

# July at the multiplex



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BUSTER**

*DATE: June 12, 2012*

*TO: Mr. Plex, Owner, Royal 16 Theater*

*FROM: Team 8*

*RE: Analysis of Liability for Fraud Based off of your request, we have completed an analysis concerning Royal 16 Theater's liability for fraud assumed by the customer, Tommy.*

Please contact us if any additional information is needed. July at the Multiplex Executive Summary What are the standards of selling a service or product so the customer will not get furious? If we tried our best but they are still unsatisfied, what kind of response should we give?

In this case "July at the Multiplex", the plaintiff, Tommy, was not satisfied with the service that was provided with Royal 16 Theater. He demanded the money that he paid be returned. The theater owner, Mr. Plex refused to do so. Therefore, Tommy was outraged and filed a lawsuit against him. Mr. Plex has two choices to make. The first is to negotiate settlement money or defend the lawsuit. As a group, we will give our best knowledge of business law, statistics, and ethics to help Mr. Plex choose the ideal decision. First of all we will compare the fraud and misrepresentation of business law.

Furthermore, we conducted tests on Hypothetical test and a Confidence Interval calculation. Lastly, under the ethics theory of cost-benefit analysis, justice vs. fairness and rights, we decided on the best action that Mr. Plex is supposed to take. July at the Multiplex Purpose: This report is intended to analyze the liability for fraud, the results of the statistical conclusions

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conducted by the movie theater, and the ethical issues involved with screening commercials before the scheduled movie.

### I. Analysis for Liability of Fraud

The analysis for liability of fraud will explain in detail the offer, acceptance, and possible misrepresentation involved in the contract between Tommy and the Royal 16 Theater. The analysis will also cover the Cao and Cao v. Nguyen and Pham case and draw conclusions based on the prima facie case.

Assuming that a contract exists between Tommy and Royal 16 Theater this examination of the facts will help determine whether Royal 16 Theater is liable at all for fraud. The offer made to Tommy by the Royal 16 Theater complex was a unilateral contract.

That means that only one of the parties involved made a promise and they made that promise for an action. When Tommy bought his ticket for "The Governator" movie, this solidified the unilateral contract between him and the Royal 16 Theater complex. Tommy took the action of buying the movie ticket at the front kiosk and in exchange for that action the Royal 16 Theater complex promised him the opportunity to go inside, find a seat in the theatre, and watch the movie he paid for. Since all of the requirements were met in the contract this made the contract between Tommy and Royal 16 Theater valid.

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Valid contracts are contracts in which all of the legal requirements are met making the contract binding to both parties. The contract between Tommy

and Royal 16 Theater is a valid contract because it was legal and both parties met the requirements to make that contract binding. Tommy fulfilled his part of the contract by purchasing a ticket for the movie "The Governator" and the movie theater performed their part of the contract by screening the movie. Tommy knowingly knew about the contract he was entering into when he gave the Royal 16 Theater his acceptance.

The duty of acceptance falls upon both parties seeking to enter into the contract. In a unilateral contract the party seeking to perform an action for a promise must accept the offer made by the offeror by the terms and in the method requested by the offeror. In this case Tommy was the offeree and the Royal 16 Theater was the offeror. Tommy accepted the offer made by Royal 16 Theater and did so in the method requested; making both the offer and acceptance valid for all terms and purposes in this contract. There are certain limitations on the recovery of damages imposed upon the contract that both Royal 16 Theater and Tommy entered into.

The duty to mitigate damages falls onto Tommy, the plaintiff, in this specific case. The duty to mitigate damages is the responsibility of the plaintiff because the plaintiff injured by the breach of the contract cannot recover for losses that could have been easily avoided. In this case Tommy fulfilled his duty to mitigate damages and was not trying to recover for any damages that he could have easily avoided. Instead Tommy wants to file a lawsuit based on misrepresentation. A misrepresentation is a statement made that is not unified with the truth.

