

Chapter 11 The Great Depression Begins

The Causes of the Great Depression

Alfred E. Smith: Four time governor of New York. Was the first Roman Catholic to win major party's nomination for president.

Stock Market: A system for buying and selling stocks in corporations.

Bull Market: A long period of rising stock prices.

Margin: Buying a stock by paying only a fraction of the stock price and borrowing the rest.

Speculation: Act of buying stocks at great risk with the anticipation that the price will rise.

Black Tuesday: Prices took the steepest dive yet. On October 29, 1929 almost 16 million shares of stocks were sold. Although the stock market crash was not the major cause of the Great Depression, it undermined the economy's ability to overcome other weaknesses.

Bank Run: Takes place when many depositors decide to withdraw their money at one time, usually because of fear that the bank is going to collapse.

Installment: Buying an item on credit with a monthly plan to pay off the value of the good.

Hawley-Smoot Tariff: Raised the average tariff rate to the highest level in American history.



Stock Market before and after Black Tuesday



Main Ideas

2. Identifying- What factors contributed to Herbert Hoover's election in 1928?

- A strong economy helped Herbert Hoover with the 1928 election. Calvin Coolidge declined to run for election, so the Republicans nominated his secretary of commerce, who happened to be Hoover.

3. Examining- How did the stock market collapse affect banks?

- The market crash severely weakened the nation's banks in two ways. For one, banks had loaned nearly \$6 billion to stock speculators. Second, many banks had invested depositor's money 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. Also, when too many people withdrew their money the banks would collapse.

4. Explaining- What effect did tariff policies have on the Great Depression?

- Conservative Republicans wanted to protect American industries from foreign competition by raising tariffs. In the end, raising tariffs failed to help American businesses because foreign countries responded by raising their own tariffs. This meant fewer American products were sold overseas.

Critical Thinking

5. Big Ideas- How did the practice of buying on margin and speculation cause the stock market to rise?

- Buying on margin was the act of being able to buy something for the fraction of the price. This caused many people to buy stuff without having the right amount of money. From this many people were able to purchase stocks for a low amount of money and then borrow the rest from a stockbroker. Having in mind that they could possibly make a profit off a stock market caused many people to buy them at a risk. They had hope that the stock market would rise and so would the price and that would enable them to sell the stock and make money quickly. This was the act of speculation.



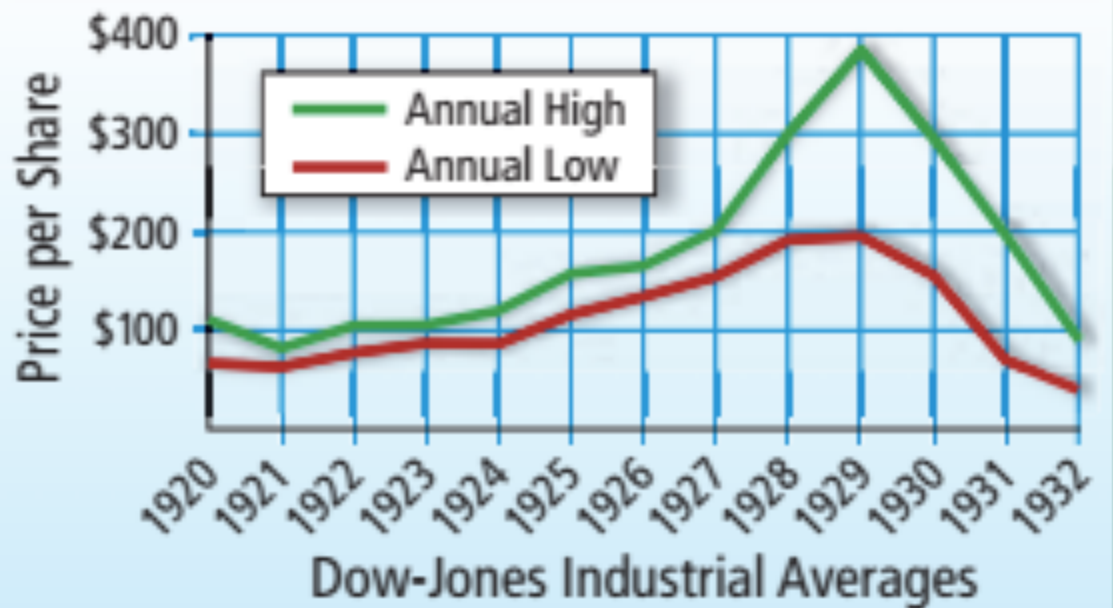
Crowd at New York's American Union Bank during a bank run early in the Great Depression.

