Notes on Causes of Stock Market Crash and Why there was a Great Depression in the 1930s

**The easier question:** Why was there a Great Crash on the American Stock Market in 1929?

**The harder question:** why was there a Great Depression in the 1930s?

Easier question

1. Wall Street over-heated
   1. Between 1924-29 shares rose 5 times
   2. Shares rose above their actual worth, (see connection to speculation)
2. Speculation
   1. Investment in stocks, property, or other ventures in the hope of gain but with the risk of loss.
   2. 600,000 speculators by 1929
   3. Buying shares on the margin; borrowing upwards of 90%;
      1. Borrowed 9 billion from banks by 1929
   4. People investing in companies that probably had no real profitable future
3. Corruption
   1. Insider trading and corruption between bankers and brokers
4. Panic
   1. Banks covered up potential crash in early 1929 by buying share to help market
   2. October 24th, Thursday, nearly 13 milllion shares sold
   3. Banks try covering up again, but no good
   4. By Tuesday, October 29th, black Tuesday, 16 miillion shares sold and market crashes
   5. People lost confidence in banks and pulled out their money trying to consolidate their loses

Harder question

1. Two explanations at the time
   1. European financial collapse
   2. Discuss WWI paybacks- loaning money to Germany, who would pay back france and great Britain, who had to pay us back. When they cant pay back then the other two cant pay us back.
   3. JOHN MAYNARD KEYNES
      1. British economist
      2. Drop in spending was the cause
      3. People saving too much money and not spending it on goods and services
2. Crash of the stock market
3. Overproduction in factories and farms
   1. The 1920s became a time of buying of goods
   2. In WWI/war time production mode
   3. But, eventually the supply oversaturate the demand
   4. Businesses weren’t making money and having to lay off people and failed
   5. Farms produced too much food and the price of foods fell, making the farmers lose money
4. The Feds
   1. U.S. Federal Reserve
   2. Cut interest rates to stimulate economic growth during the 1920s
   3. By 1929, they limit the amount of money to discourage lending
   4. Too little of money in circulation
   5. Quanity of money goes down by 1/3
   6. For every $3 deposited only $2 were left,
   7. Banks went bankrupt in 1931
      1. By 1933, 1/3 banks had closed
5. Tariffs
   1. Fearing for the us economy, government passed the Smoot-Hawley Tariff
   2. World countries passed retaliation tariffs in response and world trade declined
   3. Damages industry, but especially u.s. agriculture
6. Maldistribution of wealth
   1. 5% of population owned 33% of the wealth, 40% of the population lived beneath the poverty line
   2. The people who had all the money weren’t spending it,
   3. Americans produced too much and bought too little, prices plummeted
7. Weaknesses in the economy
   1. Agriculture coal, iron and textiles were all experiencing problems in the 1920s
   2. They quickly collapsed and
8. Depression goes global
   1. U.s profits plummet
   2. U.s. investors have no money to invest abroad
   3. European nations, especially Germany who’s economy had collapsed can’t pay off their loans
   4. Germany was paying G.B. and France, who were paying us, can’t pay us back
   5. European production plummets
   6. Europeans cannot afford American goods
   7. U.s. profits plummet again
9. Cycle of Depression
   1. As banks and companies failed
   2. People put out of work
   3. less money to spend
   4. More companies go bankrupt and more people put out of work
   5. Gets worse and worse