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The Causes of the Great Depression

“Economies historically pass through good and bad periods that regularly repeat themselves. These up-and-down periods of business activity are referred to as the business cycle. The bad times are called depressions – characterized by business failures and high unemployment. The Great Depression was the worst depression in our nation’s history.

The Causes of the Great Depression

Overproduction:

- The 1920s witnessed a rapid economic expansion, as manufacturers made and sold new products like cars, radios, and refrigerators.
- Many consumers lacked the money to buy these goods.
- Manufacturers were soon producing more goods than they could sell.

Uneven Distribution of Income:

- Even in the 1920s, not all groups shared in the national prosperity.
- Many African Americans, Hispanics, Native Americans, and industrial workers already faced hard times.
- Farmers suffered when crop prices dropped sharply, and many went bankrupt.

Speculation:

- In the 1920s, as stocks soared in value, many people bought stocks hoping to “get rich quick.”
- This drove stock prices even higher.
- Many people were buying stocks on margin – paying only a small percentage of a stock’s value and promising to pay the rest later, when they sold the stock.
- However, if the stock’s price fell, then buyers often did not have the money to cover their losses.

Shaky Banking:

- The government failed to effectively regulate either the banking system or the stock market.
- The vast over-extension of credit made the entire economy extremely vulnerable.

Restricted International Trade:

- High U.S. tariffs protected American markets but made it hard to for producers to sell abroad, since other countries retaliated by setting up high tariffs of their own.

The Stock Market Crash:

- On October 29, 1929, the stock market crashed; stock prices reached all-time lows.
- Corporations could no longer raise funds.
- People who lost money in the stock market could not repay their loans, leading to bank failures; thousands of people lost their life savings.
- The demand for goods decreased.
- Factories closed; workers lost jobs.

1. What do economies experience?

2. Define an economic depression.

3. What was the Great Depression?

4. Why did overproduction occur in the 1920s?

5. What groups did not share in the national prosperity in the 1920s?

6. Why did many farmers suffer?

7. Why did stock prices soar in the 1920s?

8. Define speculation.

9. What is buying on margin?

10. What happened if a stock's price fell, particularly if the investor had bought the stock on margin?

11. Can banks go bankrupt? Explain your answer.

12. What did the government fail to regulate in the 1920s?

13. Define laissez-faire. How was government failure to regulate an example of it?

14. Define tariff.

15. How did U.S. tariffs surprisingly hurt American business owners?

16. What happened on October 29, 1929?

17. What were corporations unable to do when the stock market crashed in 1929?

18. What could people who lost money in the stock market not do?

19. What happened to demand after the stock market crashed?

20. As consumers demanded fewer goods, what were business owners forced to do?

21. Why did rising unemployment rates make the depression worse?

22. What can unemployed workers not do?

23. At the start of the Great Depression, there was no "safety net." What "safety net" exists today?

24. Herbert Hoover was President at the start of the Depression. He believed in laissez-faire and "rugged individualism" – how did these beliefs affect his actions?