There are two categories that misrepresentation can fall under: either innocent or fraudulent. When a misrepresentation is innocent it was made not intentionally to deceive the other party. A fraudulent misrepresentation is made with the intent to deceive with knowledge that it is false. Tommy wants to pursue legal action against Royal 16 Theater on the basis that they conducted fraudulent misrepresentation. Prima Facie Case The prima facie case that relates to this case between Tommy and Royal 16 Theater is Cao and Cao v. Nguyen and Pham. In Cao and Cao v.

Nguyen and Pham the plaintiffs file a lawsuit against the defendant for fraudulent misrepresentation. They said that when they were attempting to buy a property the defendants claimed that the property was in fact a duplex and that multiple families could live there. The city building and safety department revealed that the property was not a duplex and could not become a duplex due to building and safety issues. The plaintiffs then filed a lawsuit against the defendants for fraudulent misrepresentation. The first trial court dismissed the charges and found that the buyers did not prove the elements of fraudulent misrepresentation.

When the plaintiffs appealed the results the second court reversed the decision of the first court and decided that the plaintiffs did prove fraudulent misrepresentation. The property sold by the defendants caused reasonable reliance upon the plaintiffs and there were damages because of the reliance. The property was sold to them on the idea that the property was indeed a duplex when the defendants had prior knowledge that it in fact was not a duplex. The defendants knew that the plaintiff would rely on the representations and conducted business anyway.

This case relates perfectly to the situation going on between Tommy and Royal 16 Theater because both cases involve the plaintiffs trying to recover for fraudulent misrepresentation. In our opinion, Royal 16 Theater does have some liability for fraudulent misrepresentation when they tell their customers the movie is supposed to start at 1: 00 pm, but they play twenty minutes of previews before. A simple solution to this issue could be resolved by printing disclaimers on the tickets sold to a customer that warns them about the commercials before they enter into the theater.

That way when customers come to accept the offer from the theater they are bound by the method of acceptance and they agree to the commercials playing before the movie starts. The simple disclaimer will go a long way and will ensure that there will be no more plaintiffs like Tommy pursuing legal action against the theater again (Mallor, 2009).

## II. Statistical Analysis

According to the commission of Royal 16 Theater, they need to decide which courses of actions are more advisable, considering negotiating a settlement of any lawsuit or defending vigorously.

The survey is the key to which course of action will be taken. If the result shows that the percentage of people resenting the ads is 10%, the consortium should consider negotiating the settlement. However, if the percentage is less than 10%, Royal 16 Theater should vigorously defend. We have performed a survey which asked 100 random patrons whether they resent the ads. The result came out to be 6 out of 100 resented the ads. This

information itself is not enough. We have to conduct several more tests to have a more solid idea of whom and how many resented the ads.

First of all, we have to begin with a Hypothesis test, which means that we conduct a test to understand whether 10% of moviegoers resent the ads or less than 10% of moviegoers resent the ads. Our  $H_0$ (null hypothesis) should be  $p = 10\%$  and our  $H_a$ (alternative action/hypothesis) should be  $p < 10\%$ . In this case, the sample proportion would be  $\frac{6}{100} = .06$ . The calculation is going to be done using a confidence level of 95%. The confidence interval formula for this analysis is  $p \pm z \sqrt{p(1-p)/n}$  where  $p$  is the sample proportion,  $z$  is the level confidence from the 95% confidence level and  $n$  would be the sample number.  $p = .06$ ,  $z = 1.96$ ,  $n = 100$ . If we plug in the numbers into the formula then we will get  $p \pm E$  ( $E$  is Error =  $z \sqrt{p(1-p)/n}$ ).  $E$  would be  $.04655$ . Therefore,  $p = .06 \pm .04655 = 0.1066, .01345$ . Thus, the confidence interval for this analysis would be  $.01345$  and  $0.1066$  which are  $1.345\%$  and  $10.66\%$  if written in percentage form. This says that this result is not accurate and the actual result may vary between this interval. In this case, since our null hypothesis which is  $10\%$  lies between the confidence interval, then the null hypothesis is not to be rejected at the moment.

