

REICE  
Revista Electrónica de Investigación en Ciencias Económicas  
Abriendo Camino al Conocimiento  
Facultad de Ciencias Económicas, UNAN-Managua

Vol. 10, No. 19, Enero - Junio 2022

REICE ISSN: 2308-782X

<http://revistacienciaseconomicas.unan.edu.ni/index.php/REICE>  
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Economical Analysis of Guarantee of Lack of Providing of Pre-Contractual Information in Iranian Contract Law and Principles of European Contract Law

Análisis Económico de la Garantía de Falta de Suministro de Información Precontractual en el Derecho Contractual Iraní y los Principios del Derecho Contractual Europeo

Fecha recepción: enero 01 del 2022  
Fecha aceptación: enero 19 del 2022

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## **Resumen**

Desde el punto de vista económico, la garantía de incumplimiento debe diseñarse de tal manera que no solo tenga la funcionalidad adecuada, sino que también evite el desperdicio de recursos y gastos personales y sociales. Para ello, de acuerdo con las reglas de los contratos, así como la buena voluntad de las partes del contrato y la adecuada gestión de su flujo en la dirección de los objetivos económicos de los contratos, las partes del contrato deben proporcionar cada otra información y El papel de este compromiso en los sistemas legales, tiene una garantía ejecutiva bastante diferente. En la ley de Irán, la garantía del cumplimiento de este papel de compromiso es principalmente en la forma de cancelar el contrato, Crear el derecho a rescindir Hacer trampa en la institución equivocada, fraude, Violación de descripción y defecto. Pero en los principios jurídicos de los contratos europeos, existe en forma de derecho a rescindir el contrato, reclamar daños y perjuicios y Modificación del contrato por error y Engaño y violación del principio de buena voluntad y comercio justo. Debido a la edad relativamente joven de esta teoría (la teoría del compromiso de informar), el ámbito de este compromiso y Garantizar su implementación en el sistema legal de Irán no se dibuja de manera vívida y se basa en las políticas generales de la Unión Europea (Unificación de normas contractuales) y el hecho de que esta unión es pionera en las leyes contractuales. Al explicar la garantía de implementación de la violación de esta obligación en Irán y la unión europea (Principios de las leyes contractuales europeas), se puede observar que los principios de las leyes contractuales europeas El derecho contractual tiene más fortalezas en cuanto a la misión de la ciencia económica (asignación eficiente de recursos y funcionalidad

**Palabras clave:** Informar, Incumplimiento de obligación, Garantía de ejecución, Funcionalidad, asignación eficiente.

## **Abstract**

Economical wise, guarantee of breach of obligation should be designed in such a way that not only it has adequate functionality, but it should also prevent wasting resources and personal and social expenses. In order to do that, according to the rules of contracts, and also the good will of the parties of the contract and proper management of its flow in the direction of the economical goals of the contracts, the parties of the contract have to provide each other some information and The role of this commitment in legal systems, has a rather different Executive guarantee. in Iran's law, guarantee of fulfillment of this commitment role is mostly in the form of cancelling the contract, Create the right to terminate Cheating under the wrong institution, fraud, Violation of description and defect. But in the legal principles of European contracts, it exists in the form of the right to terminate the contract, claim damage and Modification of the contract due to a mistake and Deception and violation of the principle of good will and fair trade. Due to the relative young age of this theory (the theory of commitment to informing) the realm of this commitment and Guarantee its implementation in Iran's legal system is not drawn in a vivid way and based on the general policies of the European union (Unification of contract rules) and the fact that this union is a pioneer in contract laws, By explaining the guarantee of implementation of the violation of this obligation in Iran and European union (Principles of European contract laws) , it can be witnessed that the principles of European contract laws has more strengths regarding the mission of the economical science (efficient allocation of resources and functionality).

**Keywords:** Informing, Breach of obligation, Execution guarantee, Functionality, efficient allocation.

## **Introduction**

Based on the rapid increase in the importance of the economical aspect of the deals and Getting closer of law and economy in the domain of the contracts, the importance of paying attention to the economical aspects of Guarantee of breach of obligation in REICE | 198 informing from the lawmaker is felt more and more. And also based on the literature on the subject, it can be seen that in our process of legal research, this subject has been mainly analyzed from a legal point of view; and the fact that with this approach, Motivation to obtain and provide pre-contractual information in concluding contracts will be neglected. While according to the economical aspect of the contracts and the effort to efficiently allocate the resources, it seems appropriate that the economical aspects should also be considered in the analysis of Guarantee of breach of obligation<sup>4</sup> informing. The same way that in the European contracts, the economical functionality of the contracts is one of the Strategic pillars of the contract law.

So, the obsession of the fans of economical analysis of law is that in the contract law, rules should be employed that not only improve the allocated functionality, but create motivation in the parties to research well about the information and disclose them. Because a major portion of defective contracts in due to Asymmetry in information of the parties to the contract.

Having economical and legal principles of commitment to informing in mind in contract relationships (the principle of Delivery of goods, Implicit condition, Compliance of the goods with the contract, lack of untrue description, The right to return or exchange goods, Weak party support in the contract, pure liability, The necessity of establishing equality of information between the parties, economical functionality, efficient allocation of resources and Efficient violation), we can see that the major economical and legal goals of "commitment to informing Pre-contractual" is about the security of the contracts, improving functionality and efficient allocation of resources. breach from this commitment, can destroy the functionality of the contract economical wise and lead to wasting resources. And also, from the legal aspect, with Execution guarantee like cancelling the transaction, inoperative contract, or create the right to terminate.

In view of the above, through analysis of Execution guarantee of commitment to informing Pre-contractual in Iran's legal systems and the legal structure of Europe from an economic point of view, we try to answer the following questions: How much importance has commitment to informing Pre-contractual received in Iran's legal systems and the legal principles of European contracts?

What is the effect of informing in optimizing the contracts? In commitment to informing, how much attention has the economic principles of contracts received from the lawmakers? What are the strengths and weaknesses of Iran's Current regulations compared to the legal principles of contracts in Europe?

