When Confidence Collapsed

Trace how economic weaknesses became a national crisis.

9-12.US2.11 "Analyze the causes of the crash of 1929 and the Great Depression."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline two conditions that made the stock market vulnerable, circle the action that accelerated the 1929 price drop, and number three linked steps by which banking trouble deepened the Depression.

From Market Crash to Depression

1. On a busy October day in 1929, traders crowded the New York Stock Exchange as share prices plunged. During the late 1920s, rising prices had drawn people into stocks, including buyers who borrowed money to purchase shares, a practice called buying on margin. Their loans still had to be repaid even if shares lost value. Stock prices had risen far beyond what many companies' earnings could justify, so the market was vulnerable to bad news. When investors lost confidence and rushed to sell, the flood of shares for sale drove prices down faster. The crash wiped out wealth, but it did not by itself create the entire Depression.

2. Long before the crash, other weaknesses limited what Americans could buy. Factories produced cars, radios, and other goods faster than many families' incomes grew. Some households used installment plans to buy products over time, but payments left less money for new purchases. Meanwhile, farmers had faced low crop prices and debt for much of the 1920s. As sales slowed, businesses reduced production and laid off workers. Those workers then spent less, causing more sales to disappear. The stock market crash added to this problem by shrinking wealth and shaking confidence, which led some families and firms to postpone purchases and investments.

3. Banking troubles turned a sharp downturn into a deeper crisis. As borrowers failed to repay loans and fear spread, depositors rushed to withdraw savings; some banks closed; surviving banks cut loans to businesses and families. With less credit, businesses struggled to keep workers and customers found it harder to spend. The Federal Reserve did not do enough to prevent the money supply from shrinking as banks failed. Congress also raised tariffs in 1930, and other countries responded with trade barriers, cutting international trade. These choices did not start the crash, but they helped the Depression spread and last longer.

2 ANSWER WITH EVIDENCE

Use the passage

1. Why did buying shares with borrowed money make the 1929 price drop especially dangerous for some investors?

2. How could slow income growth and installment payments together weaken sales before the crash?

3. Trace how bank closings could lead to further job losses and falling sales.

4. Why does the passage describe Federal Reserve policy and the 1930 tariff as causes of a deeper Depression rather than causes of the crash?

3 YOUR TURN

Your own words

Propose one action U.S. leaders could have taken in 1930 to reduce the Depression's severity. In 5 to 6 sentences, trace its likely effects through at least two linked causes in the passage and explain one problem it would not solve.

ANSWER KEY

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HIGH SCHOOL · 9-12.US2.11

PART 1 · READ AND MARK

Underline two conditions that made the stock market vulnerable, circle the action that accelerated the 1929 price drop, and number three linked steps by which banking trouble deepened the Depression. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	Why did buying shares with borrowed money make the 1929 price drop especially dangerous for some investors?	**Investors still owed the money they had borrowed even after their shares lost value.**
2	How could slow income growth and installment payments together weaken sales before the crash?	**Many families could not afford all the goods factories produced, and payments on earlier purchases left them less money to buy new goods.**
3	Trace how bank closings could lead to further job losses and falling sales.	**Bank closings reduced lending. With less credit, businesses struggled to keep workers; workers who lost jobs spent less, further reducing sales.**
4	Why does the passage describe Federal Reserve policy and the 1930 tariff as causes of a deeper Depression rather than causes of the crash?	**The Federal Reserve allowed the money supply to shrink as banks failed, while the tariff prompted trade barriers that cut international trade. Both worsened the downturn after the 1929 crash.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

In 1930, federal leaders could have guaranteed bank deposits to discourage runs. With fewer people withdrawing their savings, fewer banks might have closed. More banks could then have continued lending to businesses, helping them keep workers employed. Workers who kept their jobs could have kept buying goods, slowing the drop in sales. Deposit guarantees alone would not have raised farmers' low crop prices or erased their debts.

Accept plausible actions tied to causes in the passage, including steps to protect banks or avoid new trade barriers. Responses should explain a causal chain and identify a separate problem the proposed action would leave unresolved.