THE CAUSES OF THE GREAT DEPRESSION

Chapter 11 Section 1

THE CAUSES OF THE GREAT DEPRESSION

- THE LONG BULL MARKET

- Main Idea
  - A strong economy helped Herbert Hoover win the 1928 election, but increasing speculation in the stock market set the stage for a crash

THE LONG BULL MARKET

- The election of 1928
  - Calvin Coolidge Declined to run for election in 1928, Republicans nominated his secretary of commerce, Herbert Hoover
  - Democrats choose Alfred E. Smith, former governor of New York; his beliefs became a campaign issue
  - People thought if Smith was elected , he would make the Catholic Church in power
  - Hoover defeated Smith by more than 6 million votes, and won the Electoral College in a landslide, 444 to 87

THE LONG BULL MARKET

- The Stock Market Soars
  - Optimism swept Hoover into the White House and drove up stock prices to a new high
  - Stock market experienced a long period of rising stock prices, or a **Bull Market**
  - In the 1920s a prolonged bull market convinced many people to invest in stocks.
  - By 1929 about 10% of American households owned stocks

THE LONG BULL MARKET

- The Stock Market Soars (Cont.)
  - As markets soared, investors began buying stock on **margin**
    - Making a small cash down payment (as low as 10% of actual price)
    - With $1000 an investor could get $10,000 worth of stock
    - Other $9000 came from a loan from a stock broker
  - To protect the loan, a broker could issue a **margin call** demanding the investor repay the loan at once.

THE LONG BULL MARKET

- The Stock Market Soars (Cont.)
  - Before the 1920s, prices investors paid for stocks had reflected the stock's true value
  - In the late 1920s many investors bid prices up without considering a company's earning and profits
  - Buyers, hoping for a quick windfall, engaged in **speculation**
    - They bet the market would continue to climb, thus enabling them to sell the stock and make money quickly

THE CAUSES OF THE GREAT DEPRESSION

- THE GREAT CRASH

- Main Idea
  - Rising stock prices led to risky investment practices; when the stock market crashed, banks were in trouble.
    - The bull market lasted only as long as it was funded
    - By the latter half of 1929, the market was running out of new investors

THE GREAT CRASH

- The Stock Market Crash
  - On October 21st 1929 the comedian Groucho Marx received a phone call from his broker insisting that he have the cash to cover his margins
  - Three days later on "**Black Thursday**" the stock fell further than it had before and Marx was wiped out
  - On October 29, 1929 the stocks plummeted, the farthest dive yet. This day came to be known as "**Black Tuesday**"
    - On this day 16 million shares of stock were sold and the market lost between 10 and 15 billion dollars in value

THE GREAT CRASH

- Banks Begin to Close
  - The market crash severely weakened the nation's banks in two ways
    - First, by 1929 banks had loaned nearly 6 billion to stock speculators
    - Second, many banks had invested depositors' in the stock market, hoping for higher returns than they could get by using the money for loans
  - When stock values collapsed, banks lost money on their investments and speculators defaulted on their loans

THE GREAT CRASH

- Banks Begin to Close (Cont.)
  - Having suffered serious losses, many banks cut back drastically on the loans they made
  - With less credit available, businesses were not able to borrow as much money. This helped send the economy into a recession
  - Some banks could not absorb the losses they suffered and were forced to close

THE GREAT CRASH

- Banks Begin to Close (Cont.)
  - The government did not insure bank deposits, so if a bank collapsed, customers lost their savings
  - Bank failures in 1929 and 1930 created a crisis of confidence in the bank system
    - **Bank Runs** – When many depositors decide to withdraw their money at one time, usually because of the fear that the bank will collapse

The Great Crash

- Banks Begin to Close (Cont.)
  - The bank only keeps a fraction of depositors' money in reserve to cover daily business and withdraws
    - So when people started bank runs more banks collapsed because of lack of funds
    - More than 10% of the nation's banks – nearly 3500- had been closed by 1932

THE CAUSES OF THE GREAT DEPRESSION

- THE ROOTS OF THE GREAT DEPRESSION

- Main Idea
  - An uneven distribution of income, tariff policies, and the federal reserve boards mistakes contributed to the Great Depression
    - Stock market Crash played a major role in putting the economy in recession
    - The roots were deeply entangled with the economy of the 1920s

THE ROOTS OF THE GREAT DEPRESSION

- The Uneven Distribution of Income
  - Over production was one factor
  - More efficient machinery increased the production buy most Americans didn’t earn enough to buy up the flood of goods
    - The average workers wage increased by only 8%
  - 2/3 of families earned less than $2,500 a year, leaving them with little disposable income

THE ROOTS OF THE GREAT DEPRESSION

- The Uneven Distribution of Income (Cont.)
  - Many Americans had purchased high-cost items, such as refrigerators and cars, on the installment plans
    - Purchasers could make small down payments and pay the remainder of the items price in monthly installments
  - Because of the decrease in sales, manufactures in turn cut production and laid off employees

THE ROOTS OF THE GREAT DEPRESSION

- The Uneven Distribution of Income (Cont.)
  - Jobless workers cut back on purchases, further cutting sales
  - This reaction put more and more Americans out of work
  - Many families had little or no savings
    - The families had little or no money to support themselves when they lost their jobs
  - In 1930s alone 26,000 businesses collapsed

THE ROOTS OF THE GREAT DEPRESSION

- The Loss of Export Sales
  - Many jobs might have been saved in American manufactures had sold more goods abroad
    - Bull markets sped up U.S. banks made loans to speculators rather than to foreign companies
  - Many nations didn’t have money to buy US industries from foreign companies
  - Conservative republicans, wanted to protect US industries from foreign comp. by raising tariffs
    - Hawley-Smoot Tariff raised the average tariff rate to the highest in US history

THE ROOTS OF THE GREAT DEPRESSION

- Mistakes by the Federal Reserve
  - Federal Reserve board kept interest rates low during the 1920s
  - Didn’t help the economy because…
    - It encouraged member banks to make risky loans
    - Lowered interest rates led business leaders to think the economy was expanding.
    - As a result the money borrowed led to over productions which caused prices to fall
  - When depression hit, second mistake was the Federal Reserve raised interest rates

REVIEW QUESTIONS

- In your note book, on the same page where your glued the stock folder answer/ define the following
  1. Explain the bull market
  2. Explain Black Tuesday
  3. Explain the Hawley-Smoot Tariff
  4. What factors contributed to Herbert Hoover's election?
  5. How did the stock market collapse affect banks?