We have to perform further research and calculation. By this result alone, we suggest that Mr. Plex should consider the settlement agreement. Type I and II error Before we start with the consortium, here are the definitions of each error according to the textbook "Statistic for Business and Economics": \* A type I error is an error if we reject the correct null hypothesis \* A type II error is an error if we fail to reject the false null hypothesis. Therefore, the Type I

and Type II errors are wrong judgments in the testing of null and alternative hypotheses.

With the null hypothesis  $H_0$  and the alternative Hypothesis  $H_a$ , only one of them is true. The result of hypothesis testing must accept  $H_0$  when it is true and reject  $H_0$  when  $H_a$  is true. If the result of  $H_0$  is true, but we reject it then we will make a type I error. On the other hand if  $H_a$  is true, but we fail to reject it then we make a type II error. As stated before, the  $H_0$ (Null Hypothesis) is when  $p = 10\%$  and the  $H_a$ (Alternative action/Hypothesis) is when  $p < 10\%$ . To illustrate more, A type I error would happen if 10% of moviegoers resent the ads, and they reject it.

It would be a careless decision if they decide not to consider the settlement money, even though they understand that their null hypothesis lies between the Confidence interval. Going deeper with error, a type II error would happen if less than 10% of moviegoers resent the ads, and they fail to reject it. It would be a waste of money if they agree with the settlement when in fact, they do not need to and should defend the lawsuit. Hypothetical Statistical Analysis This time, we have a survey of 300 patrons.

The result states that 18 out of 300 resent the ads and this 6% is inadequate for finding the answer. Once again we have to conduct a hypothesis test and confident interval calculation. Just like before, the null hypothesis for this would still be  $p = 10\%$  and the alternative action would still be  $p < 10\%$ . If 300 patrons are to be randomly selected instead of 100 patrons, and in the end 18 out of 300 patrons agree with Tommy to resent the ads, then the



sample proportion would be  $18300 = .06$ . The calculation is going to be similar as above.

This time it is still going to be calculated using a confidence level of 95%. The confidence interval formula for this analysis is  $p \pm z \sqrt{p(1-p)/n}$  where  $p$  is the sample proportion,  $z$  is the level confidence from the 95% confidence level and  $n$  would be the sample number.  $p = .06$ ,  $z = 1.96$ ,  $n = 300$ . Then if we plug in the numbers into the formula we will get  $p \pm E$  ( $E$  is Error =  $z \sqrt{p(1-p)/n}$ ).  $E$  would be  $.02687$ . Therefore,  $p = .06 \pm .02687 = 0.03313, .08687$ . Thus, the confidence interval for this analysis would be  $.03313$  and  $0.08687$  which are  $3.3313\%$  and  $8.87\%$  if written in percentage form. This time, the null hypothesis does not lie between the confidence interval. Thus, the null hypothesis has to be rejected and the alternative action accepted. Therefore, we suggest that it would be better not to do the settlement and instead defend the lawsuit. Additional Information There are many other factors which we are not aware of that might affect the survey. The most common one is how the survey is taken. In statistics, there are a few types of conducting surveys and each would lead to different outcome.

There are Simple Random Sample, Stratified Random Sample, Cluster Sample, Systematic Sample, etc. Beside these types, the time and place of the survey is also a huge factor. To illustrate, there are more teens in a certain area and more elders in a certain are. What teens think and what elders think are two different things. Thus, the place is also a factor. Furthermore, the time is also a significant factor. Surveys taken on weekdays night and weekend afternoon would result in a different outcome. To conclude, we believe that the survey might not be very accurate survey.

### III. Ethical Analysis

The ethical issues that may be involved in showing twenty minutes of commercials before the screening of the movie can be described under three main categories: the cost-benefit analysis, fairness, and the theory under which we believe Royal 16 Theater should act under. Cost-Benefit Analysis Schmidt (2012) believes cost-benefit analysis is when “ both positive and negative consequences of a proposed action are going to be summarized and then weighed against each other” (“ Cost benefit”, para. 1).

