STOCK MARKET CRASH

Prosperity
In the 1920s, millions of Americans invested their savings or placed their money, in the rising stock market. The soaring market made many investors wealthy in a short period of time.

Beneath the Prosperity
Farmers, however, faced difficult times. The war had created a large demand for American crops. To meet this demand, farmers went into debt to purchase more land and the large pieces of machinery it took to operate these farms. Following the war, farms continued to grow, yet the demand for American crops dropped. Credit kept the farmers going.

As industry prospered, so did the workers. Wages grew steadily, but slowly for the average laborer. In the midst of what seemed like prosperity, workers were not making good money. Many were forced to provide for their needs and wants by using credit. Corporations, however, profited from the amount of work being done, and the wealth of company owners grew rapidly.

The Economy Declines
The stock market continued to do well, and people began borrowing money to invest. Many believed that returns on their investments would be enough to pay back their loans and even make a profit. (Borrowing money to invest is called speculation. When many people become vulnerable to speculation not working well, it is called over-speculation.)

The Federal Reserve became nervous about so much credit being used, so it raised interest rates to slow down the borrowing. This did not work well. Lenders became nervous about their loans. Many people who had borrowed money were finding that their loans were being recalled. This action forced people to start selling their stocks, which reduced the stock prices.

Banks struggled as well. The money supply was lowered by the government to try to avoid over-speculation. As the economy failed, people withdrew their money in an effort to protect it from disappearing completely, causing runs on banks. The banks did not have the cash needed to give all customers their money and were forced to close. There was little money left for investments.

On October 29, 1929, the prosperity ceased. On this day, known as Black Tuesday, the stock market crashed. The results were devastating and widespread. People could no longer afford to invest their money as they had prior to the crash because they had so little of it.

CAUSES OF THE GREAT DEPRESSION
With the stock market crash and the collapse of stock prices in October 1929, the U.S. economy fell into a period of dramatic decline. This period became known as the Great Depression. For the next decade, there was widespread economic hardship in the United States, which also spread throughout the world. Although historians disagree on the exact causes of the Great Depression, certain factors clearly contributed to the collapse of the economy.

Banking Crisis
In the 1920s, the Federal Reserve regulated the amount of money in circulation by controlling the supply of money available for lending and spending. The Federal Reserve boosted the economy by cutting interest rates on loans. As you read earlier, in 1929 the Federal Reserve began to worry about over-speculation. The agency decided to limit the money supply to decrease loans. Then, when the stock market crashed, many people withdrew their money from the banks. Soon banks were out of money and thousands had to close, leaving people without their savings. The Federal Reserve’s failure to keep the banking system from collapsing meant that very little of the nation’s money was being circulated.

Trouble with Tariffs
After the stock market crash, the government tried to prevent the downward spiral of the economy. It sought to protect American products from foreign competition by passing the Tariff Act of 1930. The Tariff Act, or the Hawley-Smoot Act as it was popularly called, raised prices on foreign products in an effort to persuade people to buy American products. Although it was intended to help the economy, this high protective tariff did the opposite. European countries responded by passing their own tariffs on American products, which left American producers with no markets for their goods. The tariffs soon choked global trade, and the world economy suffered.
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Guided Reading. Read the handout and answer the following questions.

1. How did many Americans become wealthy in a short period of time in the 1920s?

2. Why did farmers go into debt? How did the farmers keep going?

3. Why was the average laborer forced to start using credit?

4. Whose profits actually grew rapidly?

5. What is speculation? What is over-speculation?

6. Why did the Federal Reserve raise interest rates? What was the result?

7. Why did the government lower the money supply?

8. What happened when too many people tried to withdraw their money from the bank?

9. When was Black Tuesday? What happened on that day?

10. After the stock market crash, the U.S. economy fell into a period of dramatic decline. What is this period known as? Why?

11. In the 1920s, how did the Federal Reserve regulated the amount of money in circulation? How did the Federal Reserve boost the economy?

12. Fill in the blanks. In 1929 the Federal Reserve began to worry about ______________________. The agency decided to limit the _______________ _______________ to decrease _______________. Then, when the stock market crashed, many people _______________ their money from the ___________________. Soon banks were out of money and thousands had to close, leaving people without their ___________________. The Federal Reserve’s failure to keep the banking system from collapsing meant that very little of the nation’s money was being _______________.

13. What was the purpose of the Tariff Act, or the Hawley-Smoot Act? Did it work?

14. How did European countries respond?