In this research, we have used descriptive-analytic methods; descriptive because all the parameters and angles of the subject should be completely defined, expanded and described using Internal and external sources. And analytic because analyzing social relationships is used to measure the variables and reaching the intended targets.

### **Materials and Methods**

The research method is descriptive-analytical. because all the parameters and angles in question must be fully explained and developed using internal and external sources. The analytical method is also used to study and analyze social relations to obtain and measure variables, which according to the type of research, the method of induction, allegory and analogy is also used.

### **Guarantee of Breach of Obligation on Pre-contractual Informing**

preliminary negotiations in contracts, especially in important contracts, plays a significant role. The contract parties usually participate in a series of negotiation in order to acquire the necessary data, which is called Pre-contractual negotiations. In such a position, in order to reach a Voluntarily mutual point, the parties have to provide the required information in any form, even though their behavior and actions (Brian. H. Bicks, 1390: 90). Regardless, since each party thinks about their own benefit (Ghasemzade, 1387, 58), it is not unexpected that a party might refrain from disclosing information, provide false

information to the other party in the preliminary negotiations, or even Deliberately remain silent when the other party asks for information. In such cases, the committed has breached the commitment and the contract desired by the parties is being concluded with insufficient information on one side. Therefore, in the Voluntarily conclusion of contracts, the parties are obliged to provide information which is essential for the contract (Isaai Tafreshi and Rahimnejhad, 1394, 118). The same way open cases in courts of law show us, the main reason of cancelling or termination of contracts is complete lack of information on both sides, or one of the parties (Ansari, 1393, 374).

Lack of the required information also plays an effective role in the Execution of the contract and its quality. In other words, in many cases failure to commitment to informing leads to improper execution or Failure to perform the contract (Ghasemi Hamed, 1394, 23). On this ground, we can claim that if the parties have adequate and related information when they are signing or executing the contract, many contracts will achieve the intended result and vast resource loss will be prevented.

But considering the speed of the advancement of technology and the innate Laziness of the humankind, Shortcut methods are mainly used for acquiring information (i.e. Automated behavior without any thought, Adherence to the principle of tendency to stability in behavior, social validation principle), which increases the probability of failure in Contractual relations and reaching unwanted results.

In order to prevent such unwanted results, lawmakers must necessarily look for solutions, and identify commitment to informing in Contractual relations is one of them.

As lawyers state in description of intention and consent in Iran's legal system, in the world of law, intention , consent make up the will and Contract in the passive sense is the result of agreement between the wills. For To determine the guarantee of the implementation of the defects of the will, it is worthy that the derivatives of the will in Iran's law to be explained. A person in the world of their imagination, considers personal needs and desires when thinking about cost and benefit of a legal act. In other words, after the

thought of the transaction they analyze the act in their own mind and validate it. This stage of a Person's will is called consent (will). So, consent in the absolute sense and as a Contract validity condition, is a will that form in a person without any external pressure and in a normal state for Forming a contract and it can be called consent, in contrast to this consent, another type of consent exists which is a result of intervention from external pressures or false assumptions, and people desire it under the influence of external pressures or false assumptions. This is the same will and consent that Legislator mentions in the article 199 of the civil law (Shahidi, 1393: 173). Defective consent provides the Ability to break, just like deception and cheat (Same, 220).

When a person passes the stage of initial thoughts and decided to act upon the assumptions, they feel inclined to analysis. This stage is called Intention to initiate. so, in order to Forming a contract, from a legal perspective, existence and conformity of information (Intent and consent, condition of influence and validity of the contract) is necessary. But from an economic point of view, it is proper that the Desirability expected by the parties in order to satisfy the economical needs is met. In view of this, in in the Pre-contractual negotiations, Committed does not act upon their commitment (providing information), It is possible that the other party, at the decision making and analysis stage, gets stuck behind a veil of ignorance and makes a decision they would not make in case they had proper information.

So, since mistake is one of the problems of the will, and because such a mistake It is based on intention it may lead to lack of intention and prevent Forming a contract (lead to cancelling the contract). Although, a mistake before contract can lead to cancelling the contract when after the assumption stage, it becomes stipulation of will and it is proved that the will was bound to mistake (Ghasemzadeh, 1387, 73). It is also possible that refraining from informing can distort the consent of the other party and lead to the contract becoming inoperative (in general sense) of the contract.

So, we can claim that not informing in the Pre-contractual stage can spread to a contract Following the Pre-contractual negotiation and based on the case, lead to the termination

of the contract or Create a right of termination for the other party. Also, from a Civil liability point of view, it is possible for the committed to be found guilty because of breach of their commitment regarding Liability for damages resulting from fault (misconduct). So, the guarantee of cancelling contract, Creating the right to cancel the contract, Create the right to terminate and Creating the right to claim damages and modify the contract will be examined one by one.

## **Result and discussion**

### **1- Guarantee of cancellation of the contract**

In this age, especially in the professional contracts of providing goods and services, the two sides of the contract are not on the same informational level. For example, the expertise and the knowledge of manufacturers of a product is on a whole different level compared to the information of the consumer (Khedmatgozar, 1389, 31). So, it can be seen that informing Pre-contractual is the primary principle in a proper contract.

This act plays a critical role as Contractual balance lever in Asymmetry of information (twigg- flesner: 2017, 258). In a way that seller usually has more information regarding the properties of a product compared to the other party and this difference in information will affect the motivation of the seller. For example in case of a deficiency in a product, if no information is provided to the buyer and they enter a deal without proper information, this lack of Asymmetry of information not only leads to improper choice and as a result, Degradation of product quality and even a wrong choice due to improper information (weber :2017, 37 ), in some cases it may lead to the termination of the contract.

Also, commitment to informing is one of the most usable subjects in today's law, especially I the consumer rights. One of the main reasons for the necessity of informing in today's legal systems is that the subject is universal. But different principles and ideologies in legal systems has led to conflict and difference in Legislator (twigg- flesner: 2017, 222).



The main economic assumption about this topic is that Asymmetry of information will lead to disruption in the functionality of the market and on the contrary, reinforcing commitment to informing not only reduce the problem of informational inequality, but also reduces intervention in the market (Ibid, 223).

