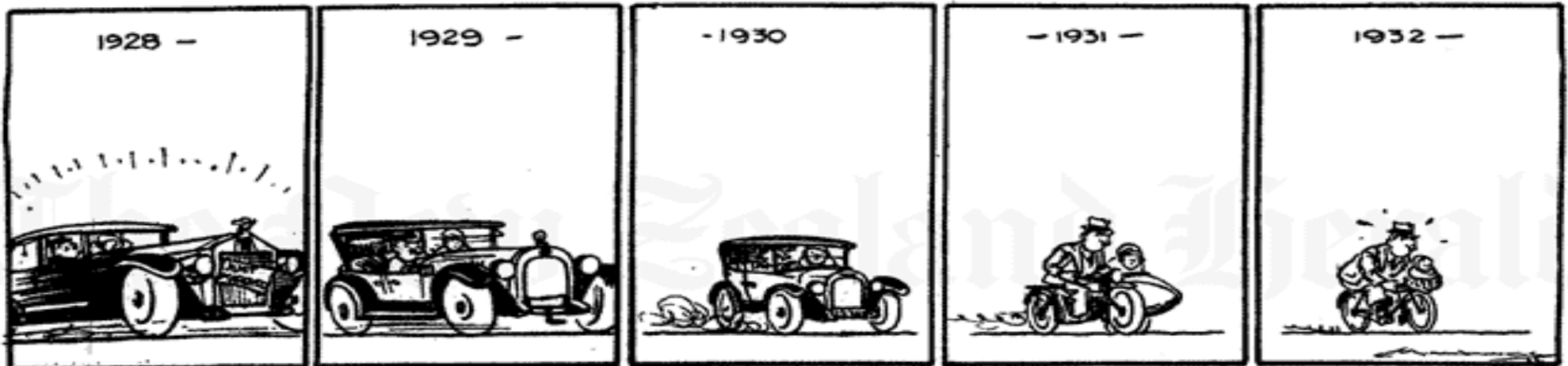


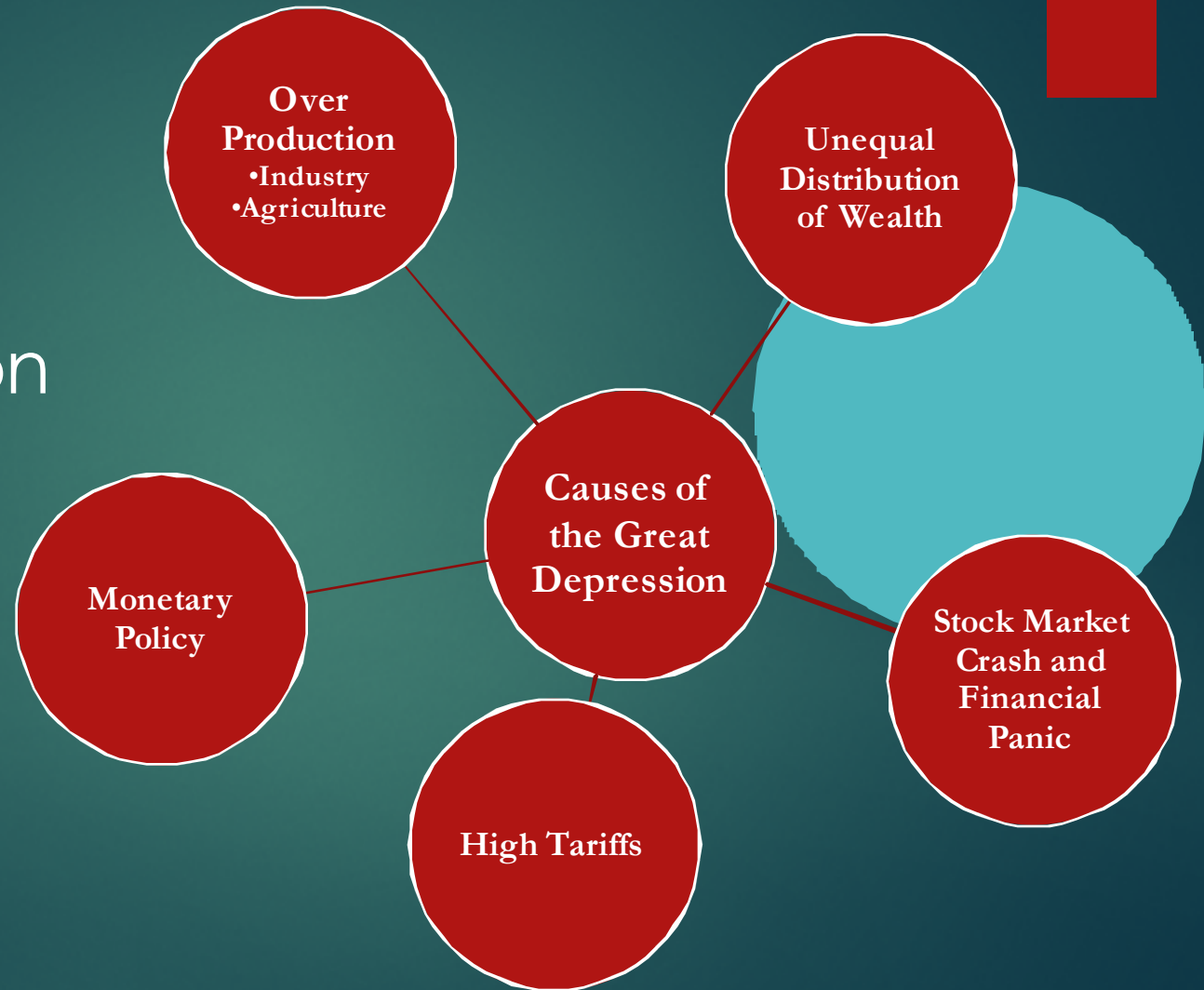
The Great Depression



A SHORT HISTORY OF THE DEPRESSION

- ▶ *What caused the most severe economic crisis in American history?*
- ▶ *What impact did the Great Depression have on Americans?*
- ▶ *How did the federal government respond to the economic collapse that began in 1929?*
- ▶ *How did ordinary Americans endure the hardships of the Great Depression?*

