

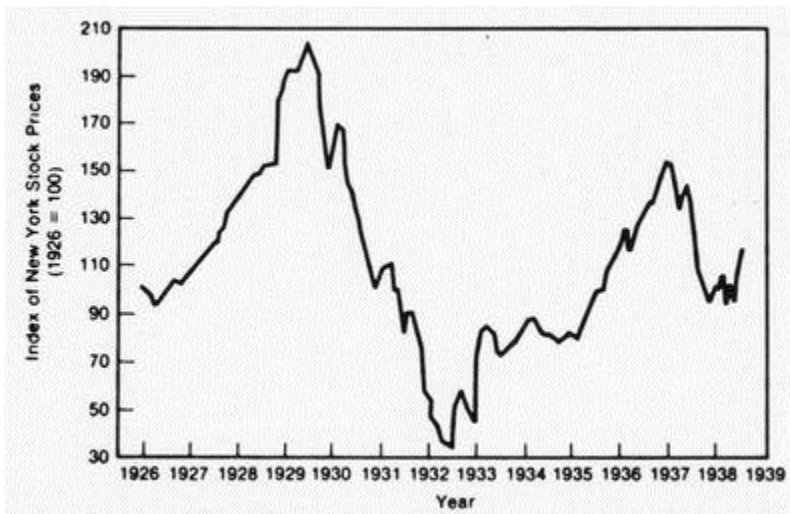
Causes of the Great Depression

Document 1: Stock Speculation

Mass speculation went on throughout the late 1920's. In 1929 alone, a record volume of 1,124,800,410 shares were traded on the New York Stock Exchange. From early 1928 to September 1929 the Dow Jones Industrial Average rose from 191 to 381. This sort of profit was irresistible to investors. Company earnings became of little interest; as long as stock prices continued to rise huge profits could be made. One such example is RCA corporation, whose stock price leapt from 85 to 420 during 1928, even though it had not yet paid a single dividend. Even these returns of over 100% were no measure of the possibility for investors of the time. Through the miracle of buying stocks on margin, one could buy stocks without the money to purchase them. Buying stocks on margin functioned much the same way as buying a car on credit. Using the example of RCA, a Mr. John Doe could buy 1 share of the company by putting up \$10 of his own, and borrowing \$75 from his broker. If he sold the stock at \$420 a year later he would have turned his original investment of just \$10 into \$341.25 (\$420 minus the \$75 and 5% interest owed to the broker). That makes a return of over 3400%! Investors' craze over the proposition of profits like this drove the market to absurdly high levels. By mid 1929 the total of outstanding brokers' loans was over \$7 billion; in the next three months that number would reach \$8.5 billion. Interest rates for brokers loans were reaching the sky, going as high as 20% in March 1929. The speculative boom in the stock market was based upon confidence. In the same way, the huge market crashes of 1929 were based on fear.

1. Why was speculation a cause of the Great Depression?

Document 2: Stock Prices from 1926-1939 – The Great Crash



2. How did the stock market lead to the Great Depression?

Document 3:

Indices of Industrial Production, 1929-1938, in Major European Countries (1937 = 100)									
Year	1929	1930	1931	1932	1933	1934	1935	1936	1937
France	123	123	105	91	94	92	88	95	100
Germany	79	69	56	48	54	67	79	90	100
Italy	90	85	77	77	82	80	86	100	100
Great Britain	77	74	69	69	73	80	82	94	100
Unemployment (in thousands)									
Year	1929	1930	1931	1932	1933	1934	1935	1936	1937
France	Neglig.	13	64	301	305	368	464	470	380
Germany	1,899	3,070	4,520	5,575	4,804	2,718	2,151	1,593	912
Italy	301	425	734	1,006	1,019	964	874	810	--
Great Britain	1,216	1,917	2,630	2,745	2,521	2,036	1,755	1,484	1,791