Even though intervention of the law might improve Market failures including in Asymmetry of information, but any legal intervention must be modified through cost and efficiency analysis, to not harm economic functionality and also prevent anti productive effects. Regardless of the economic effects of not informing Pre-contractual, its guarantee on the execution of contract in Iran's legal system and the principles of European contract law will be comparatively examined.

### **1-1 cancelling the contract in Iran's law**

If during the Pre-contractual negotiations, the party who is obliged to provide information refrains from providing the information, it may lead to Will mismatch of the parties and lead to the termination of the contract. Some of the mistakes will prevent Forming a contract due to deletion of intention (Ghasemzadeh, 1387, 73).

Considering that Intention to initiate is self-consistent and a result of Imagination and acknowledgment (Langeroodi, 1392, 42), if through providing false information a false assumption is formed in the audience, and a will is created upon this assumption, this will is not without flaws, at least not from an economic point of view.

Even though Legislator and article 199 civil law has stated that "consent which is the result of a mistake... it doesn't make the transaction inoperative", contrary to the way this article seems (if the foundation of will and decision making is a false assumption, the transaction is invalid), the Legislator clears things up in the article 200 of the same law, and clearly states that "A mistake can lead to contract invalidation, only when it is related to the subject of the deal". So, when the mistake is in the "subject of the deal", like making a mistake between a bag and a book, such a contract is terminated and not inoperative.

Though there is a different opinion on the meaning of the term » will not make the deal inoperative, in the article 199 civil law. For example, Dr. Langeroodi believes that first, even though jurisconsults consider mistake effects as canceling the contract, but article 199 and 200 of Iran's civil law is copied from articles 1109 and 1110 of the France's civil law ; and in France, not only the will is not divided into intention and consent , but mistake is clearly, especially in the case of a deal party, will lead to inoperative contract and not its termination. Second, consent does not come with reluctance. Third, if the term "It does not affect the transaction" is equal of termination in the article 199 civil law, so as a result, forced contract should be terminated like contract due to mistake as well.

Though article 346 civil law clearly states that forced contract is inoperative (Langeroodi, 1392, 186). Fourth, the rule of thumb is that a mistake which does not terminate contract and at the same time is effective on the contract will make it inoperative and not deception. also, inoperative contract coming from mistake, according to the rule, is against rule (Langeroodi, 1392, 193).

If the intention comes from a mistake, and This mistake spreads to the original essence it will terminate the contract. For example, a mistake in Customary face of the deal subject, Intention to initiate conflict with the traded item and the contract will be void due to breach of intention, or it may affect the consent of the other party (Meaning of article 199 civil law).

In such cases, Iran's Legislator, در Regarding the mismatch of wills, considering the fact that the will is a principle of the contract, considers Its absence has caused a cancellation contract.

Although in the world of law, the nature of the deal is not necessarily the natural essence of an object. But the nature of the transaction is the identity that represents it and the value of the goods will be determined upon this identity, which is called Customary nature or legal in the science of law. If the natural identity of an object is different than the legal

identity, the legal identity (Important attributes that are more important than the nature of a property) will replace the natural essence. And if mistaken in the above description (description of the substitute essence), based on article 353 of civil law, it will lead to cancelling the deal. So, it can be seen that it is possible that a mistake in describing the properties of a good, will cancel the contract (Shahidi, 1393, 299). REICE | 205

### **1-2 Cancelling Contract in the Principles of European Contract Law**

In the legal principles of the European contracts, providing information plays a key role in preliminary negotiations or Time of concluding the contract in the decision making of the parties. The provided information should be in such a way that they satisfy the needs of the parties; in order to sign a contract, based upon the goodwill principle and fair trade, the parties are obliged to provide the necessary information for each other. So, based on the principle of commitment to informing, disclosing the required information for the contract is a necessity, unless the acquired information is gained through spending and non-disclosure is in line with economic efficiency. So in general sense, each of the parties is obliged to disclose information in order to Correct the presumed mistake of the other party (A.eisenberg: 2003, 35).

Based upon article 102-1 of the principles of European contract law, the parties are free in the Pre-contractual negotiations in this regard, paragraph one of article 105-2 dictates "none of the previous commitments and agreements of the party which is not in the written agreement is considered a part of the contract", Even though there is adequate and rational relationship between the agreements before the contract and the contract itself (Shoarian and Torabi, 1389, 116).

Even though the parties can negotiate the way they prefer in the Pre-contractual negotiations, or any of the parties can cut the negotiations anytime they like and leave, but the freedom of the parties in the Pre-contractual negotiations is limited through the principle of goodwill and fair trade. It is such that if one of the parties of negotiations, cuts or leaves the negotiations in contrast with These principles, is Responsible for compensation (article 301-2). By careful examination of the rules of the principles of the

European contract law, we can see that in the European legal system, instead of mentioning the cancelling, in various legal articles, especially articles 201-2, 102-2, 201-2, and 204-2, reaching a complete agreement is emphasized and without reaching such an agreement, No contract is concluded.

In the legal principles of European contracts, the will is not divided into intention and consent so lack of intention and consent which is a result of not providing information will be examined separately. But according to article 101-2 the existence of intention (will) is enough for the contract.

In addition to the necessity of existence of the intention, according to paragraph B of section 1 of the article 101-2 the parties have to reach a complete agreement. In other words, requirement should be completely compatible with the acceptance in order for a contract to form.

It is natural that in order to reach this goal, the parties have to provide information to each other before the contract; otherwise, (not providing information, providing partial information, or providing false information) it is possible that due to the mismatch of the wills, the parties don't reach total agreement and as a result Do not enter into a contract or in other words, the contract is void. So, we can see that in the legal principles of the European contracts, the foundation of creating a contract is the agreement of between the wills of the parties.

But unlike the general principles stated in article 101-2 of European contract legal principles, Some provisions of the principles of European contract law including article 102-2 (Concluding a contract in a way that the other party has reasonably understood), article 103-4 (Granting the right to cancel the contract to the contracting party who has committed a fundamental mistake in relation to the subject or sentence) has somehow Adjusted the necessity of compliance with the will and, consequently, the cancellation of the contract which is one of the positive aspects of European contract legal principles.