Causes of the Great Depression



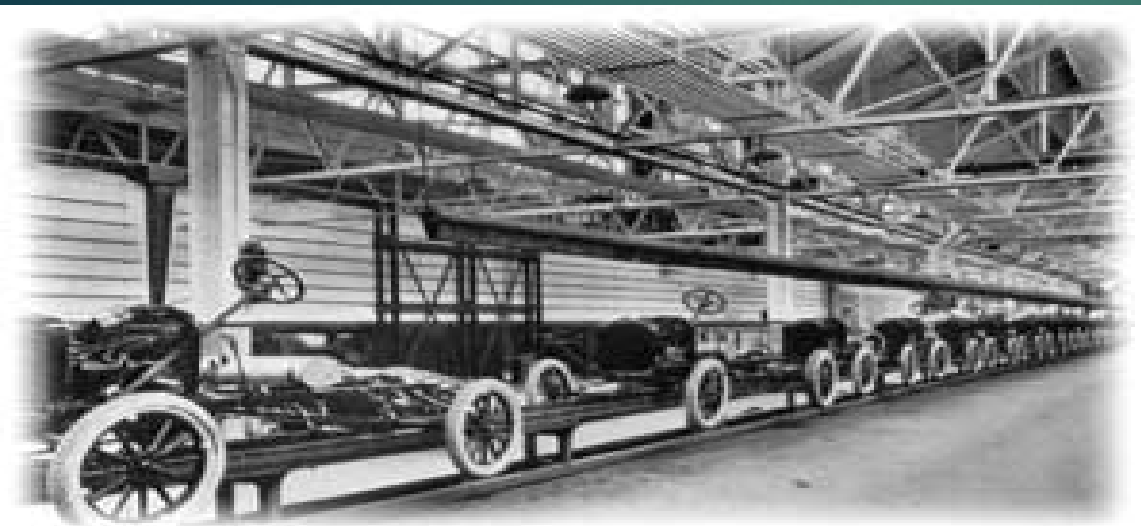
Farm Depression of the 1920s

- Prices of farm products fell about 40% by 1921 and remained low through the 1920s
- Farmers were producing more than American consumers were consuming
- Some farmers lost so much money they couldn't pay the mortgage on their farm
- Farmers had to rent the land or move



Overproduction in Industry

- Factories were producing products, however wages for workers were not rising enough for them to buy the goods
- Too few workers could afford to buy the factory output
- The surplus products could not be sold overseas due to high tariffs and lack of money in Europe



Uneven Distribution of Income

- Industrial productions increased about 50% but the wages of the industrial workers rose far more slowly
- As a result, these workers couldn't buy goods as fast as industry produced them



How Does the Stock Market Work?



Companies want to raise money to expand their company so they sell stocks of their company.

Google Stock \$100 as of 1/20

You buy 10 stocks of Google

On 1/26, Google Stocks are worth \$115

How much did you make?

$$10 (\$15) = \$150$$


Bull Market

- ▶ A period of rising stock prices.
- ▶ late 1920s, a prolonged bull market → Americans to invest heavily in stocks.
- ▶ Buyers engaged in speculation; instead of investing based on a company's earning or profits, buyers were betting that the market would continue to climb.

Easy Credit

- ▶ Many investors began to buy on margin, meaning they made only a small cash down payment (as low as 10%) and borrowed the rest. As long as the stock prices went up, investor made money but if prices began to fall, they had to sell quickly or they might not be able to repay their loans.

Company ABC
1 stock = \$100

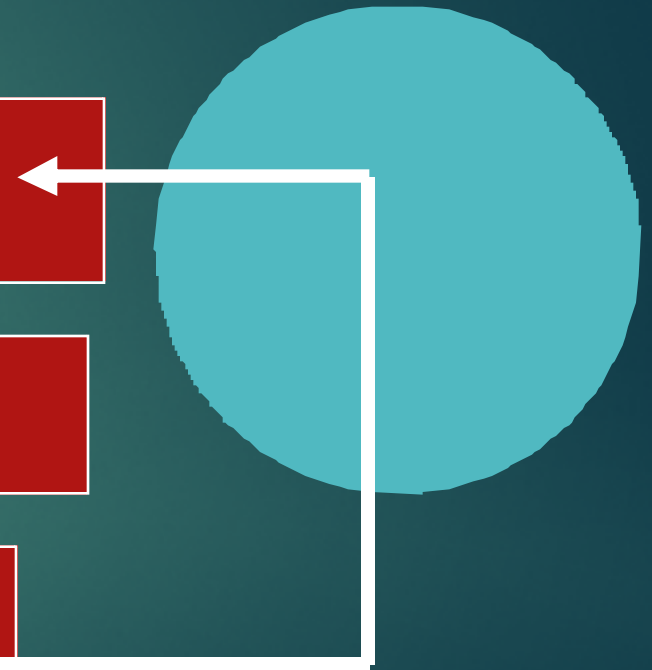
You want to buy 10 shares
but you only have \$100

Margin (borrow) \$900
Have \$100

Company ABC stocks go up
\$ 200/a share

Now you have \$2000

You make a \$1,100 profit!



