

Causes of the Great Depression

DBQ

Historical Context: The Great Depression in the United States started in 1929 when the stock market crashed. It caused an economic depression. The depression last over ten years and had long-term social, economic, and political effects on American society. It is still one of the greatest defining eras in US History. In general, we know what caused the Great Depression, but these causes are still debated even today. It happened after a period of great prosperity (The 1920s) when American commerce was growing. The issues that surround the causes of the depression are still issues today.

Task: Using information from the documents and your knowledge of United States history and government, answer the questions that follow each document in Part A. Using your answers from Part A you will write an essay (Part B) in which you will be able to:

- Discuss the following three causes of the Great Depression,
 - Use of Credit
 - Over speculation
 - The Federal Reserve's Monetary (Money) policy

Part A: Short Answer

Document #1
Ford Advertisement: 1920

**FORD PRICES
REDUCED!**

EFFECTIVE SEPTEMBER 22, 1920

We are in receipt of a telegram from the Ford Motor Co., announcing a general reduction in the prices of all Ford cars and the Fordson Tractor, as follows:

Runabout	..	\$465.00
Touring	.	510.00
Coupe	.	745.00
Sedan	.	795.00
Truck, pneumatic tires	.	545.00
Tractor	.	790.00

All Above Prices f. o. b. factory.

All cars equipped with electric starter. Now booking orders at the new prices. Place your order immediately and avoid disappointment.

Rockingham Motor Co, Inc.
HARRISONBURG, VA.
THE GARRISON PRESS, Harrisonburg, Va.

Duke University Library

1. An average annual wage of all industries in the 1920s was about 1400.00 dollars a year. Many workers averaged (depending on the job) between .50 cents per hour up to 2.00 dollars per hour). How much does a worker make a month making 1.00 per hour (40 hour work weeks)?

2. How much would a 1920 Ford Touring cost per month if bought with an installment plan of 12 installments (one every month) in one year? _____

3. What happened in the 1920s that greatly lowered the price of cars (automobiles) and other consumer products?

4. As prices went down for consumer/household products what happened to demand?

Document #2: Ford Advertisement



"Among women, especially, the popularity of the improved Ford Tudor Sedan continues to grow. The low price enables them to own an attractive, convenient enclosed car for their own use, without undue burden on the family income. Many women are buying on the Ford Weekly Purchase Plan - paying out of savings from the household budget."

FORD MOTOR COMPANY, DETROIT, MICHIGAN
Runabout*290, Touring*318, Coupe*390, Tudor Sedan*520, Fordor Sedan*565
*Special equipment shown on car, bumpers and hazard wind shields, extra. All prices f. o. b. Detroit

Source: Ladies Home Journal June/November 1926

5. How does the advertising by Ford appeal to the "Modern Mom"?

6. How does the financing by Ford make owning the car sound pretty easy?



Save Money! Save Work!

With a CHALLENGE Vacuum Cleaner

Only \$21.95
Cash Without Installments

\$2.00 down
\$3.00 a month

Be Sure to Get These Attachments

Double the Usefulness of Your Vacuum Cleaner

A New Sanitary Method

100 Woolens, 200 Linens, 300 Things

The Greater ENERGE
The Ball Bearing Vacuum Cleaner

\$2.00 down
\$3.00 a month

Double the Usefulness of Your Vacuum Cleaner

A New Sanitary Method

100 Woolens, 200 Linens, 300 Things

SEARS, ROEBUCK & CO. 108 N. WASHINGTON ST. CHICAGO, ILL. THE LARGEST STORE

FIVE OR EIGHT ROOMS AND BATH

The Vallonia is Shown in Colors on Page 31

Honor Bill

The Vallonia

No. 12849AX "Already Cut" and Fitted

\$1,979.00

What Our Price Includes

At the price quoted we will furnish all the material to build this five-room bungalow consisting of:

- Lumber, Lath,
- Clear Red Cedar Shingles for Roof,
- Paint, Clear Yellow Pine,
- Franklin Lumber, No. 1 Quality Yellow Pine,
- Flamingo Lumber, Clear Grade Yellow Pine,
- Flamingo Lumber,
- Interior Doors, White Pine, No. 1 and 2's,
- Interior Sashes, White Pine, No. 1 and 2's,
- Trim, Beautiful Glass Yellow Pine,
- Medicine Cabinet,
- Woolen Carpeting, Clear Yellow Pine,
- Woolen Carpeting, Clear Yellow Pine,
- Black Building Paper, Sash Weights,
- Roof Trusses and Down Spouts,
- Decorated Besten Hardware (see page 307),
- Paint for Trim, Clear Yellow Pine, for one finish coat,
- Paint for Sashes and Windows for one finish coat,
- Woolen and Wood Floor for Interior Trim and Doors,
- Complete Plans and Specifications.

