



Causes of the Great Depression

Chapter 9 Section 1
USH Honors

Lesson Objectives:

1

Students will be able to summarize the critical problems that threatened the American economy in the late 1920s.

2

Students will be able to describe the causes of the stock market crash and Great Depression.

3

Students will be able to explain how the Great Depression affected the economy in the United States and throughout the world.

Essential Question:

**WHAT WERE THE
CAUSES AND
CONSEQUENCES
OF THE GREAT
DEPRESSION?**





The Election of 1928

- Both candidates promoted the idea of prosperity
 - Democrats: Alfred Smith
 - Republicans: Herbert Hoover
- What controversy emerged?
 - Smith's faith – 1st Roman Catholic to win the nomination
 - Americans were afraid of papal influence.
 - Hoover defended Smith!
- Who won?
 - Hoover – America's prosperity encouraged a continuation of policies.

The Stock Market Soars

- Americans were increasingly investing in the Stock Market.
- America was in a bull market: a long period of rising stock prices.
- Late 1928-early 1929: Stock Market was soaring!
 - Buyers engaged in speculation – buying stock at great risk.
 - Some investors also used margin (borrowing money to buy stock) to purchase stock.
 - By 1929 ~10% of the population owned stocks.

Problems Emerge

- By late 1929, the stock market was suffering:
 - Not many new investors taking a chance = caused stock prices to drop
 - New investors were Buying on Margin (paying ~50% and borrowing ~50%)
- Brokers issued a margin call – demand that investors pay their loans.

The Great Crash

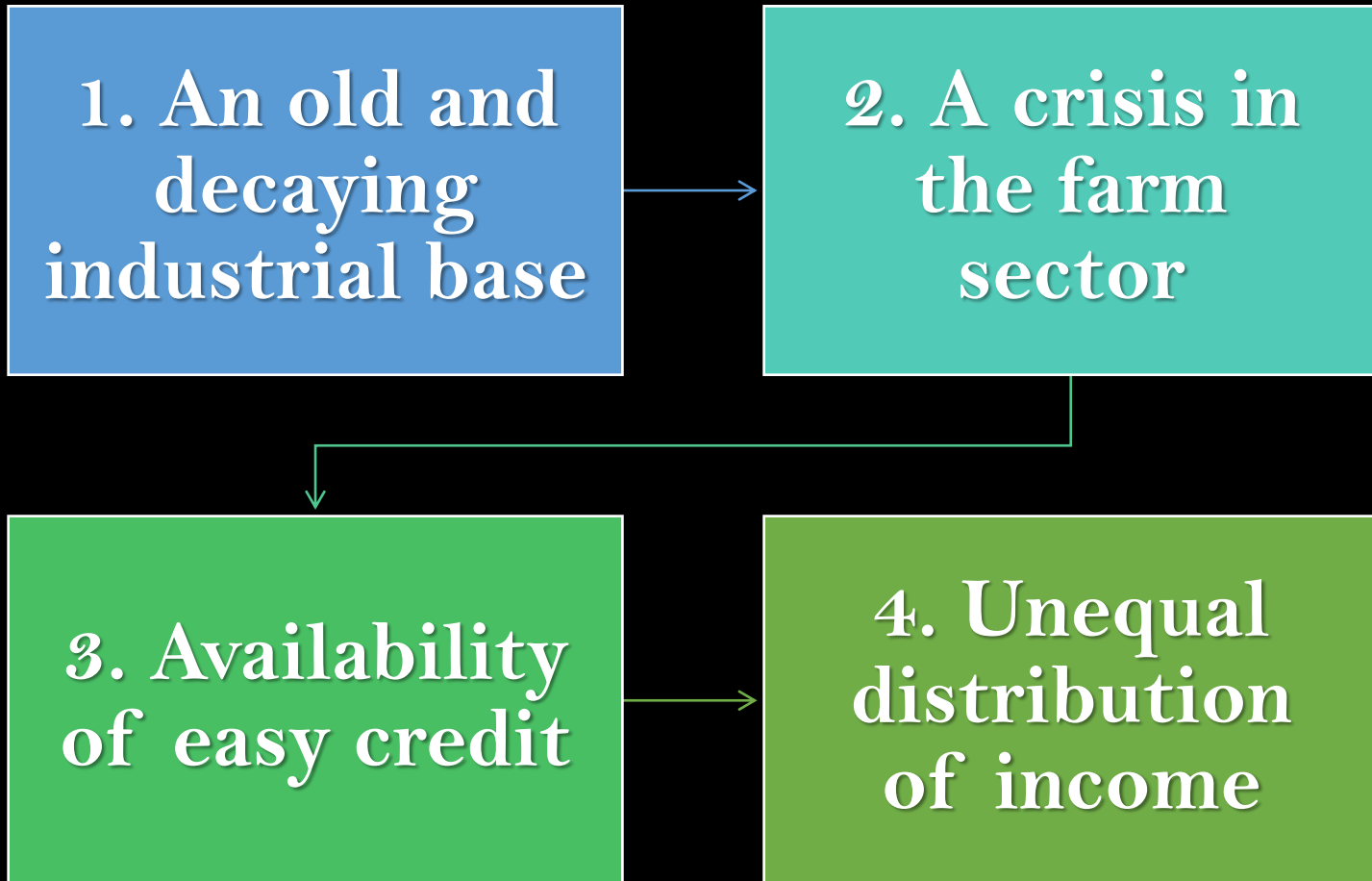
- A Bull Market will last **ONLY** if investors continue to play the market.
 - September 1929 = stocks begin to slide
 - Monday, Oct. 21st = Stockbrokers called their margins.
 - Investors sold their stocks rapidly
 - Stock Market plummeted even more
- October 24th: The market took a dive that sent the investors into a panic.
- By October 29th, the bottom fell out of the market.
 - 16 million shares of stock were sold
 - ~\$30 billion in stock prices were lost
 - Banks begin to close = cannot cover the costs or had speculated themselves