Company ABC
1 stock = \$100

You want to buy 10 shares
but you only have \$100

Margin (borrow)	\$900
Have	\$100

Company ABC stocks drop to \$10

What do you owe?

\$900!!
Do you have \$900?



The Great Crash

- ▶ By the second half of 1929, the market was running out of new customers
- ▶ In Sept professional investors sensed danger and began to sell off their stocks and prices began to fall.

Black Monday

- ▶ Monday, Oct 21, the market dropped 13%
- ▶ The next day “Black Tuesday,” the market dropped 12%.
- ▶ By mid-November stock prices dropped by over one-third (30 billion).

BLACK TUESDAY

NEW YORK, TUESDAY, OCTOBER 29, 1929

THE STOCK MARKET CRASH OF 1929

BY BARBARA SILBERDICK FEINBERG

NEW YORK, OCTOBER 29 — Another hurricane of liquidation hit the stock market today, as financial uncertainty fed on rumor and turned to panic. Frightened investors ordered their brokers to sell at any price, and the stock market crashed. Those on the floor of the Wall Street exchange waded in paper and tried to add up their losses.

It is believed those losses total billions of dollars. Thousands of accounts were wiped out as a record



Crowds Gathered On Wall Street As The Market Went Into Historical Decline

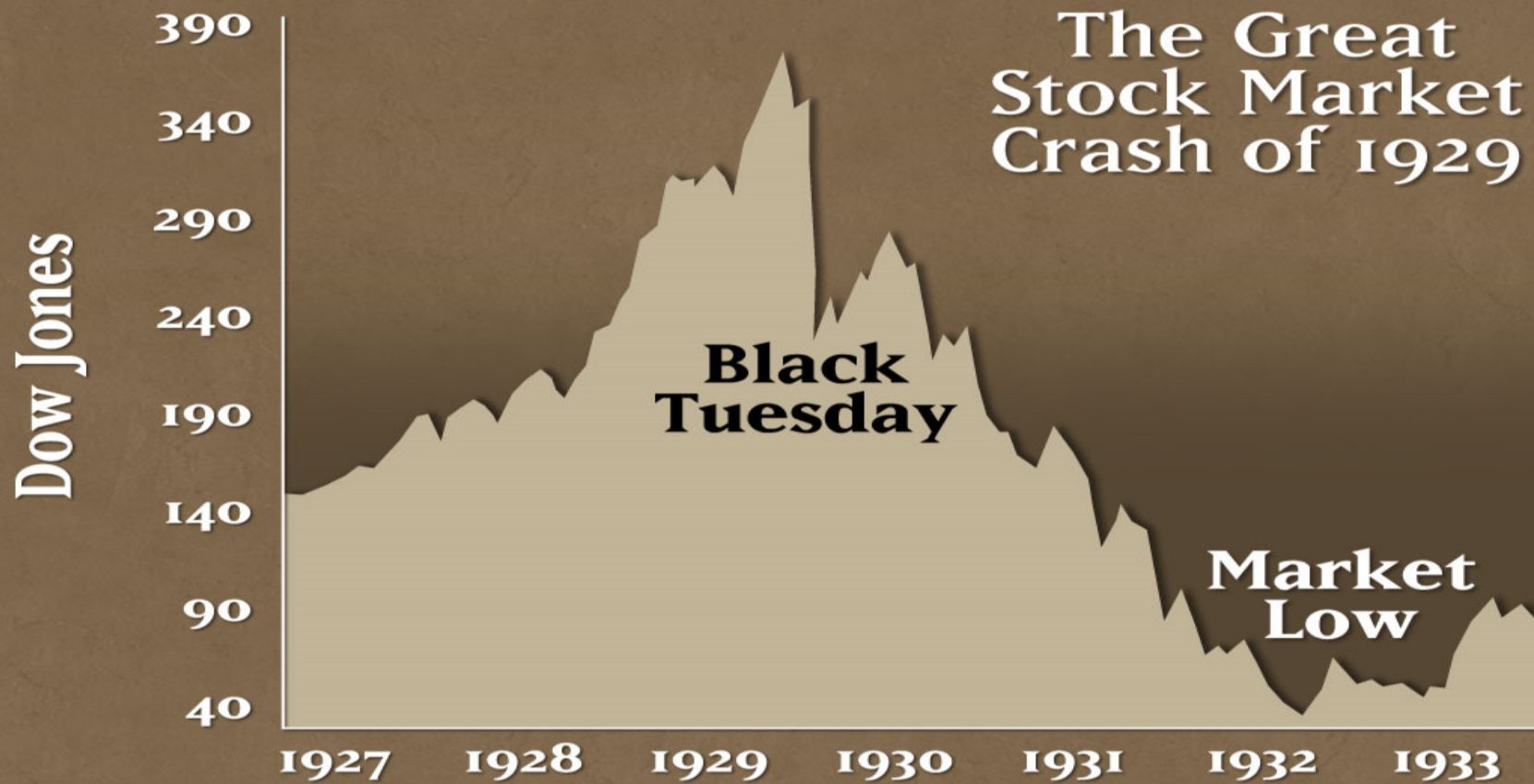
number of shares were traded. Some stocks were almost given away. Millions of shares traded hands.

Brokers on the floor of the Exchange have never seen a day like this. The shock on Wall Street spread to other exchanges and markets. It

was a country-wide collapse of security values in which losses were the most disastrous and far-reaching in the history of the Stock Exchange. There was near-panic on the Chicago commodities exchange. Rumors spread from one end of the United



Stock Market before and after Black Tuesday



Effects of the Stock market on Banks

The Collapse of Banks

- ▶ When the stock market collapsed, the banks lost money on their investments, and speculators couldn't pay back their loans.
- ▶ Banks take in deposits and lend most of the money that they take in. The banks keep only a small amount of deposits on reserve
- ▶ Reserves → the amount of deposits not loaned out by banks.
- ▶ This works well as long as not everyone takes out their money at the same time.