### **1-3 Comparing Regulations**

Through examination of the cases of cancelling the contract due to Lack of Pre-contractual information in the two Iranian and European legal systems, we can see that in Iran's legal system, due to the division of will into intention and consent (Condition of influence and validity of the contract), if abstaining from providing Pre-contractual information impairs one party's intention about the contract, because it terminates one of the foundations of the contract, the contract is terminated. But if it affects the consent of one of the parties to the contract, the said contract will become inoperative. But in the European legal system, the will is not divided into intention , consent and it is completely understandable under intention. Also, cases of due to not providing pre-contractual information in the Iranian legal system are more numerous in Iran's legal system compared to the European one, In the European system, even in the event of a complete disagreement of wills, as stated in Article 102-2, and 103-4, there is a greater tendency for the right to annul the contract..

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One of the cases of cancelling in Iran's legal system is a critical mistake from any of the parties, whereas in the European system the existence of a fatal mistake Creates the right to cancel the contract for the mistaken party and this will strengthen the Contractual relations. So, the European legal principles of contracts severely limit the radius of the cancelling contract.

Also, the European legal principles of contracts, in mistakes which are a result of Breach of obligation to providing information, First, it gives the mistaken party the right to cancel the contract and the mistaken party will not enforce this right in case they reach an agreement. In in Iran's law, in case a mistake is critical, the contract is void and the will of a person for the survival of the contract is not effective. So, we can see that European legal system ahs a high functionality and prevents waste of cost and resources.

## **2- Termination Guarantee**

For proper contract, first we have to have a sound assumption from the subject. For example, in deals, the properties of the goods, guarantee, the manufacturing country and the price are among the factors that play a key role in decision making.

So, if a person buys a product under the assumption that it is made in a particular country or has a specific characteristic, and then it is revealed that it lacks such characteristics, we can see that the buyer's will is affected by a mistake and false assumptions. Whereas if the buyer knew that the product was not what he thought, they would not be satisfied with the deal or would agree with the contract under different terms. In addition to the fact that in some cases, termination of the contract is the guarantee of lack of Pre-contractual information, the general guarantee of lack of Pre-contractual information in Iran's legal system leads to termination right and in European legal system leads to the right to cancel the contract

### **2-1 Termination Right in Iran**

From Iran's legal system perspective, not providing information, providing partial information, or providing false information might not affect the correctness of the contract and the contract is valid. But the other party terminates the transaction based on error, fraud, misrepresentation, cheat, defect and discrimination. In other words, despite proper conclusion to the contract, and due to the breach, in commitment to provide Pre-contractual information, in some cases the right of termination is recognized for the other party.

Even though a large portion of mistakes and ignorance in contracts does not affect the validity of the contract and their necessity in an adverse way, but some problems in the process of decision-making can in fact affect proper decision and impair the will (Mousavi, 1393, 113).

In most legal systems, mistake, reluctance and fraud are considered examples of wrongdoing, but with research in article 199 civil law, in Iran's legal system it seems that

wrongdoing is limited to wrong and reluctant (Shiravi, 1396, 53). Despite the appearance of the matter, it seems that the basis of the defects of the will is not limited to the mentioned items, or we can take mistake in the general form and consider defect, Violation of description and vision, cheat and fraud as subbranches of the mistake. Because for example we can consider the primary basis of fraud as not providing adequate information and as a result, the mistake of the other party.

It is possible that the mistake lies within the Complications of the subject of the transaction, in such a case, even though the subject of the deal is Traditionally, it does not contradict the expressed Intention to initiate, but it will lead to Optionalization of the contract. And according to the case, this mistake can lead to cheat, description or fraud.

Even though some mistakes will prevent Forming a contract due to impairing the will, most of them will only affect consent (Ghasemzadeh, 1387, 73). Mistake can be about the properties and the characteristics of the contract as well. In such cases, if there is a compromise between the parties, the mistaken party will have the right to terminate the contract. Even though based on the rule of jurisprudence " Contracts are subject to intentions" it is necessary for the contract to follow the intention, or the contract will be void. Despite this rule, in many cases, non-compliance with the contract will not lead to cancellation and only leads to the optionality of the contract. (Langeroodi, 1392, 200).

Based upon the rule of exploitation (meaning abuse, , exploitation and unjust profit), there should be an equilibrium between the parties at the time of contract, and through the contract, no loss should be forced upon any of the parties due to the lack of informational equilibrium (Safaii, 1398, 60). otherwise, due to the lack of enough information in one of the parties on the value of the goods, cheating occurs. So, it is possible that one of the parties doesn't have adequate information on value and the other side has this information; in such cases the principle of commitment to providing information dictates that in order to Observance of contractual balance, the parties have to provide each other with adequate information or one of them might be Deceived due to the lack of enough information on the value of the deal. So as it is evident from the meaning if deceit

(Disturbing the value balance of the two is to the detriment of the ignorant party), if someone disrupts the equilibrium of the contract (The economic desirability of the contract to one of the parties is disrupted) through providing false information or abstaining from providing them, it is possible that the other party might terminate the contract due to a mistake in the value of substitutes based on cheating. Even though the mere disturbance of the value balance of the exchanges is a condition for the realization of the option of betrayal, and deception and failure to provide correct information or provide incorrect information about the value of the exchange is not a necessary condition, but it is considered one of the major reasons behind the realization of the option of cheating. REICE | 210

With this argument, we can say that the meaning of the option of fraud is sometimes a violation of the implicit condition of the parties regarding a fair exchange and observance of the contractual balance from the point of view of the value of the exchanges. (Ghasemzadeh, 1387, 263).

If one of the contract parties is not aware about the Value imbalance of parties, due to the necessity of contract equilibrium, the aware party should not utilize the information for their own gains and against the other party. In other words, the parties of a contract They should consider fair prices in transactions. otherwise Legislator has given the right to terminate the contract to one of the parties, depending on the case. So if a seller, without having proper information about the value of the product, deals it with a low price or the buyer purchases a product with a higher price as a mistake and then they realize the true value, they will have the right to terminate the contract based on Articles 416 and 417 (price difference is not negligible) civil law.