Using this analysis will help to understand which is the best route for the Royal 16 Theater to take between their costs and benefits. Costs The “ negatives” or cost of Royal 16 Theater showing twenty minutes of commercials before the movie is customers can of course become upset such as Tommy had. If there are more moviegoers that hear of Tommy’s lawsuit, many could follow in his footsteps because they believe in his position on the matter. Another cost the Royal 16 Theater will have due to commercials is they will need to keep their advertisers and stakeholders pleased. According to investopia. om (2012) stakeholders are “ investors, employees, customers, and supplier that have an interest in an enterprise or project” (“ Definition”, para. 1). It will always cost the theater something to keep each stakeholder happy. By showing commercials, the investors will get their money’s worth for finding advertisers to invest their time with Royal 16 Theater. Employees will not have any benefits from commercials. Tommy has already showed the discontent a moviegoer may have towards commercials. Finally, suppliers can be content with commercials because

customers can see their product and need to buy it during or after the movie.

However, all this shows a large cost of trying to keep all of these stakeholders pleased. Keeping one stakeholder happy can make another unhappy. Benefits One benefit of showing twenty minute commercials is gaining revenue from commercials. When a customer sees a commercial with yummy chocolate bars or dancing popcorn they are going to be more enticed to go run and get some snacks before the movie starts. The Royal 16 Theater gains much revenue from moviegoers who gain this feeling during commercials. Another benefit from showing commercials is actually towards Royal 16 Theater's customers.

By showing commercials, a moviegoer can show up late and not miss the movie. This is usually what customers will do if they do not care for the commercials or just decide on a last-minute movie trip. Now we can decide on the cost vs. benefit choice for the Royal 16 Theater. Cost-Benefit Analysis Conclusion After seeing both costs and benefits Royal 16 Theater should deal with the cost entailed with dealing with stakeholders and Tommy. We believe this due to the fact that the Royal 16 Theater has too much invested with their stakeholders to stop it all just for one lawsuit.

By taking the cost choice Royal 16 Theater will keep its reputation with customers and keep a relationship with the stakeholders. Having the benefits of customer satisfaction would be great; however losing the stakeholders is too much of a risk for the theatre to take. We have discussed the cost-benefit analysis, now we can understand if moviegoers are being treated

fairly. Customers Treated Fairly In this ethical issue it is pondered if the customers are truly being treated fairly. This is a yes or no issue.

It can be argued that the customers are being treated unfairly because they are not seeing a true representation of an advertisement or time for a movie. However, it can be argued that moviegoers are being treated equally because the Royal 16 Theater does not have an actual contract stating that a movie will start at this time no matter what happens. Neither party has an agreement saying any compensation will be given if the contract does not follow through. Also, movies have always been similar to this routine of commercials and many customers understand that.

However, based on ethics the moviegoers are not being treated fairly. It is mainly due to the fact that the Royal Theater states a time slot for a movie to start, not when commercials for the movie will start. It is just good business practice to keep moviegoers happy by not deceiving them.

According to Michael Hackworth (1999), "ethical leadership actually saves money; consider it the role of quality in business" ("Only the Ethical", para. 1). We have just discussed if the moviegoers are being treated fairly, now we will discuss the ethical theory which the Royal 16 Theater should act under.

### *Ethical Theory*

The ethical theory Royal 16 Theater should act under is the stakeholder/utilitarian theory. We believe this theory is the best because it lends itself to the golden rule of "the greatest good to the greatest number". We believe this is the best course of action for the Royal 16 Theater because the theater has to act out of its own interest to keep its stakeholders content

with performance. Ethically, this decision makes the most sense because by going on with Tommy's lawsuit it will make the problem go away quicker.

By fixing this issue with Tommy, the Royal Theater will make their stakeholders pleased and keep pursuing revenue with their other fellow loyal customers.

### *Conclusion*

In conclusion, we believe Mr. Plex should fight the case against Tommy with the consortium. We consider our evidence of the analysis of liability for fraud, statistical analysis, and ethical analysis enough to show Mr. Plex he will be successful in the case.

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