Bank Run

When many depositors run into a bank at the same time to get their money out



Bank Failures

Happens when banks cannot pay back money to depositors.



Bank Panic

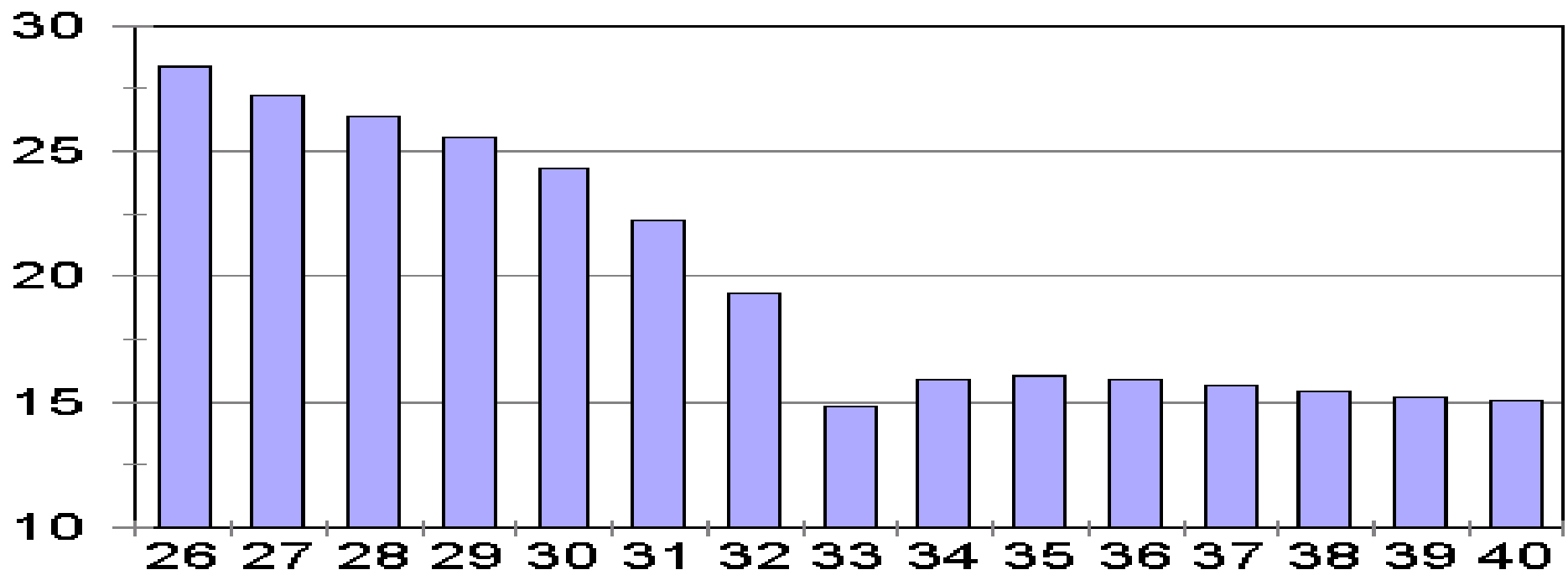
When a bank run begins at one bank and spreads to other banks because people fear that if they don't run to the bank, they might lose money too.

Bank panics cause more bank failures, and the cycle continues





Number of Banks 1000's



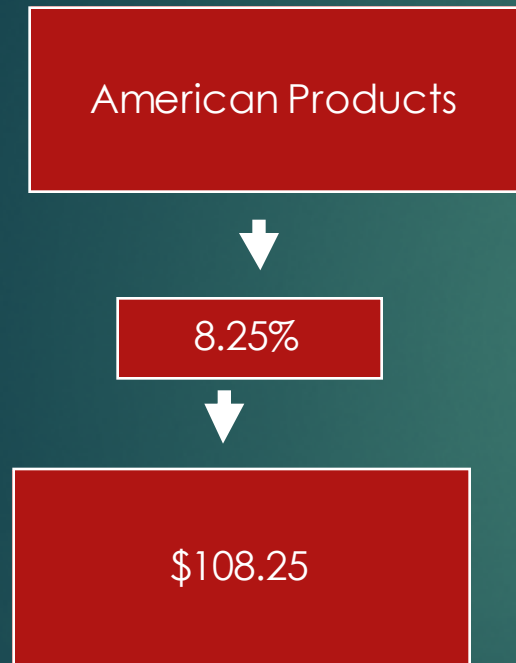
Monetary Policy

- ▶ Federal Reserve officials raised interest rates. This meant companies couldn't afford to borrow money to stay in business. Workers lost jobs and couldn't keep buying goods. Businesses lost both capital and customers.