Lack of informing in the value of goods sold, it may, due to the asymmetry of the information of the parties, cause the wrongful Deceived, and in this case the fraud is gross, the right to terminate is created for the Deceived (Shahidi 1392, 17).

In deals, it is assumed that the product which is being dealt is in good condition and healthy. Based on this assumption and to uphold the contract equilibrium, the seller in



obliged to disclose any defect hidden from the buyer before the contract, because hiding the problems is considered one of the Examples of violation of commitment to informing (Gahsemi, 1394, 72). Negligence in this duty can affect the fate of the contract. So, if the buyer purchases a product under the assumption that it is healthy and then it is revealed that the item was damaged Can prescribe article 422 civil law, accept the transaction based on the option caused by the defect, termination or defective seller and authorize it.

If one of the parties, deceives the other party through providing false information in the Pre-contractual negotiations, they have committed fraud (it is an act which will deceive the other party). So, we can see that fraud is the same as non-compliance with good will and non-compliance with the principle of commitment to information which creates the right to terminate in Contractual relations and the other party can terminate the contract based on fraudulent options.

Even though Legislator in article 199 civil law, does not consider fraud as a defect of the will, but the role of fraud in the forming a contract and the will of the other party is undeniable, but based on the urrent rules we can see that Legislator has supported the victims of fraud in another way (Ghasemzadeh, 1387, 71).

One of the most common means of obtaining information is visibility and description and the parties of the contract will usually utilize these fundamental tools to achieve the information and characteristics they require provides grounds for conciliation and contractual agreement.

On one hand, the requirement to create a healthy contract and compliance with the will requires that parties provide each other with information and descriptions which is in accordance with the contractual purpose of the parties. otherwise one of the parties might terminate the contract Based on the option or the violation of the description. But, in case the commitment is in a general sense, seeing will not be seeing will not be seeing will not be seeing will not be seeing will not be seeing will not be seeing will not be seeing will not be seeing will not be seeing will not be seeing will not be seeing will not be seeing will not be available and the committed is obliged to perform the

commitment (article 414 civil law) so, a mistake coming from providing false information, If it is about a description of the description, the option of violating the description will be obtained (article 410 civil law)

In view of the above The characteristics of the transaction are divided into three categories from the point of view of violation guarantee: 1- Attributes that substitute essence (Mistake in such cases, it is in fact a mistake in the nature of the transaction, which according to article 200 civil law, such a mistake causes the cancellation of the contract.),

2- Important attributes of the transaction (Attributes which are effective in obtaining the consent of the person and they will impair the consent of the person and create a right for termination for the mistaken party within the framework of some options.) and 3- unimportant attributes (Attributes which play no role on attracting the desire of individuals to enter into a contract) (Shahidi, 1392, 169).

So, in general, Wrong description of the transaction (Other than the description of the essence substitute) will not It does not affect the validity of the contract, but if the description has entered the field of agreement between the parties it might create a right to terminate for the mistaken party.

It should be mentioned that if not informing If in Iranian law it leads to cancellation of the transaction or the other party invokes the right of termination, the contract is terminated, they can also ask for the damages which occurred as a result of canceling the transaction or breaking the contract on the basis that it happened due to the fault of the other party in providing incorrect and disproportionate information or due to failure in providing information (Joneydi, 1381, 18).

Regardless of the reliance of commitment to informing to in certain legal bases, if the Legislator explicitly recognizes the commitment to information as a principle, many of the responsibilities arising from the breach of obligation can be proved by the theory of presumption of guilt in the courts. otherwise, in order to prove liability for breach of

commitment to informing, the aggrieved party must, according to the theory of fault, prove the fault of the violator of this obligation. Whereas based on the theory of the presumption of fault, the non-performance of the obligation is the reason for the responsibility for compensation. (Rahpeyk, 1394, 38). In view of the above, it can be seen that in Iran's legal system, because lawyers and Law theorists consider the law Unchangeable, in the economic interpretation of the contracts Theorizing contrary to the law is very slow. In other words, in Iran's legal system, there is some sort of Patriarchy governing which prevents Balanced development of law with appropriate theorizing.

## **2-2 Establish the Right to Cancel the Contract in the Principles of European Contract Law**

One of the important guarantees in breaching commitment to informing Prior to concluding a contract under the principles of European contract law, it is the right to cancel the contract by the mistaken party, which is a result of not providing information or improper disclosing of information. But not every single one is the originator of this right. one of the things that create a right to terminate the contract is that the mistake has to be critical and European legal contract principles and identified this right for the mistaken party with some conditions under the article 103-4.

First, the mistake should be due to not providing information or improper disclosing of information. In other words, the other party should facilitate this mistake through providing false information (Section (i) (a) of article 103-4 of European legal contract principles)

Second, the mistake should be in such a way that the other party knew about it or had to know about it, assuming there was no mistake, the mistaken party would not have entered into the contract or they would do it under totally different conditions. Therefore, any mistake as described above, will not lead to the right of termination for the mistaken party (Shoarian and Torabi, 1389, 188)

Fourth, in order to realize the realization or non-realization of the right to cancel the contract for the mistaken party, the existing situation must be taken into account and

subsequently, if the mistake is justifiable, such a right (termination of the contract) should be considered for the mistaken party. otherwise, if the mistake is not justifiable through the existing conditions, meaning that the person has made an unusual mistake considering the conditions, the principle of necessity of contracts is not violated.

Fifth, it should not be a presumptive or self-inflicted mistake, otherwise, as clearly indicated in section B, paragraph 2 of article 103-4 European legal contract principles, the mistaken party will not have the right to terminate the contract.

Sixth, the mistake should be critical. Meaning that if the mistaken party would not enter the contract or they would do it under totally different conditions This can be deduced from the title attached to the beginning of the article and also from its contents (Shoarian and Torabi, 1389, 188). So, a mistake which is not critical, will not provide the right to terminate the contract for the mistaken party.

