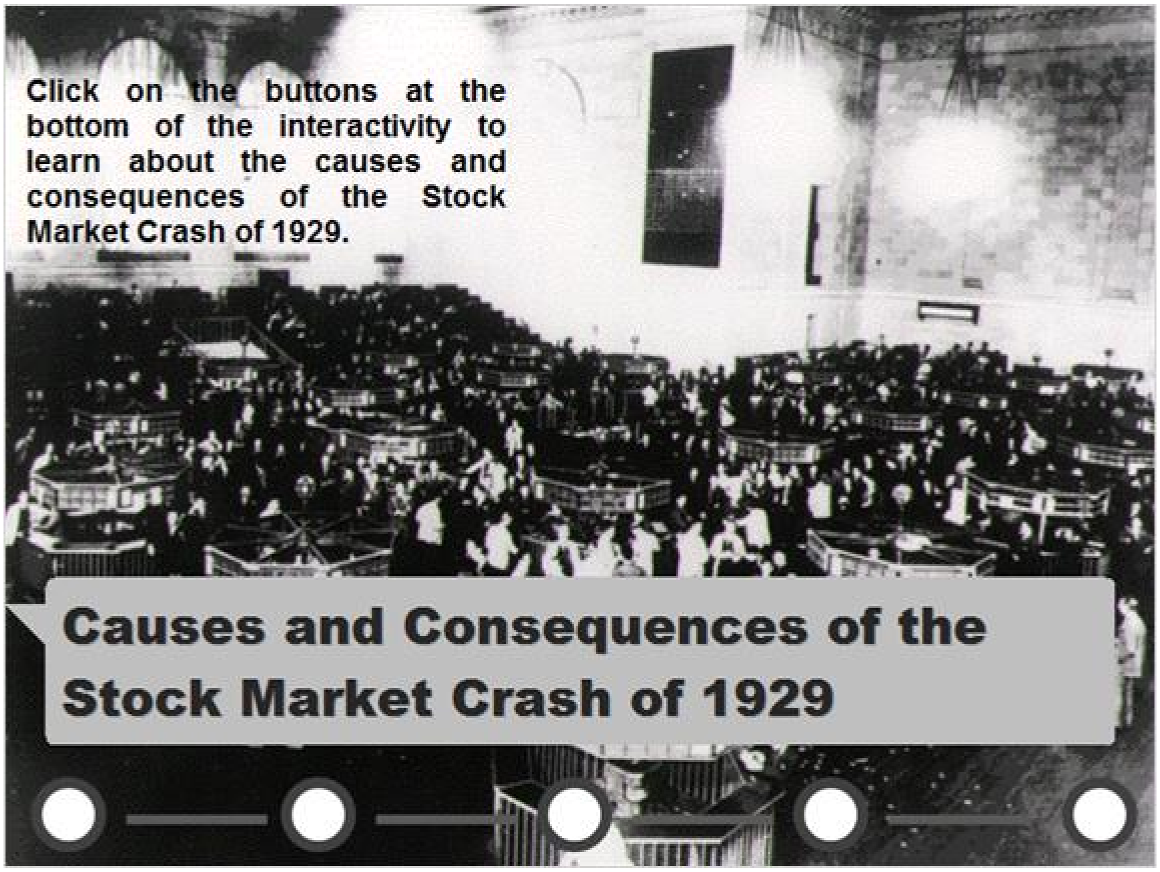
Module 7: America at the Turn of the Century – 1900 to the 1930s

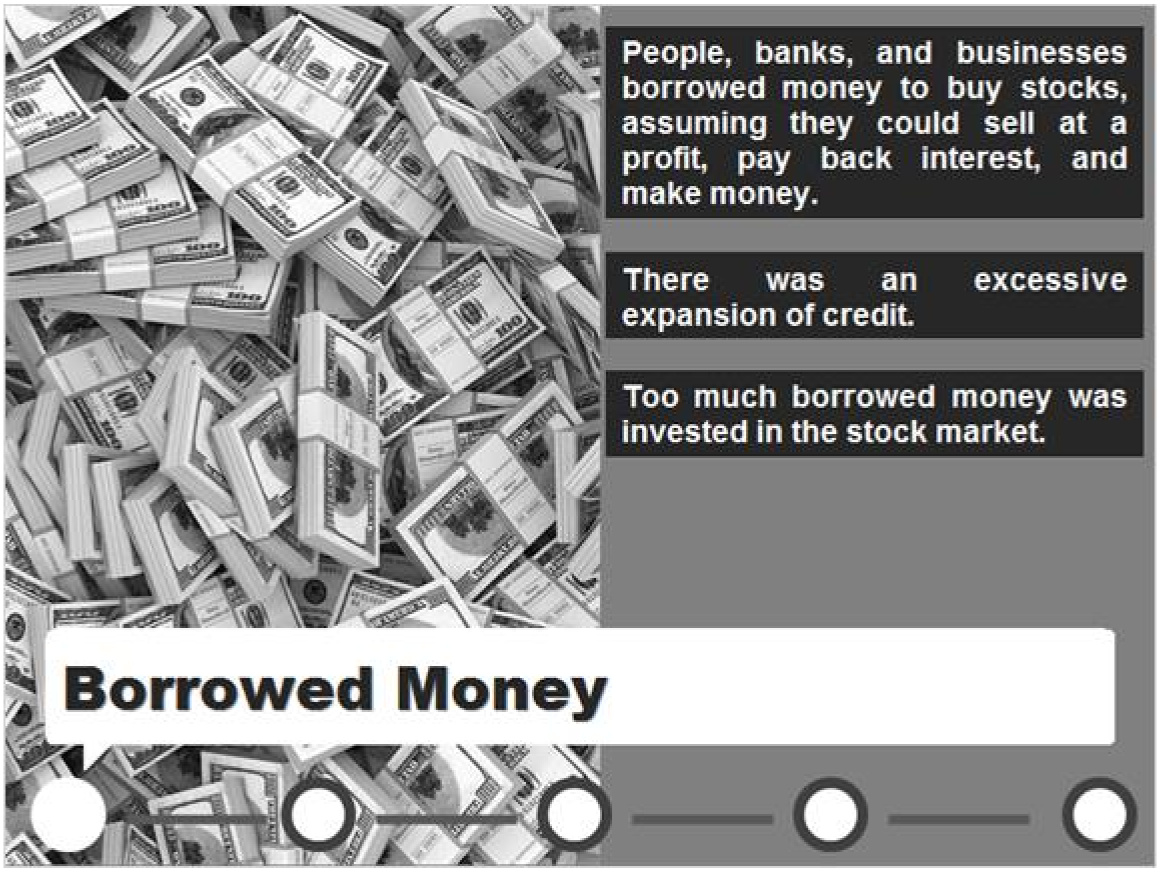
Topic 4 Content: Causes and Consequences of the Stock Market Crash of 1929