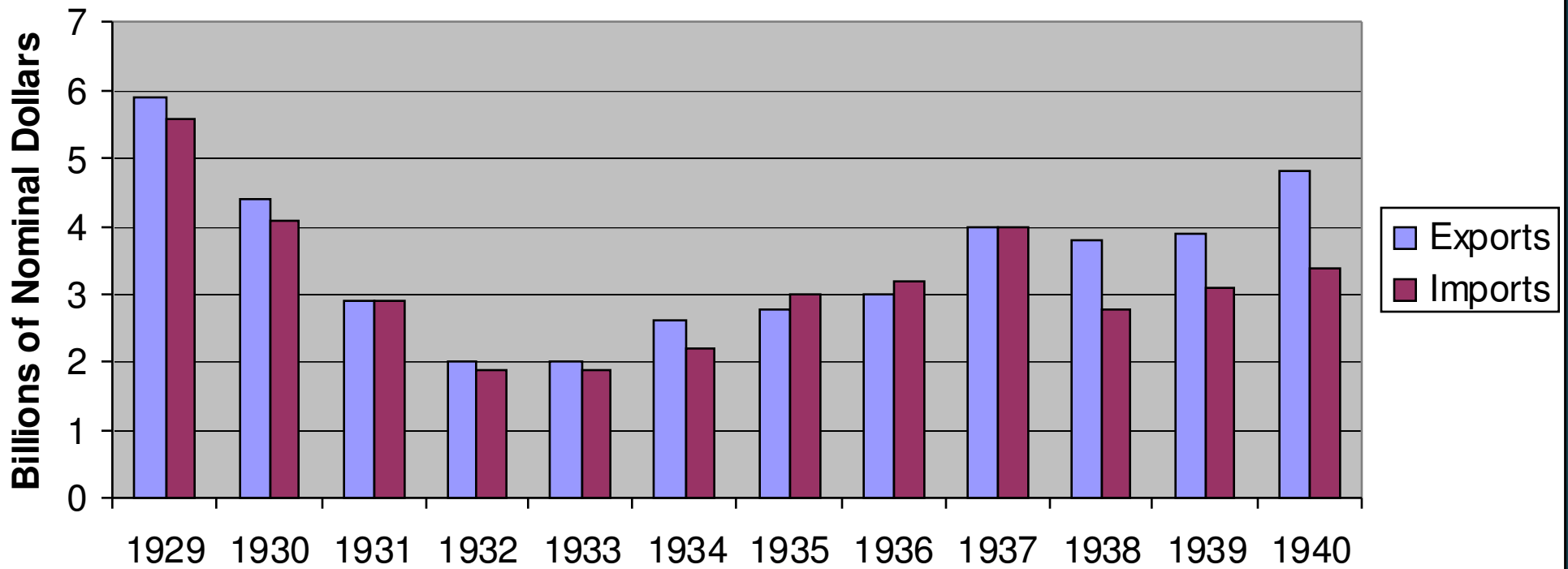
Smoot-Hawley Tariff of 1930

- ▶ raised the average tariff rate of foreign products to levels as high as 50%.
- ▶ aimed to help American manufacturers from foreign competition, but foreign countries responded by raising their own tariffs against American products and that caused fewer American products from being sold overseas.
- ▶ In 1932, U.S. export fell 20%.

Tariff = Tax



Smoot Hawley Tariff of 1930 and Trade Reform Act of 1934



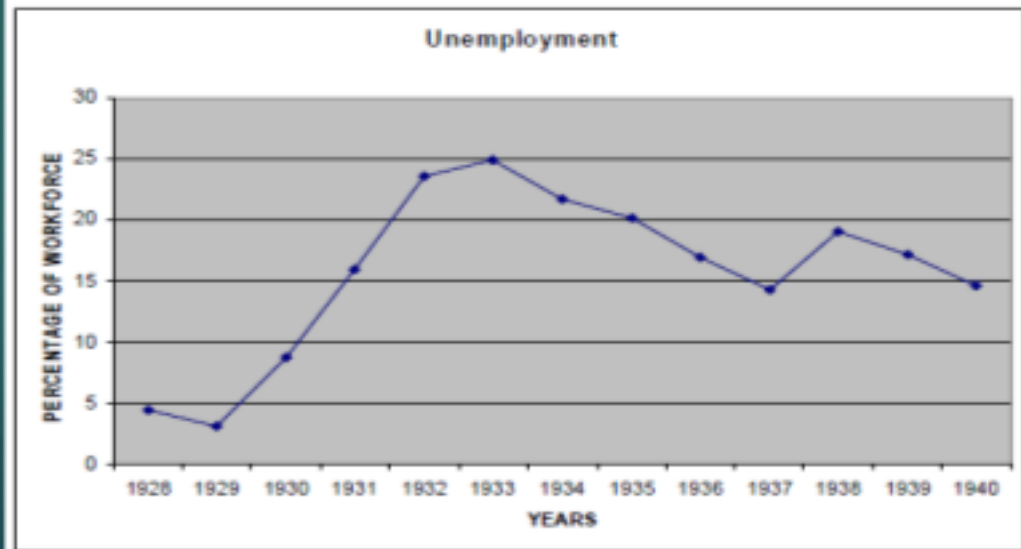
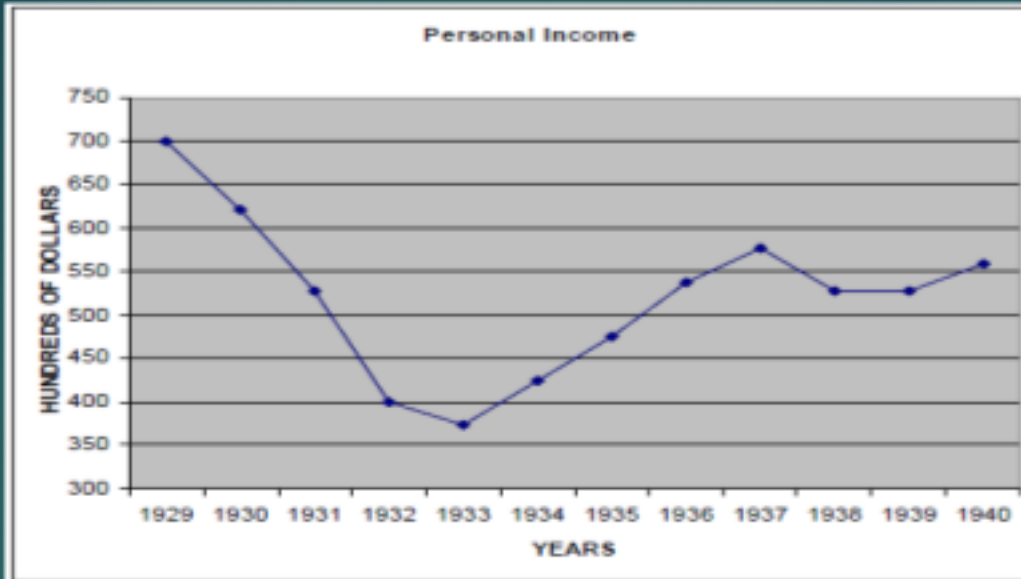
<https://www.youtube.com/watch?v=zSfzFWU5LbY> Start @ 4:00