Options

Blue Floor and Blue Finish to take the place of wood floor, \$24.00 extra for one door or window door, \$30.00 extra.

Blue Floor, Trim and Floor for living room and dining room, \$80.00 extra.

Decorative wall papered (selected) Shingles, instead of wood shingles, \$30.00 extra.

Clear Yellow Pine finished for kitchen, entry and bathroom, instead of yellow pine, no extra charge.

Green Door and Windows, \$10.00 extra white sash, and \$30.00 extra white door.

Green Door, and Windows, selected white sash, \$35.00 extra selected sash, and \$30.00 extra white door.

For Prices of Plumbing, Heating, Wiring, Electric Fixtures and Shades see page 306.

Furnished Second Floor Plan, \$37.00 Extra.

1925 Models "Better than Ever"

Glassmate Hats Every Girl's Favorite Every Mother's Choice

\$168
78Ves05

\$179
78Ves01

\$165
78Ves02

\$195
78Ves07

\$269
78Ves08

\$159
78Ves03

\$198
78Ves09

\$235
78Ves04

\$119
78Ves06

\$159
78Ves04

\$248
78Ves06

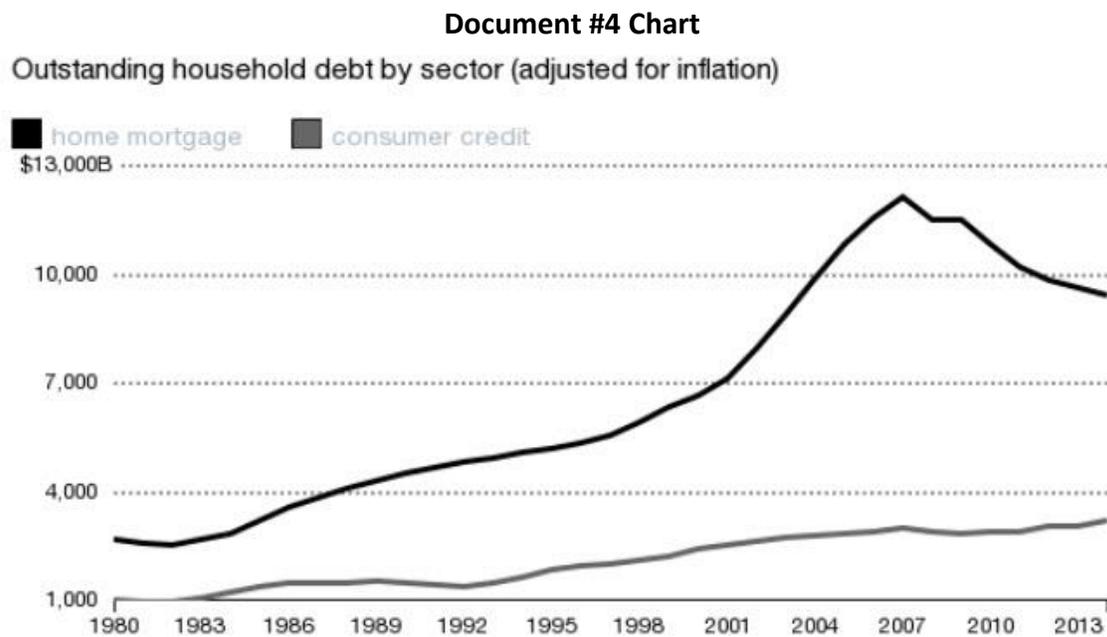
\$159
78Ves05

108 SEARS, ROEBUCK & CO.

Since the late 1800s Sears offered a huge catalog where one could buy just about anything. With the 1920s came the additions of all the electric appliances EVERYONE had to have (washing machines, fans, coffee pots, electric stoves, electric lights, vacuum cleaners, toasters, and the biggest of them all...the RADIO! You could even buy a house from Sears (a lot of Sears houses were built in Goodyear Hts., and in Firestone Park, North Hill, Kenmore and Ellet. Sources of Images: Sears

7. Almost everything one wished to buy in the Sears Catalog could be purchased using the installment plan. This allowed people to afford things they otherwise did not have the money for in advance. What is the downside for the consumer when they purchase things using the installment plan (credit)?