Critical Thinking

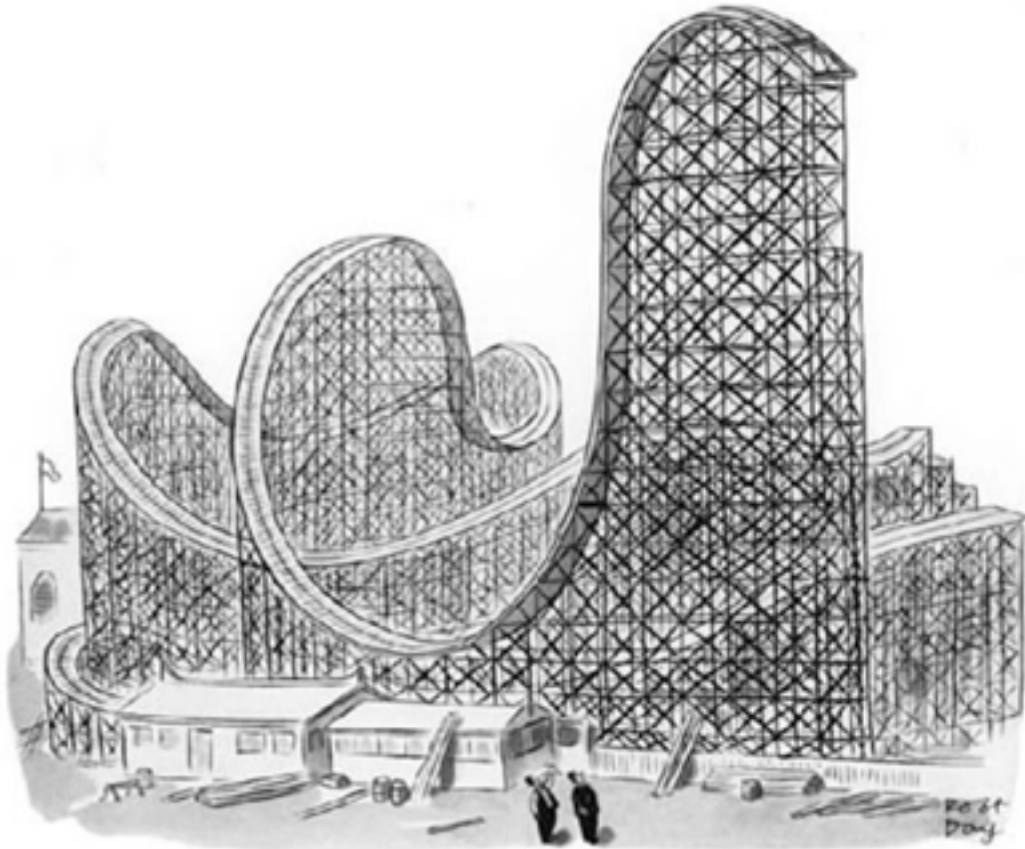
7. Analyzing Visuals- Look at the graph on page 402. What generalization can you make about the variation in highs and lows of the stock market from 1920 to 1932?

- In 1929 many people were able to buy stock markets on margin. That is when the stock prices were at their ultimate high. When the prices of stocks were at the lowest was when 25% of American workers were unemployed. People did not have the money to even pay on margin and that is why the prices decreased in 1930-1932.

Stock Prices, 1920-1932



Source: Standard and Poor's Security Price Index Record.



STOCK MARKET. THE RIDE

This cartoon shows the drastic change of the value of the stock market in less than three months. Prior to 1929, people were very pleased with the results from the gamble of the stock market, so they kept on buying stocks. Buying stocks became so ordinary that from 1922 until 1929, when the stock market crashed, stocks rose 218.7%.

Primary Source

“He was sitting in front of the now-stilled ticker tape machine, with his head buried in his hands. Ticker tape was strewn around him on the floor, and the place... looked as if it hadn't been swept out in a week. Groucho tapped [him] on the shoulder and said, ‘Aren't you the fellow who said nothing could go wrong?’ ‘I guess I made a mistake,’ the broker wearily replied. ‘No, I'm the one who made a mistake,’ snapped Groucho. ‘I listened to you.’”

- quoted in 1929: The year of the Great Clash
- Groucho Marx was a comedian who bought a stock on margin and had to pay back the money he had borrowed to buy the stock, which was then selling for far less than he had paid for them. In this quote it shows that Marx agreed with the broker to buy his stock on margin and since he did not have the money at the time to pay it all back he was in deep debt. He was upset with himself for believing the broker that nothing would go wrong. This happened to many people, not only Marx, and was one of the main causes of the Great Depression.



Political Cartoon

This political cartoon demonstrates the worries of people during the Great Depression. Many people were losing their jobs and were unemployed and many became in debt due to having to pay off the rest of their stocks.



Men at the unemployment bureau auctioning off jobs.