Prosperity on Credit

Trace how a boom became a depression.

USH.C.4.2 "Analyze the prosperity of the Roaring Twenties and the collapse of the United States of America's economy, leading to the Great Depression..."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline three causes of economic instability, circle two effects on people or businesses, and number the links in one cause-and-effect chain.

From Boom to Breakdown

1. In 1928, a factory worker could take home a radio after paying only a small amount upfront. Installment plans let families buy goods with borrowed money, raising sales while leaving debts to repay. Presidents Warren Harding and Calvin Coolidge favored limited federal oversight of business, often called laissez-faire. The Federal Reserve, created in 1913 to help stabilize banking and credit, kept interest rates relatively low for much of the decade. Cheap credit also helped investors borrow to buy shares. Buying on margin meant paying part of a stock's price and borrowing the rest. When prices rose, this seemed profitable; when they fell, debts remained.

2. Prosperity was uneven. Farmers grew more crops than buyers would purchase at profitable prices, so many struggled with debt even before 1929. When stock prices crashed in 1929, frightened investors sold shares. The crash exposed weaknesses rather than causing the entire Depression. Bank failures then destroyed many middle-class families' savings and cut off credit to farms and factories. Overseas, US loans had helped Germany pay reparations to Allied nations, which used those payments to repay war debts to the United States. As US lending shrank, that payment chain faltered. The 1930 Smoot-Hawley Tariff raised US import duties, adding to strains on international trade.

3. President Herbert Hoover believed in "rugged individualism": people, businesses, and local charities should lead relief efforts rather than rely on direct federal aid. He supported public works projects that created some jobs, but they could not employ everyone. As banks failed, the Federal Reserve did not provide enough money to halt the shrinking money supply; tighter credit deepened hardship. A jobless worker might welcome a construction job yet resent the lack of direct aid. Some homeless families lived in makeshift settlements nicknamed Hoovervilles. In 1932, veterans seeking early payment of promised bonuses marched on Washington, and voters replaced Hoover with Franklin D. Roosevelt.

2 ANSWER WITH EVIDENCE

Use the passage

1. How did access to credit make both household spending and stock investing vulnerable when conditions changed?

2. Why were farmers vulnerable before the stock market crash, and how did bank failures add to their problems?

3. Trace how shrinking US lending affected payments between Germany, Allied nations, and the United States. What later added strain to international trade?

4. Why might a jobless worker have had mixed feelings about Hoover's response? Give one benefit and one limit from the passage.

3 YOUR TURN

Your own words

Write a four-sentence letter to a newspaper in 1932 from a farmer or factory worker. Link two causes of hardship from the passage, judge one response to the crisis, and make a specific request.

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PART 1 · READ AND MARK

Underline three causes of economic instability, circle two effects on people or businesses, and number the links in one cause-and-effect chain. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How did access to credit make both household spending and stock investing vulnerable when conditions changed?	**Installment buyers still owed payments on goods, while investors who bought on margin still owed money when stock prices fell.**
2	Why were farmers vulnerable before the stock market crash, and how did bank failures add to their problems?	**Overproduction made it hard to sell crops at profitable prices, leaving many farmers in debt. Bank failures then cut off credit to farms.**
3	Trace how shrinking US lending affected payments between Germany, Allied nations, and the United States. What later added strain to international trade?	**With fewer US loans, Germany had more difficulty paying reparations to Allied nations, which used those payments to repay war debts to the United States. The Smoot-Hawley Tariff added strain to international trade.**
4	Why might a jobless worker have had mixed feelings about Hoover's response? Give one benefit and one limit from the passage.	**Public works created some jobs, but they could not employ everyone, and Hoover did not favor direct federal aid.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Dear editor, our farm struggled with debt because growers produced more crops than buyers would purchase at profitable prices. When banks failed, we also lost access to credit. Public works may give some people jobs, but they do not restore the credit our farm needs. I ask federal leaders to help banks provide loans to farmers.

Accept other accurate cause-and-effect chains supported by the passage. For the letter, look for a clear point of view, two linked causes, an evaluation of a response, and a specific request.