As stated in the introduction, European legal contract principles, goodwill and fair trade are the foundation of many rules. Based on these principles, in case any of the parties is obliged to disclose information and intentionally refrain from doing so, or provide false information to the other party as cheating, and as a result a contract is concluded, the other party can cite article 107-4 and terminate the contract, Of course, the realization of the right to cancel the contract is subject to silence or fraudulent action of the other party with the intention of deception. (paragraph 2, 107-4).

For determining that providing which information is necessary on the basis of goodwill and fair trade, conditions and situation like the expertise of the parties, the cost of acquiring information , the possibility of acquiring information and the importance of information should be considered and the actions of both parties should be evaluated compared to them (Paragraph 3, 107-4).

In article 109-4 of the European legal contract principles, in order to prevent abuse of the contract information, it is dictated that if one of the parties abuses the other party's position

(ignorance, Inexperience, lack of expertise and informational dependency) and gains an unfair advantage or too much benefit, the other party can terminate the contract.

Also, in the European legal contract principles, the parties should have negotiations on all the conditions of the deal before concluding the contract, so the conditions can be inserted into the contract with the Conscious will of both parties. otherwise, as stated in article 110-4 of the European legal contract principles (If the conditions mentioned in the contract are not described), considering the condition and situation, if the said conditions disrupt the contract equilibrium against the goodwill and fair-trade principles, the conditional party can annul the condition. Even if the said condition is the main subject of the contract, they can cancel the entire contract.

But in cases that the condition is the main subject of the contract and this condition is stated in a plain and understandable manner, Conditional against cannot cancel the entire contract. So, we can see that in the preliminary negotiations which will lead to the conclusion of the contract, the parties have to provide information to each other. otherwise, the refusing party might face the guarantee of "termination right". Also, the conditional against can ask for compensation on the basis of article 177-4.

It is possible that a third party plays a role in the contract on behalf of one of the parties. In such cases, the third party should abide by the rules dictated by the Legislator about what they expect from the parties. otherwise, if the third party provides improper and false information or cheats, and this leads to the other party's mistake, or they know about the other party's mistake or they should have known about it due to their profession and expertise, not only the mistaken party can ask for compensation, they can also terminate the contract based on articles 111-4, 103-4 and 107-4.

In article 104-2 of the European legal contract principles it is stated that if conditions are placed in a contract but there is no negotiation between the parties about them, they are citable against the unaware party, only when the citing party has taken reasonable actions in this regard during concluding the contract. otherwise, even if the other party has signed

the contract, it is not required for them (Shoarian and Torabi, 1389, 114). Also, in article 110-4, on the unfair conditions which are not clearly negotiated between the parties, the mistaken party is given the right to terminate the mentioned conditions. article 116-4 also cover a general principle and that is if the mistake is related to a minor part of the contract, based upon the mentioned article, the mistaken party has no right to terminate the whole contract, but they can terminate the mentioned conditions. REICE | 216

### **2-3 Comparing Regulations**

The way the right of termination is considered as one of the guarantees of not providing information in Iran's legal system, it is nonexistent in the European legal system. And on the contrary, the way as the guarantee of the right to cancel the contract due to the lack of pre-contractual information is identified in the European legal system, is nonexistent in Iran's legal system. In other words, Revocable transaction unless in rare cases (article 131 of trade law and article 179 of Maritime Law) is not identified in Iran. And a terminable and Ineffective is different than a cancelable transaction.

So despite the difference in the view of these two legal systems towards Type of execution guarantee for not providing pre-contractual information, the right of cancelling and terminating the contract were analyzed and through scrutinizing in the said rules, we can see that the basis for most of our laws about the right of termination, in against economic functionality and will waste resources, while European laws have a high economic functionality. The main basis of the contracts are good will and fair trade, and if any of the parties acts against these principles or cheats, the other party will have the right to annulment, even if the mistake is not of the critical type. Also, article 105-4 of European legal principles of contracts has set curious rules. Through scrutinizing in the mentioned article, we can see that first, if the other party falsely announce that they are ready to realize and act upon the contract the way it is, or already have, the contract will be concluded in the same way that they have mistakenly realized.

In such a case, termination right will be dropped. Second, if there is a non-critical mistake solely from the mistake of the party, without any intention for deceit , the mistaken party

will only have the right to ask for compensation (article 106-4), while in Iran's contract law, the intention of the parties in not providing information is not considered but based on the legal principles, the fact that one of the parties have breached the commitment to informing is enough for them to be possibly facing guarantee of termination right of cancelling the contract. REICE | 217

In Iran's contract law, after the occurrence of cheating, if the other party is willing to pay the difference in price or return the difference, in such a case, even though The drop of the right of termination is in line with the principles of fraud, the termination right of the cheated will not be dropped. We can see the Failure to terminate the right of termination due to fraud -even though the other party is willing to pay the price difference -not only is in contrast with the basis (the principle of no harm) but terminating a contract in such a case is also against economic functionality (parliament and Strategic Quarterly, 1394, 22292) while it was more appropriate if through following the theory of Acceptability the termination right was dropped.

But in the European legal system, in such cases the cheated will not have termination right (article 105-4 of European legal contract principles), in addition, in European legal contract principles, in any of the parties abuses the other party's condition (dependency or trust to the other party due to Ignorance, lack of skills and expertise in concluding contracts) and gain unusual benefit or privileges, the other party can cite paragraph 1 of article 109-4 of European legal contract principles, and cancel the contract. In cancelling the contract, before proceeding with the process, a warning should be given to the other party. After this announcement, the receiver (the side who has gained unusual benefits) can -under the condition they notify the warning party- ask a court to modify the contract, in such a case, the court can consider the principle of good will and fair trade and modify the contract. We can see that in Iran's legal system the fate of the contract lies in the hands of the cheated and in case they have the intention, the contract will be terminated and the other party can do nothing to save contractual relationships. Therefore, through comparative analysis of these two systems regarding Institution of cheating, European legal system has a high functionality and prevents wasting resources and costs.

Due to securing a contract, after realization of the right of termination or cancelling the contract through the mentioned legal systems, this right should be utilized within a short period after realizing the matter at hand. Iran and Europe's legal systems have set the time table in a very clear manner in this regard.