3. How could production and unemployment in Europe effect the United States economy?

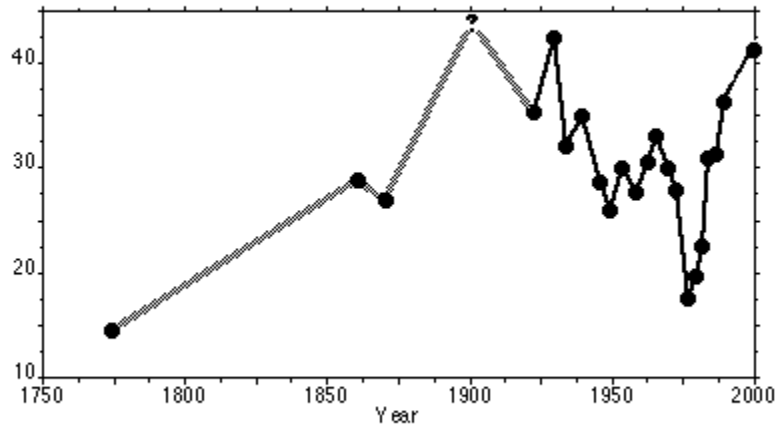
Document 4:

Year	United States Unemployment rate
1923-29	3.3
1930	8.9
1931	15.9
1932	23.6
1933	24.9
1934	21.7
1935	20.1
1936	17.0
1937	14.3
1938	19.0
1939	17.2
1940	14.6
1941	9.9
1942	4.7

4. What does the unemployment rate illustrate about the US economy?

Document 5: Surveys suggest that in 1929 the richest one percent of U.S. households held something like 45 percent of national wealth, and that the concentration of wealth had been sharply rising in the 1920s.

Figure 2: Crude Estimates of the Top 1% Share of National Wealth



? Possible for 1900.

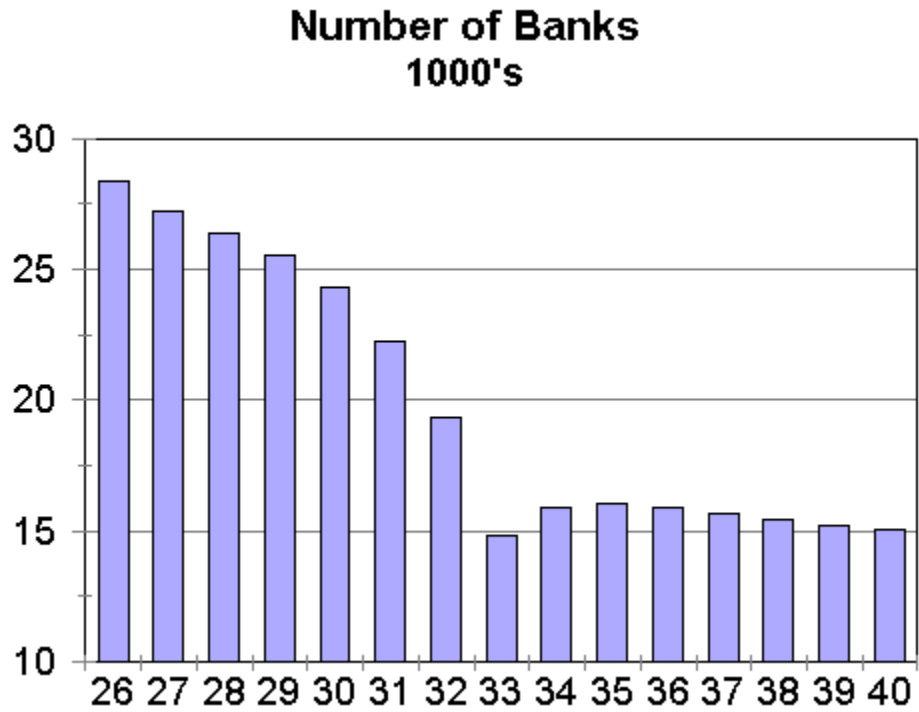
5. Why was the distribution of wealth a problem in the 1920's?

Document 6:

Year	ADS FOR MAJOR DURABLE GOODS	AUTO ADS MENTIONING INSTALMENT PLANS	OTHER ADS MENTIONING INSTALMENT PLANS	MENTIONING INSTALMENT PLANS
1915	22	7	0	7
1916	27	6	0	6
1917	40	7	0	7
1918	52	11	0	11
1919	41	9	0	9
1920	54	9	0	9
1921	29	9	1	8
1922	31	14	3	11
1923	30	14	2	12
1924	47	17	2	15
1925	41	18	4	14
1926	45	20	4	16
1927	47	21	4	17
1928	38	23	6	17
1929	44	28	8	20

6. How could buying goods using credit cause problems for the economy?

Document 7: Failure of the Banking System



7. What happened to people's savings if their bank closed?

Document 8: Dust Bowl



8. How did the dust bowl affect the lives of farmers in the United States?