

# The Great Crash

**CHAPTER 9 SECTION 1**

**US HISTORY (EOC)**

# Lesson Objectives:



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



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



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 Long Bull Market

- ▶ 1928 Election: Both candidates promoted the idea of prosperity
  - ▶ Democrats: Alfred Smith
  - ▶ Republicans: Herbert Hoover
- ▶ Late 1928-early 1929: Stock Market was soaring!
  - ▶ ~10% of the population owned stocks.
- ▶ 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%)



# The Great Crash

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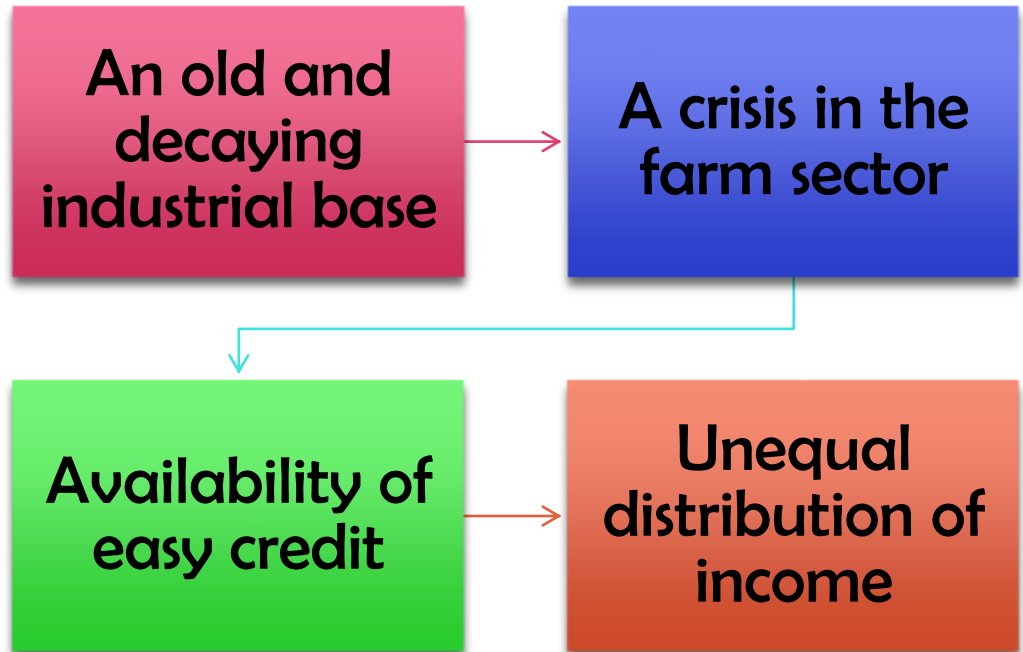
- ▶ A Bull Market will last ONLY as long as investors continue to play the market.
  - ▶ September 1929 = stocks begin to slide
  - ▶ Monday, Oct. 21<sup>st</sup> = Stockbrokers called their margins.
    - ▶ Investors sold their stocks rapidly
    - ▶ Stock Market plummeted even more
- ▶ October 24<sup>th</sup>: The market took a dive that sent the investors into a panic.
- ▶ By October 29<sup>th</sup>, 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



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- ▶ These 4 factors led to falling demand for consumer goods.
  - ▶ Federal government caused more 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
      - ▶ Federal government did very little to regulate stock purchases.
      - ▶ Borrowers were also not discouraged from purchasing stocks.
  - ▶ People were in shock that financial collapse had hit the United States.
    - ▶ Hoover encouraged Americans to remain confident about their economic future.
  - ▶ 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!!!**