This is such that in Iran's legal system, Current provisions regarding the exercise of the right of termination is considered instant (limited to the Customary time) and the European legal contract principles have also associated the cancelling right with a warning and limited to Customary time. So, we can see that both legal systems are aware of the importance of reasonable timing for exercising the termination or cancelling right. Determining the limited and Customary time is related to the economic targets of the contracts which is taken into account in both systems.

A person who gain the cancelling right under the European legal contract principles, can also let go of the right, citing article 114-4 and enforce the contract. This enforcing might be explicit or Practical and implicit. In such a case, the cancelling right is dropped. Iran's legal system follows the exact same rule regarding the person with termination right where the party can give up and comply with the provisions of the contract. This is one of the strengths of both systems, which prevents resource wasting and improves the functionality of the contracts.

If one of the parties utilizes their termination right under Iranian legal system or their cancelling right through the European legal system, they should return what they have received from the other party based on the contract. In European legal contract principles, article 115-4, clearly states that the Extradition of the parties in a cancelled contract should be Simultaneous. In in Iran's legal system such a condition is not present. Even though Lack of explicit return of transactions simultaneously in terminated contracts in Iran's legal system, considering the nature of terminating a contract, this rule seems obvious to be applied. So, we can see that both systems have efficient rules and also taken a positive step towards preventing opportunism. In addition, by scrutinizing in the recent part of article 115-4 of European legal contract principles, we can see that in case of contract



cancelling, if it is not possible to return what was received after concluding the contract and before its termination, if the mentioned object had monetary value, the sum or in case it was fungible, the same should be returned to the other party. In this regard, Iranian legal system seems to have a better functionality.

One of the other perks of European legal contract principles compared to Iranian legal system is that in European legal contract principles, has in some cases recommended partial and minor cancelling. Not only such a rule is not considered in Iran's legal system, but lawmaker in cases like article 441 of social law, due to the invalidity of the contract in relation to merchandise, has predicted the right to terminate the whole contract for the buyer. The European legal system has better functionality in this regard as well.

### **3- the Right to Ask for Compensation of the Mistaken Party**

Commitment to informing is considered both European and Iranian legal systems. In fact, both parties are obliged to provide information for the other party. So, if any of the parties in the pre-contractual negotiations breaches the mentioned commitment, they are liable for compensation based on the general rules of the social liability. Liability comes through breaching a common and accepted rule and based on it, "anyone who Cause damage to another, is liable to provide compensation". This is accepted in both European and Iranian legal systems. Despite this, based on the basic principles of compensation, the damage inflicted upon one party should be compensated in full and no damage should be left without compensation. But the legal systems do not share a view regarding this principle and its components (Rahpeyk, 1388, 87), rules of compensation in Iranian and European legal systems will be analyzed here.

#### **3-1 Compensation Claim**

Like any other legal system, Iranian law also dictates that if someone breaches a legal or contractual commitment, they are liable for providing compensation to the other party. So, regardless of the fact whether a breach in informing makes the other party deserves receiving termination or cancelling rights, it makes them deserve compensation. So, there is no doubt regarding compensation. In Iran's legal system, just like France's, complete

compensation of the wronged party is the goal, and it is attempted to restore the status and position of the victim before the loss occurred, which In addition to the principle of full compensation, the need to observe the order of objective, fungible and custodial compensation is emphasized, and even in addition to the main compensation, Supplementary damages have also been considered (Rahpeyk, 1388, 92). REICE | 220

### **3-2 Claim for Damage in European Legal Contract Principle**

By scrutinizing in articles 103-4 and 106-4 of European legal contract principles and considering article 117-4, the mistaken party with a critical mistake, not only can cancel the contract, but they can also ask for compensation. The amount of compensation in European system equals to the amount that will place the mistaken party in the same position as before concluding the contract. But in the mentioned article, asking for compensation is limited to when the other party breaches the principle of good will. So, we can see that in European law, contract functionality and its close relationship with social relationships receive major attention.

In subsidiary mistakes, the rule of thumb is that they will not affect the contract, but if the source behind this mistake is deliberate providing of false information from one of the parties, citing 106-4 of European legal contract principles, and citing paragraph 2 and 3 of article 117-4, the mistaken party is entitled to receive compensation. Though through scrutinizing in the mentioned article, we can see that asking for compensation is limited to providing false information from the other party. So, in case the other party provide information with good will and with total confidence that the provided information is right, the other party will have no right for compensation.

The amount of the compensation is the same amount that will place the mistaken party in a position they would be that they are deprived from through false information provided by the other party (in this regard, compensation in European legal contract principles is based on the "theory of same position") (John adams, understanding contract law,p.145.)

In addition to cancelling right in certain cases, it is possible that breaching the commitment to informing can lead to the right of claim for damages for the mistaken party. If the

mistaken party utilizes their right and cancel the contract, they can cite article 117-4 of the same law and ask for compensation. The amount of the compensation they will receive follows the " Principle of return of the damaged to the situation before the loss" and is an amount that will bring them back to the position before concluding the contract. The right of asking for compensation is not related to the cancelling right, and even if they don't utilize that right or even lose it, they can still ask for the compensation. But the amount of compensation one would receive after cancelling the contract differs from the amount received without cancelling. In the first case, the mistaken party is entitled to an amount of compensation that will place them in the same position before the contract, but in the second case (if the mistaken party does not cancel the contract), though theory of difference", they will be entitled to the difference of a position without mistake and the position with the mentioned mistake.

In cases where a third party, without having a role in concluding the contract, provide false information to one of the parties, or in other words, the source of the mistake of one of the parties is a third party who essentially has no role in the contract, second paragraph of article 111-4 of European legal contract principles has considered compensation for the mistaken party, but only if the other party knew the truth and did not try to exercise good will.

It can be seen that European legal contract principles put great emphasis on providing right information while concluding the contract and such requirements come from the principle of good will and fair trade.