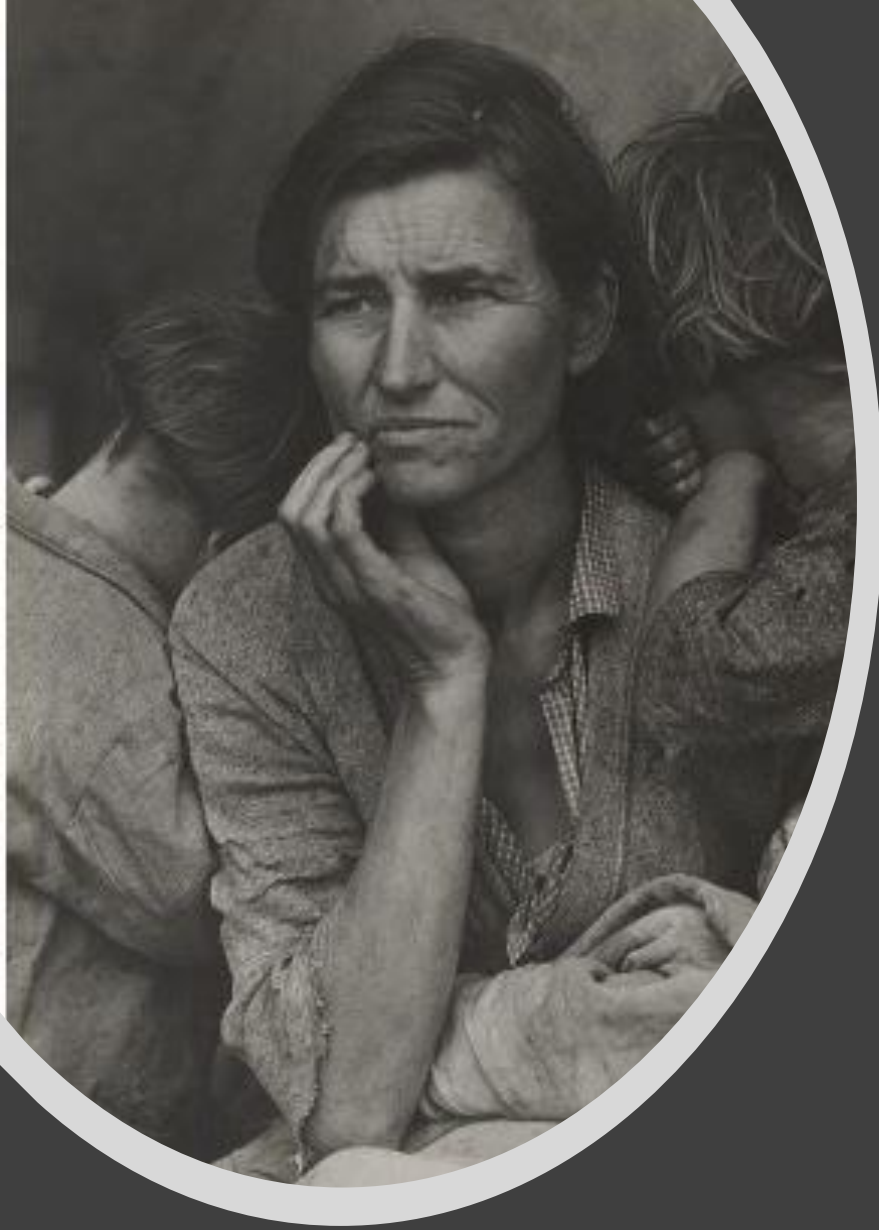
Causes of the Great Depression

- **The Stock Market crash signaled the beginning of the Great Depression.**
 - Lasts from 1929 to 1941
 - Millions of people are out of work
- **Crash alone did not cause the Depression**
 - Made economic collapse happen more quickly
 - Made the Depression more severe
- **Historians and economists differ on the main causes of the Depression.**
 - We agree on the following causes:



Causes of the Depression





- These 4 factors led to falling demand for consumer goods.
 - Federal government increased the problems:
 - Keeping interest rates low:
 - Allowed businesses and individuals to borrow easily
 - Borrowing builds up large amounts of debt
 - Some of the borrowed money bought stocks
 - Government did very little to regulate stock purchases.
 - Borrowers were not discouraged from buying stocks.
 - People were in shock that financial collapse had hit the United States.
 - Hoover encouraged Americans to remain calm.
 - There was no stopping this
- Depression: the worst was on its way!**



1938 Great Plains Farm



Dow Jones Industrial Average (The Dow)

- Most widely used barometer (measurement) of the health of the Stock Market.
 - Tracks the state of the Stock Market
 - Still used today!
- Based on the stock prices of 30 representative large firms trading on the New York Stock Exchange (NYSE).
- 1920s – stock prices rose steadily, and people rushed to purchase stock
 - Most engaged in speculation: buying on a chance of making a profit quickly
 - Buying on Margin: paying a portion of the price and **BORROWING** the remainder...**BAD!!!**