voidable on the ground of undue influence?

- a) When there is a mistake in the contract
- b) When one party is in a dominating position
- c) When the consideration is inadequate
- d) When the consent is not free

**Answer: b) When one party is in a dominating position**

13. In which section of the Indian Contract Act is the doctrine of frustration discussed?

- a) Section 32

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b) Section 45

c) Section 56

d) Section 66

**Answer: c) Section 56**

14. When does an agreement become void for uncertainty?

a) When the terms are not clear

b) When the parties intend not to be bound by the agreement

c) When the agreement is impossible to perform

d) When the consideration is not lawful

Answer: a) When the terms are not clear

15. What is the period of limitation for filing a suit to enforce a contract?

a) One year

b) Three years

c) Five years

d) Ten years

**Answer: b) Three years**

16. What is the consequence of a contract with a minor?

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- a) It is void
- b) It is voidable at the option of the minor
- c) It is enforceable by law
- d) It is illegal

**Answer: b) It is voidable at the option of the minor**

17. Which agreement is expressly declared void under the Indian Contract Act?

- a) Agreement in restraint of trade
- b) Agreement by way of wager
- c) Agreement with a minor
- d) Agreement without consideration

**Answer: b) Agreement by way of wager**

18. What is the effect of a contract induced by fraud?

- a) It is void
- b) It is voidable at the option of the defrauded party
- c) It is illegal
- d) It is unenforceable

**Answer: b) It is voidable at the option of the defrauded party**

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19. In a contract, what does the term 'Coercion' refer to?

- a) Threat of physical harm
- b) Unfair persuasion
- c) Unlawful detention
- d) All of the above

**Answer: d) All of the above**

20. Which of the following is not a ground for the discharge of a contract?

- a) Performance of the contract
- b) Agreement between the parties
- c) Breach of contract
- d) Mistake of law

**Answer: d) Mistake of law**

21. What defines a contingent contract?

- a) A contract with uncertain terms

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- b) A contract dependent on an uncertain event
- c) A contract without consideration
- d) A contract declared void by law

**Answer: b) A contract dependent on an uncertain event**

22. In a contingent contract, what is the event called on which the contract's performance depends?

- a) Future event
- b) Contingent event
- c) Uncertain event
- d) Contingent clause

**Answer: c) Uncertain event**

23. When does a contingent contract become void?

- a) If the event becomes impossible
- b) If the event becomes certain to happen
- c) If the event becomes certain not to happen
- d) If the event is uncertain at the time of formation

**Answer: b) If the event becomes certain to happen**

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24. What is a Quasi Contract?

- a) A contract formed by an express agreement
- b) A contract formed by the conduct of the parties
- c) A contract without consideration
- d) A contract declared void by law

**Answer: b) A contract formed by the conduct of the parties**

25. Which of the following is not a type of Quasi Contract?

- a) Quantum Meruit
- b) Quantum Valebant
- c) Quantum Sufficit
- d) Quantum Querela

**Answer: c) Quantum Sufficit**

26. In a Quasi Contract, what does the term 'Quantum Meruit' refer to?

- a) As much as is deserved
- b) As much as is valued
- c) As much as is sufficient
- d) As much as is offered

**Answer: a) As much as is deserved**

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27. When does a Quasi Contract arise?

- a) When there is a valid offer and acceptance
- b) When there is a breach of contract
- c) When one party is unjustly enriched at the expense of another
- d) When the consideration is inadequate

**Answer: c) When one party is unjustly enriched at the expense of another**

28. What is the purpose of Quantum Valebant in a Quasi Contract?

- a) To determine the quantum of damages
- b) To determine the quantum of consideration
- c) To determine the quantum of performance
- d) To determine the quantum of restitution

**Answer: b) To determine the quantum of consideration**

29. In a Quasi Contract, what is the remedy available to the aggrieved party?

- a) Specific performance
- b) Damages



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c) Restitution

d) Rescission

**Answer: c) Restitution**

30. What distinguishes a Quasi Contract from an express contract?

a) Presence of consideration

b) Absence of mutual assent

c) Absence of a formal offer

d) Absence of a formal acceptance

**Answer: b) Absence of mutual assent**

31. How can a contract be discharged by performance?

a) By mutual agreement

b) By breach of contract

c) By completion of contractual obligations

d) By rescission

**Answer: c) By completion of contractual obligations**

32. What is anticipatory breach of contract?

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- a) A breach occurring before the contract is formed
- b) A breach occurring after the contract is discharged
- c) A breach occurring before the actual performance is due
- d) A breach occurring due to mistake

**Answer: c) A breach occurring before the actual performance is due**

33. What is the effect of frustration on a contract?

- a) It makes the contract void
- b) It makes the contract voidable
- c) It discharges the parties from their obligations
- d) It has no effect on the contract

**Answer: c) It discharges the parties from their obligations**

34. How can a contract be discharged by mutual agreement?

- a) By performance
- b) By frustration
- c) By novation
- d) By rescission

**Answer: d) By rescission**

35. When does novation occur in the context of contracts?

- a) When a new party is substituted for an existing party
- b) When the contract is discharged by performance
- c) When there is a breach of contract
- d) When the contract is frustrated

**Answer: a) When a new party is substituted for an existing party**

**36. What is the effect of a material breach of contract?**

- a) It entitles the innocent party to terminate the contract and sue for damages
- b) It makes the contract void
- c) It results in specific performance
- d) It has no legal consequences

**Answer: a) It entitles the innocent party to terminate the contract and sue for damages**

37. In the context of discharge by agreement, what is an accord and satisfaction?

- a) A mutual agreement to end the contract
- b) A compromise where one party accepts a different performance
- c) A discharge by novation

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d) A discharge by frustration

**Answer: b) A compromise where one party accepts a different performance**

38. What is the period of limitation for filing a suit for breach of contract?

a) One year

b) Three years

c) Five years

d) Seven years

**Answer: b) Three years**

39. When does discharge by frustration occur?

a) When there is a mutual agreement between the parties

b) When the contract becomes impossible to perform due to unforeseen events

c) When one party anticipates a breach

d) When there is a material breach

**Answer: b) When the contract becomes impossible to perform due to unforeseen events**

**40. What is the primary remedy for breach of contract?**

- a) Specific performance
- b) Rescission
- c) Damages
- d) Injunction

**Answer: c) Damages**