### **3-3 Comparing Regulations**

Thorough analyzing the regulations of both systems, we can see that in European legal contract principles, if the mistake is solely based on providing false information from the other party without any intention of deceit, the mistaken party is only entitled to receive compensation (article 106-4), while in Iran's contractual law, the intention of the parties is not considered at all, but the fact that one of the parties, based on legal principles,

breaches the commitment to provide pre-contractual information, they may face the termination or cancelling right.

Despite different views of legal systems on compensation, according to both systems, the principle is full compensation, but in Explaining this principle, Iran's contractual law is inclined towards Complete compensation theory, but European legal contract principles, incline towards "theory of difference" and "theory of same position" per case. We can see that from an economic point of view, the guarantee of European legal contract principles can act better in compensation because it considers different scenarios.

#### **4- Modifying the Contract**

Providing the conditions of Execution of the contract and cooperation to reach the common goal of the parties, is one of the duties of the parties and they are obliged to facilitate this as much as possible. If Execution of the contract faces any difficulty through breach in commitment to informing, we can talk about modifying the contract; the lawmakers have put rules regarding modifying the contracts In order to comply with the principle of necessity of contracts which should be analyzed in both legal systems through an economic point of view.

##### **4-1 Modifying Contract in Iran's Legal System**

In Iran's legal system, modifying the contract usually means reducing the commitments of the committed and getting away from the initial commitment, in this regard, and without the consent of the "committed to", and in order to Securing committed interests, modifying the contract doesn't have legal Justification. So, in the meaning, modification requires new compromise from the parties.

Despite that, the lawmaker, in some cases such as General terms of the contract has emphasized on modifying the contract for the sake of economic justice. Lawyers place modification into three section under the subjects of contractual modifying, Judicial adjustment and legal modifying. In important contract, the parties will place modifying conditions based on their Foresight and predictions which is imperative for both parties

due to the principle of free will. Such an agreement is known as "contractual modification condition". But if the parties have not agreed upon modification, in case the lawmaker directly modifies the contract, it will be called "legal modification" and if the place modification tools in the hands of the Judge, they can modify the contract considering the spirit of the contract, its contents and within the limited structure of the original. So, regardless of the fact whether Judiciary modification in a sub branch of legal modification or not, or is Judiciary modification the same as Interpretation of the will of the parties or not, we can see that in Iran's legal system, modification is possible.

#### **4-2 Contract modification in European Legal Contract Principles**

In European legal system, unlike Iran's legal system, modification of the contract does not mean reducing one party's commitments so it needs the consent of the other party, rather it is bringing the commitments closer to was the initial and common basis of the parties used to be. Even though European legal contract principles have given the mistaken party cancelling right in article 103-4, but in article 105-4 tries to limit the scope of cancelling contracts through setting some rules and conditions which has led to Consistency and durability of the contractual relationships.

In the mentioned article, it is stated that before cancelling by the mistaken party, the other party can - based on understanding of the mistaken party- announce their willingness to uphold the contract and practically operate the contract the same way the other party has misinterpreted, in such a case, the cancelling right of the mistaken party will be dropped. Even if the mistaken party has sent the cancelling notice to the other party based on article 112-4, until they have taken action upon the mentioned warning, the other party can announce their willingness to uphold the contract on the mistaken understanding or practically play according to the misunderstanding of the contract. In such a case, the previous warning regarding cancelling the contract will become ineffective. We can see that European legal contract principles have limited the cancelling right through the possibility of modifying the contract; such rules will improve the functionality of the contracts and prevent resource wasting.

Also, based on paragraph 2 of article 109-4, the holder of the cancelling right can visit a court and ask for contract modification based on the principle of good will and fair trade. In such case, the court will modify the contract through those principles. Contract modification by one of the parties is not mandatory, based on paragraphs 2 and 3 of article 109-4 of European legal contract principles have, but thorough scrutinizing in the text of paragraph 2 and 3, we can see that court modification is optional and the court will only modify a contract when modification fits the conditions and situation (Shoarian and Torabi, 1389, 201).

### **4-3 Comparing Regulations**

Through analyzing both legal systems we can see that European legal contract principles have provided the possibility of modifying the contracts with the aim of improving functionality with More flexibility and at the same time limited this right of the mistaken party, and the fact that such rules will prevent resource waste. Also, the basis of contract modification in Europe in the principle of fair trade and good will. But in Iran's legal system, such a thing is not considered a legal basis at all, but in the modification of the contract, The tacit will of the parties and law act as the basis.

Also, in European legal contract principles, if the mistake is on both sides, any of the parties can ask the court to modify the contract in a way that it should have been concluded if there was no mistake and in a rational way. In Iran's legal system, rules governing over the contract do not have such flexibility and the lawmaker does not consider any modification right for the breaching party to accept the other party's terms without their consent. And also, the right of modification of the contract for the parties based on the conditions and situation without any mistake is also not considered.

## **Conclusion**

Through observing the Comparative cases it is clear that both legal systems have execution guarantee regarding breach in commitment to informing. But the European legal system has a high economic functionality in most cases which not only prevents waste of resources and transactional costs, but also provides a better contractual position compared to Iran's legal system. For example, through scrutinizing in the cases of cancelling right in European legal system, we can see that the European system is aligned with the principle of consistency of contracts which has more economic value, and on the other hand, this right (cancelling the contract) is implemented upon theory of Efficient violation.

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But in Iran's legal system, even though the lawmaker does not emphasize on commitment to informing and its guarantees like the European counterpart, but there are rules and regulations regarding this breach such as fraud, defect, etc. and support the rights of the contract parties. But these rules do not have adequate economic functionality and in some cases go against the rule of consistency and efficiency of the contracts, reduce contractual relationships and as a result Undermining economic stability and also increased the transactional costs. So, it is proper that economy-based rules should be made regarding commitment to informing and its guarantees. But through scrutinizing in the process of lawmaking in Iran, we can see that the lawmakers have recently paid attention to this commitment, and in special rules such as Consumer Protection Act, Law on Governmental Punishments for Health and Medical Affairs, E-trade law and The law of the trade union system they have emphasized on this commitment. But the economic functionality of the contracts, especially in rules regarding the guarantee of breach of commitment to informing, still receive little attention.

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