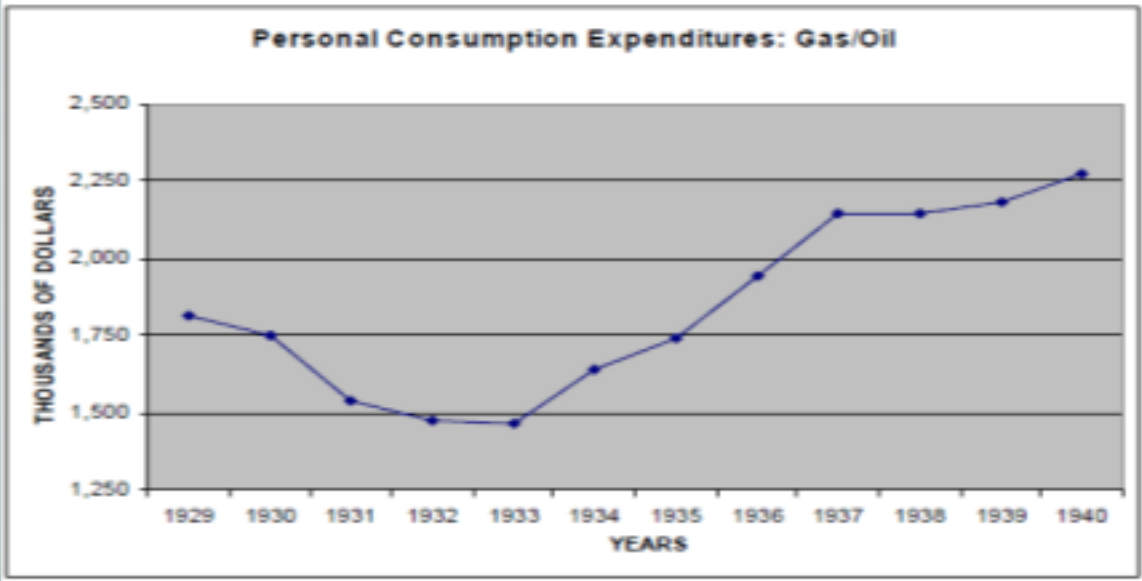
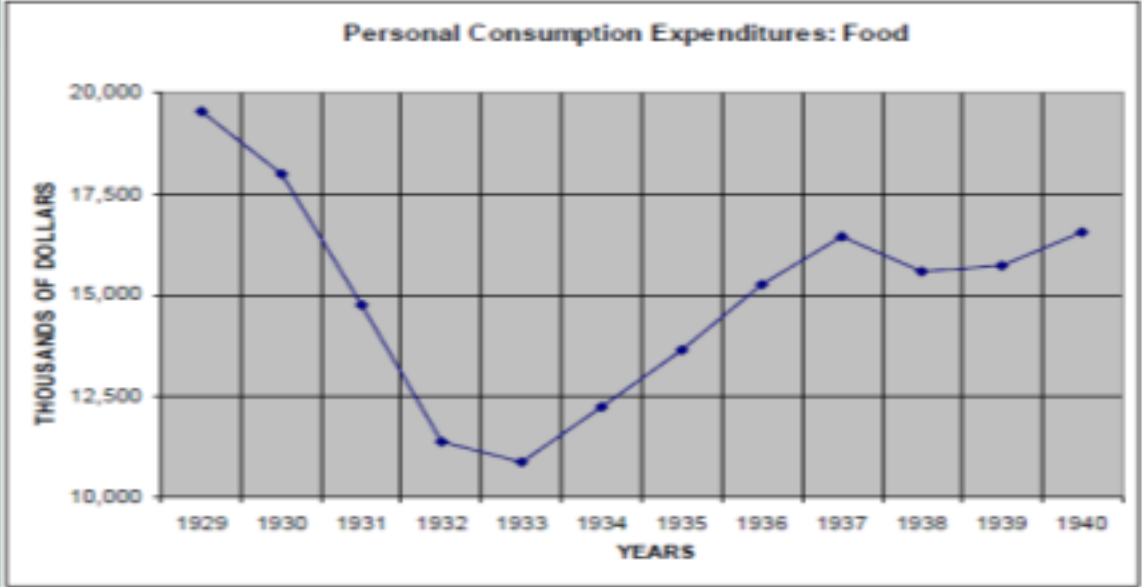
The Century: America's Time - 1929-1936: Stormy Weather



