Modern America   Name: ________________________
Shen

The Causes of the Great Depression

Recessions & Depressions

Recessions and depressions are definitely related -- to understand one you have to understand the other.

Recession: A ____
______________________________________, lasting longer than a few months. It is visible in industrial production, employment, income, and wholesale-retail trade.

Recession is a normal (albeit unpleasant) part of the business cycle. A recession generally lasts from six to eighteen months. Less severe than a depression.

Depression: a ____,
characterized by decreased business activity, falling prices, and high unemployment.

In times of depression, consumer's confidence and investments decrease, causing the economy to shut down. The classic example of this occurred in the 1930s the Great Depression affected the global economy.

So what's the difference between a recession and a depression?

- A depression is simply a prolonged or particularly excruciating recession.
- Depressions are generated by the same factors that cause a recession. In simple terms, depressions are really protracted versions of recessions.
- Some economists believe recessions are a natural part of an economic cycle. But what about depressions? If recessions are economically painful, then depressions are like having your financial teeth yanked without Novocain.

The Economy in the Late 1920s

I. The mood of most Americans in the late 1920s was optimistic. Unfortunately, there was a disconnect between people's perception of how life was and what the reality was.

II. For instance, people's **perception** (MEANING ____) was that the "Roaring Twenties" was a good time for all.

A. Remember, there was all of that new technology, cars, electricity, national heroes, bootlegging, flappers, and people making more money while working fewer hours. The number of infant deaths had also declined in the 1920s, and life expectancy had lengthened due to medical advances. The economy also appeared to be booming in the 1920s.

B. Remember also, the economy of the 1920s also appeared to be booming in the 1920s.

1. Between 1925 and 1928, the market value of all stocks rose from $27 billion to $38.4 billion. By 1929, stock values hit $___________________.
2. __________________________ (what $ could actually buy) had increased more than 40%.
3. Unemployment averaged below _______%.

C. People started to believe that anyone could be rich.
    1. Lots of people started wildly buying stocks with ________________________________.
    2. Lots of people hoped to "get rich quick."
    3. It was definitely a time of great optimism.

III. In spite of these apparent positive changes in life in the '20s, the reality was much less sunny. There was trouble brewing under the surface. The **reality** was that:
  A. The economy was __________________.
  B. The rich were getting richer, and the poor poorer.
    1. Personal wealth was concentrated in a tiny percentage of American families
      a) In 1929, only .1% of the population had incomes of more than $100,000
      b) 71% of families earned less than $2,500 per year
      c) __________ of families had no savings

IV. The problem with businesses/consumer spending:

  A. With the advent of credit, things got complicated.
    1. Advertising made people believe they HAD to buy things.
    2. Store owners had enough confidence in the economy to let customers buy goods with an ________________________________ (and interest).
    3. Credit buying also meant that people were pumping money into the economy that actually didn't exist. Meaning what?

  B. Business Overproduction:
    1. There were too many consumer products being produced in part because wages did not rise as fast as production.
      a) People could not afford to buy the goods as fast as they were made and even when they did buy, people often paid in credit so no money changed hands.)
    2. By the late 1920s, the country's warehouses held piles of un-bought consumer goods. Industries like auto, steel, rubber and glass were all experiencing a slow down. WHAT DOES THIS MEAN IN REAL TERMS?

V. The problem with farming
  A. The same problem of overproduction extended to agriculture.
  B. Farmers did not experience some of the positive changes of the 1920s.
    1. Thanks to technological advancements like the tractor, farmers began to produce more food in the 1920s. However, as production grew, food prices dropped (supply & demand), and farmers responded by producing more food, which only lowered the prices more.
    2. Due to their planting more and making less money each year, farmers began defaulting on their loans, leading banks to foreclose (taking their farms as a form of payment.)
  C. At the same time, drought struck the center of the country, devastating farmers and turning that region of the country into what was called the "____________________________."

1. How did weather, combined with poor farming practices compound to make the Dust Bowl so devastating for farmers?

VI. The problem with the stock market - absence of regulation

A. Compounding the problem was that fact that thanks to changes in stock buying practices in the 1920s, more people began to buy stock in the 1920s hoping to get rich quickly.

1. Consumers were encouraged by brokers, banks and even the president to ______________________________, whereby

2. People were buying stocks with money they didn't have through something called ____, in which they would pay a fraction of the price and borrow the rest.

3. Companies also contributed to the problem, ***watering their stock*** to give customers the appearance of a better product than was actually being produced. MEANING?

4. WHY ARE THE ABOVE STOCK PRACTICES CONCERNING WHEN WE CONSIDER THE STATE OF THE STOCK MARKET IN THE LATE 1920S?

All of these factors would ultimately lead to the stock market crash of 1929.

I. On October 29, 1929, known as ______________________________________. A record, _____________________ shares of stock were sold (vs. the average of 4-8 million shares a day in 1928.) Overall losses amounted to $_____________________.

II. Eventually, the stock market crash ended up affecting the people who had never owned a single share of stock, and even people from other countries. How?

III. By 1932, a ______________ of the American labor force was out of a job.

IV. Thousands of banks closed because they could not return their depositors' money or sell foreclosed properties. (**<u>Bank run</u> -> <u>Bank failure</u>**)

V. The stock market crash of 1929 was NOT the cause of the Great Depression. Instead, it was only the day the prosperity bubble burst. Deeper problems were the REAL underlying causes of the Great Depression.

RECAP: What were these economic problems that were brewing under the surface? (LIST 4)