When Prosperity Wobbled

Trace the causes of economic instability in the 1920s.

USH.C.4.2.C "Identify causes contributing to an unstable economy including the overproduction of agriculture products, greater speculation in the stock market and buying on margin, and laissez faire policies."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline a cause of economic instability in each paragraph, then circle at least one way that cause could spread harm.

A Prosperous Decade with Weak Spots

1 In 1928, a farmer in Kansas could harvest more wheat than ever and still earn less money. During World War I, strong demand had encouraged farmers to expand fields and buy machinery, often with borrowed money. After the war, demand eased, but farms continued producing large crops. This overproduction meant more grain was for sale than buyers wanted at earlier prices, so wheat prices fell. Lower income made farm debts harder to repay. That strain spread beyond the farm: local stores lost customers, and banks that had lent farmers money faced losses. A full silo could signal trouble instead of prosperity.

2 Meanwhile, the stock market drew people hoping to profit from rising share prices. Speculation meant buying shares chiefly because investors expected to sell them soon at a higher price, not because a company's earnings justified the price. Buying on margin let an investor pay only part of a share's cost and borrow the rest from a broker. If the price fell, the investor still owed the loan and might be required to add money or sell shares. Forced sales could push prices down further. Easy borrowing helped lift stock prices, while growing debt made a sharp decline more dangerous.

3 Government choices mattered, too. Many national leaders in the 1920s favored laissez faire, an approach that called for limited government involvement in business. Federal rules did not closely restrict risky stock purchases on margin or require the kind of financial disclosure later adopted in the 1930s. This did not create every bad loan or falling crop price, but it left fewer safeguards against dangerous practices. Imagine a town where farm income shrank while residents borrowed to buy shares. A drop in share prices could hurt those investors, the businesses they used, and banks already exposed to unpaid farm loans.

2 ANSWER WITH EVIDENCE

Use the passage

1. How could producing large wheat crops leave farmers and their banks in trouble?

2. Why could speculation push share prices to an unstable level?

3. How could buying on margin make a fall in share prices worse?

4. How did laissez faire policies contribute to economic instability without causing every problem described?

3 YOUR TURN

Your own words

Imagine a 1928 town with a large peach harvest, a bank that lends to growers, and residents buying stock on margin. In 4 to 5 sentences, predict how agricultural overproduction, stock market activity, and government policy could combine to threaten the town's economy.

ANSWER KEY

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HIGH SCHOOL · USH.C.4.2.C

PART 1 · READ AND MARK

Underline a cause of economic instability in each paragraph, then circle at least one way that cause could spread harm. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How could producing large wheat crops leave farmers and their banks in trouble?	**Overproduction lowered wheat prices and farmers' income, making farm loans harder to repay and putting banks at risk of losses.**
2	Why could speculation push share prices to an unstable level?	**Speculators bought shares expecting to resell them at higher prices, even when company earnings did not justify those prices.**
3	How could buying on margin make a fall in share prices worse?	**Investors still owed borrowed money when prices fell. They might have to sell shares, and those sales could push prices down further.**
4	How did laissez faire policies contribute to economic instability without causing every problem described?	**Limited federal oversight left fewer safeguards against risky practices such as buying stock on margin, although it did not cause every bad loan or falling crop price.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

If growers produce more peaches than buyers want, peach prices may fall, leaving growers short of money to repay bank loans. Residents who buy stocks on margin could owe their brokers money even if share prices drop. Forced stock sales might drive prices lower and reduce local spending while the bank faces losses on farm loans. Under laissez faire policies, limited federal oversight of risky margin buying could leave the town less protected from these linked setbacks.

Accept other accurate cause-and-effect explanations supported by the passage. For the open task, look for a plausible connection among overproduction, speculation or margin buying, and limited government oversight.