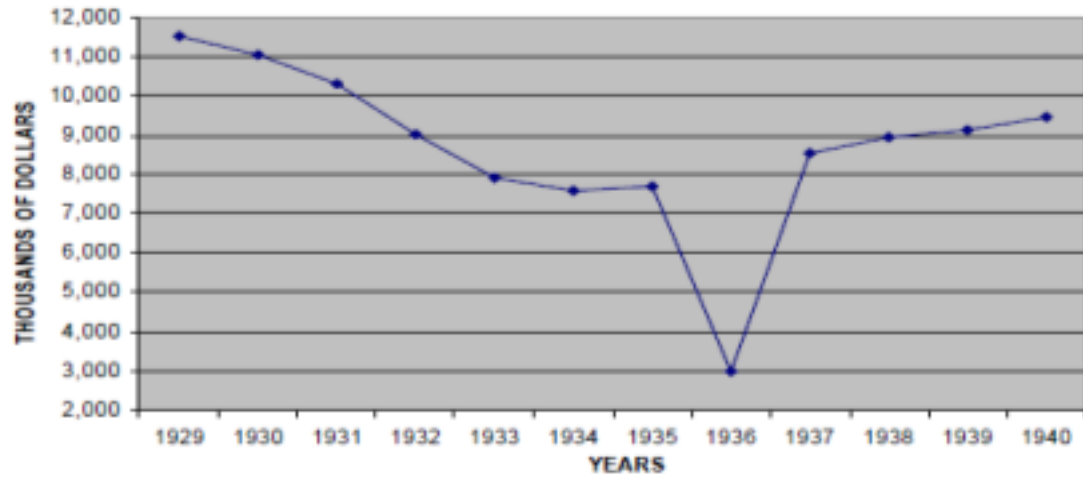
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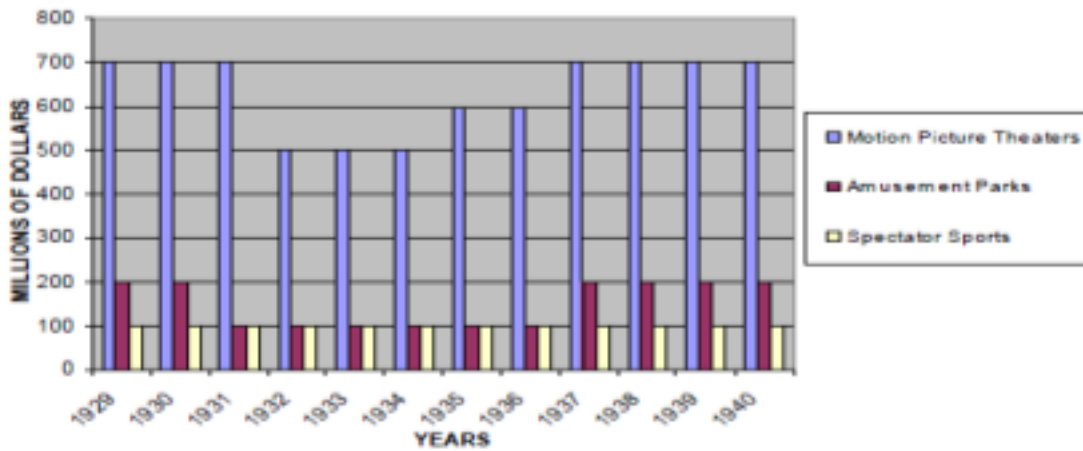


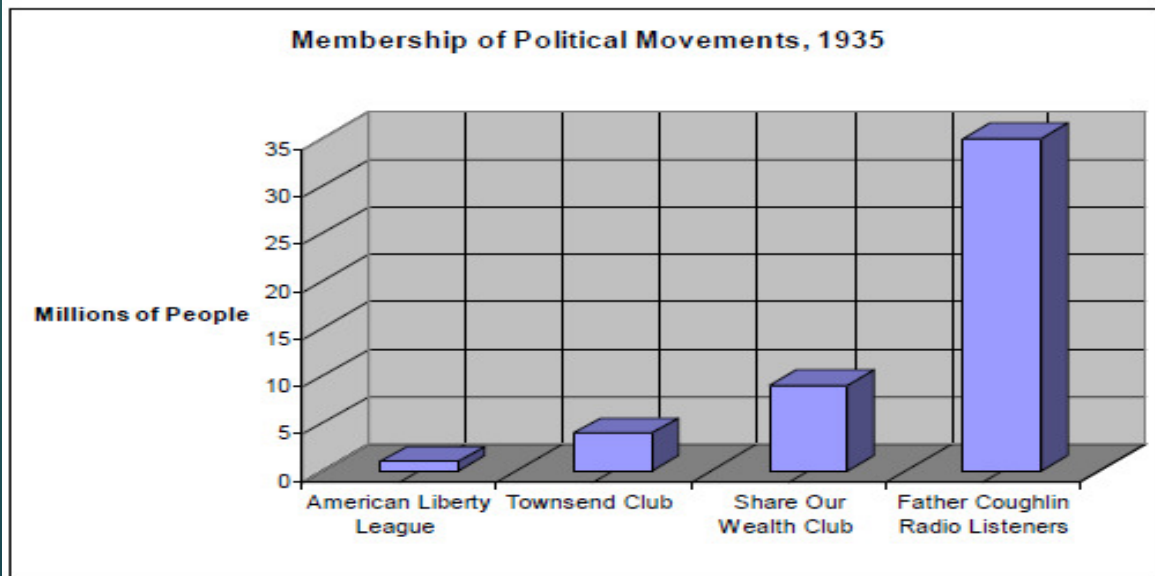
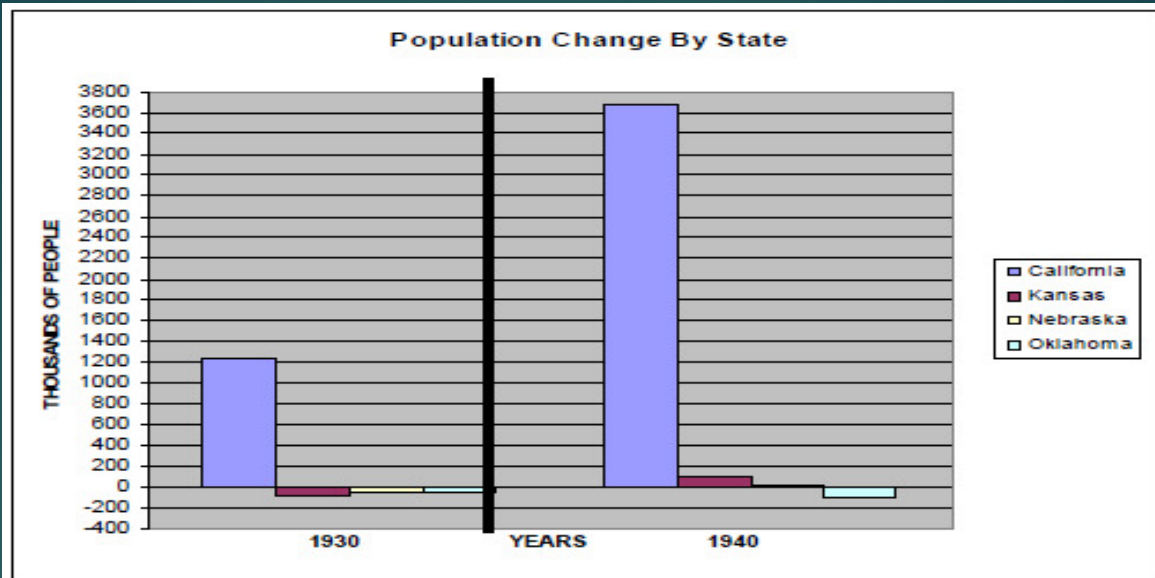