8. What are examples of new consumer products today that have become so popular that everyone seems to want to want them?



*households includes non-profits; Source: Federal Reserve Flow of Funds

As the figure above shows, American household debt peaked in 2007 and has since fallen 15 percent. Home mortgage debt accounted for much of the decline—it's dropped 22 percent since 2007. Consumer debt, on the other hand, has continued to increase and just reached an all-time high of \$3.2 trillion.

9. What might be reasons why American Consumers are going deeper into debt?

10. What happens when a person can no longer afford to pay back their debt?

Document #5: On Margin



On Margin.

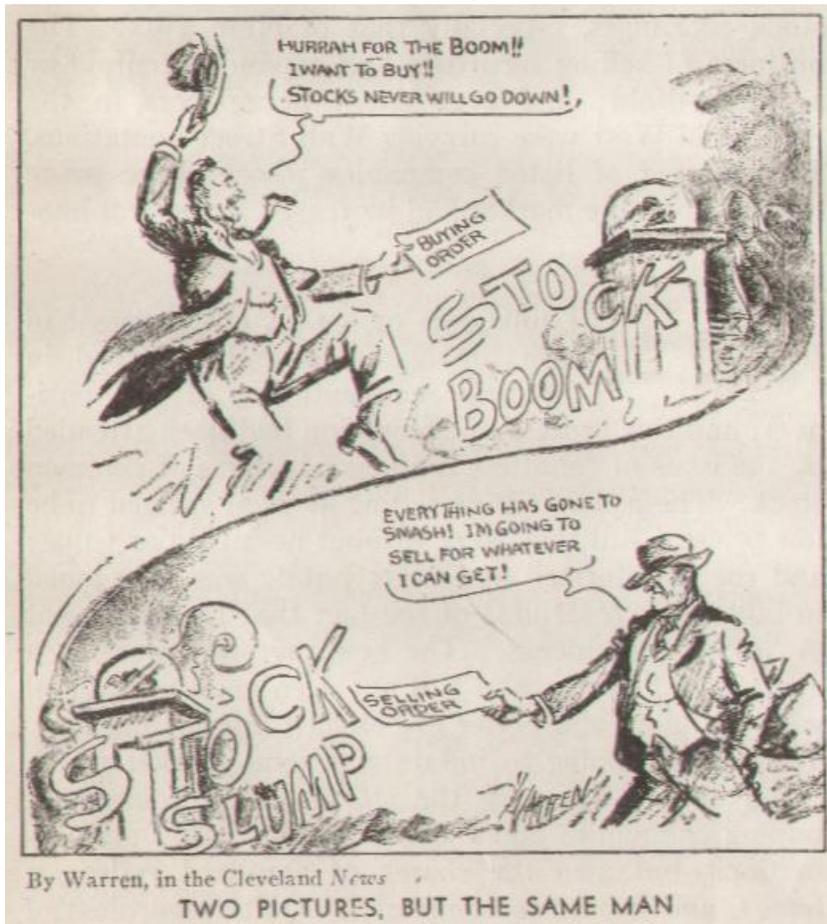
On Margin, by James Montgomery Flagg

11. Is the scene showing good news or bad? What evidence leads you to believe this?

12. What evidence do you see affluence (wealth)?

13. Predict what you think may be happening in this scene and why the people are reacting the way they are.

Document #6: Two Pictures, but the Same Man



14. What is the man thinking about his future life in the Stock Boom?

15. Predict how the man would view (feel about) investing in stocks during the stock boom? What evidence in the cartoon leads you to believe this?

Document #7

The money stock fell during the Great Depression primarily because of banking panics. Banking systems rely on the confidence of depositors that they will be able to access their funds in banks whenever they need them. If that confidence is shaken—perhaps by the failure of an important bank or large commercial firm—people will rush to withdraw their deposits to avoid losing their funds if their own bank fails.

