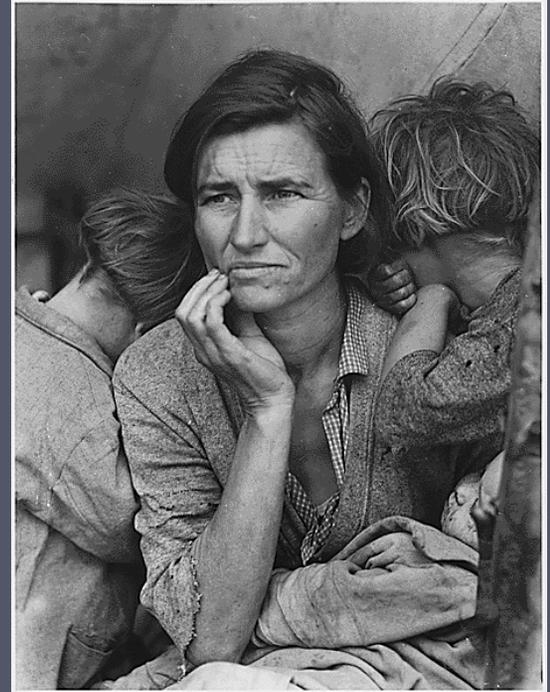


The Great Depression



Outcome: Causes of The Great Depression

Causes of The Great Depression

1. A Depression is:

a. One phase in a larger business cycle

b. Characterized by a vicious cycle of:

- i. Low consumer/trust/confidence ---> Low demand for goods
- ii. Low prices & low profits ---> Layoffs & rising unemployment
- iii. Lower incomes ---> Reduced consumer buying power

Causes of The Great Depression

2. Causes of the Great Depression (Worst in U.S. History)
 - a. Easy Credit created an “Illusion of Prosperity” in the 1920’s
 - i. Installment plans allowed purchases without cash
 - ii. Created an unnatural demand for goods and eventual overproduction
 - iii. Problem arose when consumer credit was exhausted

Causes of The Great Depression

b. Farmers' Debt

- i. Overproduction ---> crop surplus; S > D = low prices (deflation)
- ii. Loss of war-time markets, especially in Europe
- iii. Many faced foreclosure; loss of property because of mortgage default



Causes of The Great Depression

c. Industrial Overproduction/Overexpansion

- i. The post-war buying boom slowed, but production didn't
- ii. Isolationism caused a reduction in trade

d. Growing Unemployment

Causes of The Great Depression

e. **Maldistribution of Wealth (5% controlled 33% of the wealth)**

- i. 1920's ---> the average worker **output** increased, but **wages** didn't keep up
- ii. Conclusion: workers were working **harder** for **less**
- iii. Huge profits went to **expansion** instead of higher **wages** for workers
- iv. Conclusion: the **trickle-down** theory wasn't working



Causes of The Great Depression

- f. **Stock Market Problems (sent false signals about the economy)**
 - i. Wild speculation; too much buying “on margin” caused inflation
 - ii. Oct. 29, 1929: “Black Tuesday”
 1. Selling panic, but no buyers
 2. Share prices deflated & margin loans came due



Causes of The Great Depression

- g. **Bad Banking System (Banks were independent and unregulated)**
 - i. Risky loans were issued; no FDIC protection existed for depositors
 - ii. Many banks played the stock market w/consumer deposits
 - iii. The Stock Market Crash ----> “Bank runs” = bank failures (11,000 closed)



Causes of The Great Depression

h. Government Inaction

- i. Laissez-faire policies towards banks & stock market
- ii. Bad tariff policy (increases backfired causing a “trade war”)