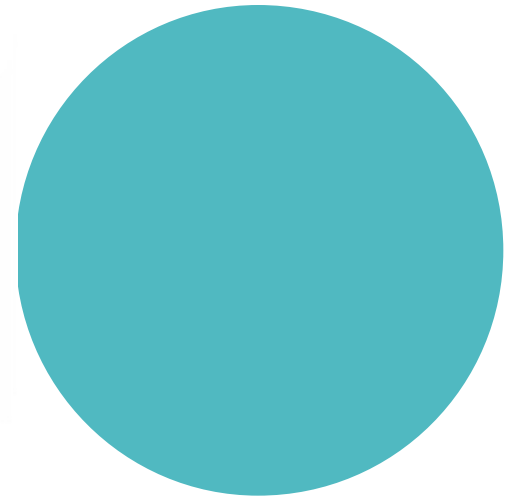
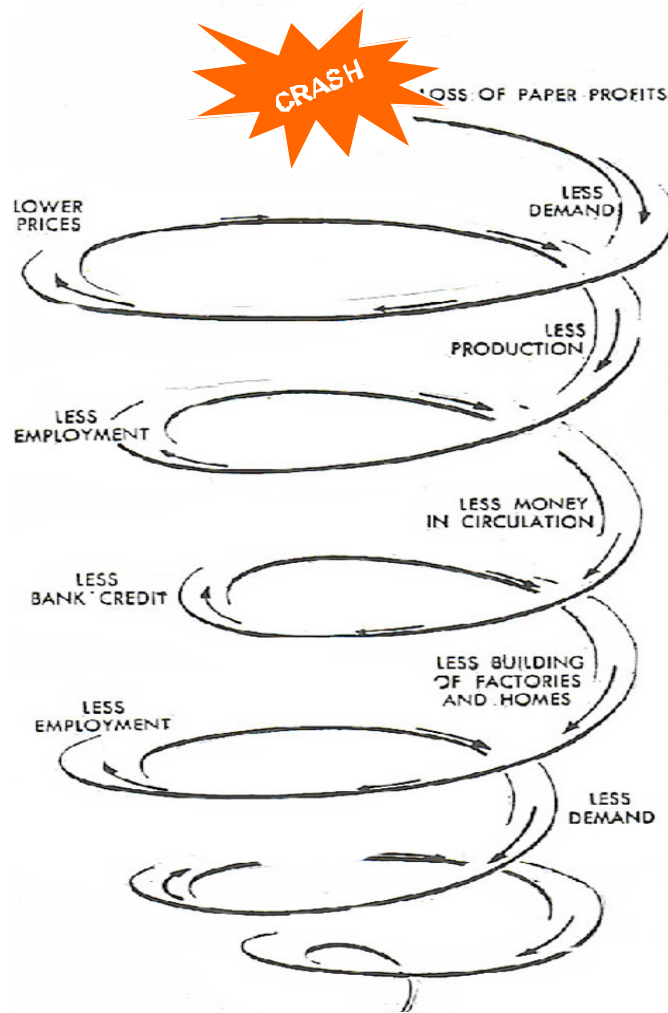
Personal Consumption Expenditures: Housing



Personal Consumption Expenditures: Entertainment








- 
- • At this time, nearly one in four Americans was unemployed.

More than

- 
- 13 million Americans had lost their jobs since 1929.
 - • Roughly 10,000 banks had failed since 1929.
 - • About \$2 billion in deposits were lost since 1929.
 - • Per capita income fell from \$681 in 1929 to \$495 in 1933.

**U.S. STATISTICAL DATA
1929 - 1933**

Year	Number of Bank Suspensions	Unemployment Rate	Per Capita Personal Income	Real GDP (in millions of dollars)
1929	659	3.2%	\$698	\$951.7
1930	1352	8.9%	\$619	\$862.1
1931	2294	16.3%	\$526	\$788.8
1932	1456	24.1%	\$399	\$682.9
1933	4004	25.2%	\$372	\$668.6



Great Depression Primary Sources