Because banks hold only a fraction of the value of their customers' deposits in the form of reserves, a sudden, unexpected attempt to convert deposits into cash can leave banks short of reserves. Ordinarily, banks can borrow extra reserves from other banks or from the Federal Reserve. However, borrowing from other banks becomes extremely expensive or even impossible when depositors make demands on all banks. During the Great Depression, many banks could not or would not borrow from the Federal Reserve because they either lacked acceptable collateral or did not belong to the Federal Reserve System.

Starting in 1930, a series of banking panics rocked the U.S. financial system. As depositors pulled funds out of banks, banks lost reserves and had to contract their loans and deposits, which reduced the nation's money stock. The monetary tightening (or **constriction**), as well as the financial chaos associated with the failure of large numbers of banks, caused the economy to collapse.

Less money and increased borrowing costs reduced spending on goods and services, which caused firms to cut back on production, cut prices and lay off workers. Falling prices and incomes, in turn, led to even more economic distress. Deflation increased the real burden of debt and left many firms and households with too little income to repay their loans. Bankruptcies and defaults increased, which caused thousands of banks to fail. In each year from 1930 to 1933, more than 1,000 U.S. banks closed.

David C. Wheelock Federal Reserve of St. Louis

16. When you save money in a bank, the bank can then MAKE money by loaning your money to someone else (who for example is trying to buy a car or a home). Why should a bank keep some of the deposits on reserve in their bank?

17. The definition of **collateral** is something pledged as security for repayment of a loan, to be forfeited in the event of a default. Example, when you go and get a car loan you must pay the bank a down payment to be used as collateral. If you do not pay the loan back you do not get your down payment back (also the owner of the car is actually the bank, so if you cannot pay, the bank will take it's car back). If a bank runs out of money and needs to get a loan they have to have collateral too. Why does a bank also need collateral? (this use to happened A LOT, Banks would loaned out their money and ran out).

Document #8

The following excerpts are from an essay by Governor Ben S. Bernanke , March 2, 2004 (Chairman of the Federal Reserve 2006-2014). His essay is about the causes of the Great Depression. In it, he discusses the accepted theory of Milton Friedman, an American economist who was a leading economist in the USA from the 1950 through the 1980's.

Friedman....emphasized at least four major errors by U.S. monetary policymakers. The Fed's first grave mistake, in...his... view, was the tightening of monetary policy that began in the spring of 1928 and continued until the stock market crash of October 1929.... ..This tightening of monetary policy in 1928 did not seem particularly justified by the macroeconomic environment: The economy was only just emerging from a recession, commodity prices were declining sharply, and there was little hint of inflation. Why then did the Federal Reserve raise interest rates in 1928? The principal reason was the Fed's ongoing concern about speculation on Wall Street. Fed policymakers drew a sharp distinction between "productive" (that is, good) and "speculative" (bad) uses of credit, and they were concerned that bank lending to brokers and investors was fueling a speculative wave in the stock market. When the Fed's attempts to persuade banks not to lend for speculative purposes proved ineffective, Fed officials decided to dissuade lending directly by raising the policy interest rate [the amount of interest the Fed charges banks when banks wanted a loan].

The market crash of October 1929 showed, if anyone doubted it, that a concerted effort by the Fed can bring down stock prices. But the cost of this "victory" was very high. According to Friedman and Schwartz, the Fed's tight-money policies led to the onset of a recession in August 1929, according to the official dating by the National Bureau of Economic Research. The slowdown in economic activity, together with high interest rates, was in all likelihood the most important source of the stock market crash that followed in October. In other words, the market crash, rather than being the cause of the Depression, as popular legend has it, was in fact largely the result of an economic slowdown and the inappropriate monetary policies that preceded it. Of course, the stock market crash only worsened the economic situation, hurting consumer and business confidence and contributing to a still deeper downturn in 1930.

FYI: Bernanke does go on in his essay to say that the debate and economic research has shifted to not only include the Federal Reserve's raising of interest rates, but the fact that US was still on the gold standard (every dollar was backed by the US government in its value of gold).

18. What was the reason the Federal Reserve raised interest rates?

19. What happened when the Federal Reserve did raise interest rates?