Introduction



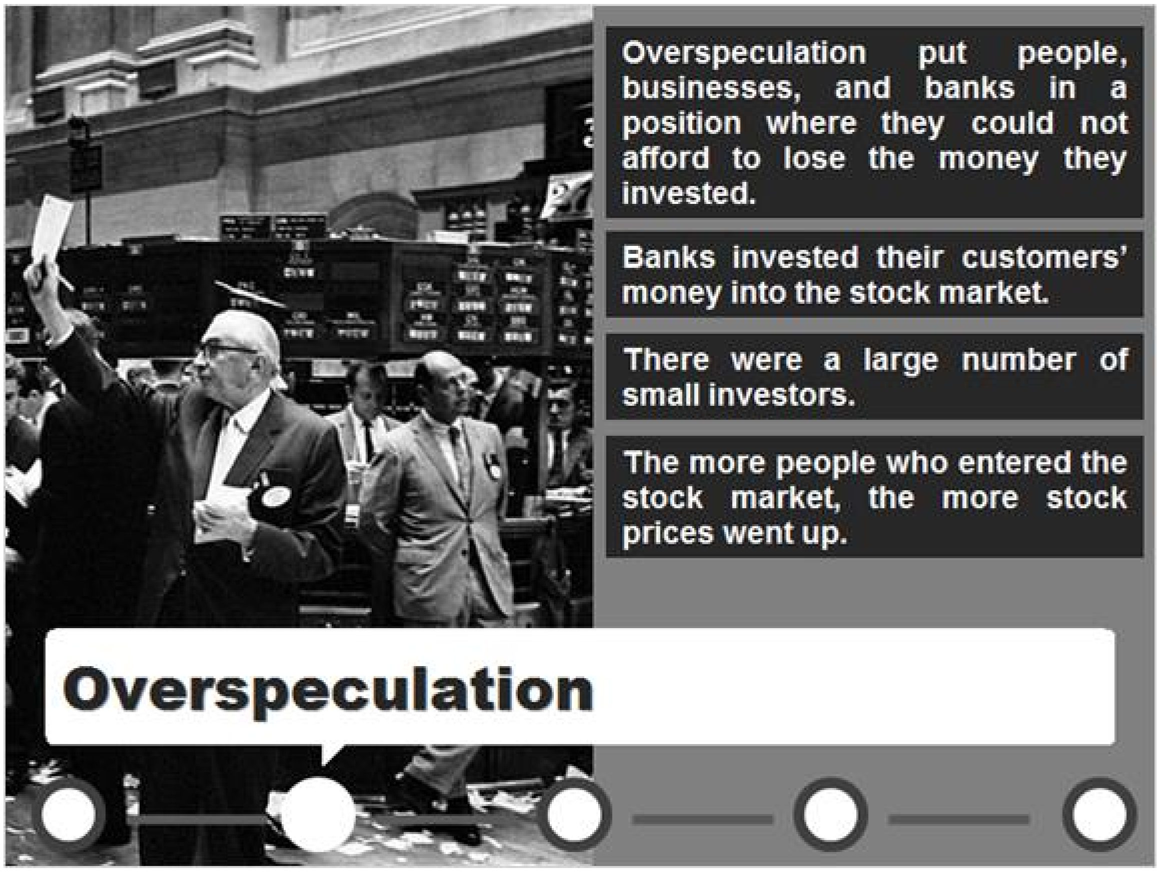
Click on the buttons at the bottom of the interactivity to learn about the causes and consequences of the Stock Market Crash of 1929.

Borrowed Money



Some people, banks, and businesses borrowed money to buy stocks. They assumed that with stock prices going up, they would be able to sell their stocks at a profit, pay back the interest on the loan, and still make money. If a few people borrow money to buy stocks it is usually okay. However, before the stock market crashed, a lot of people, businesses, and banks borrowed money to invest in the stock market. There was an excessive expansion of credit, causing too much borrowed money to be invested in the stock market.

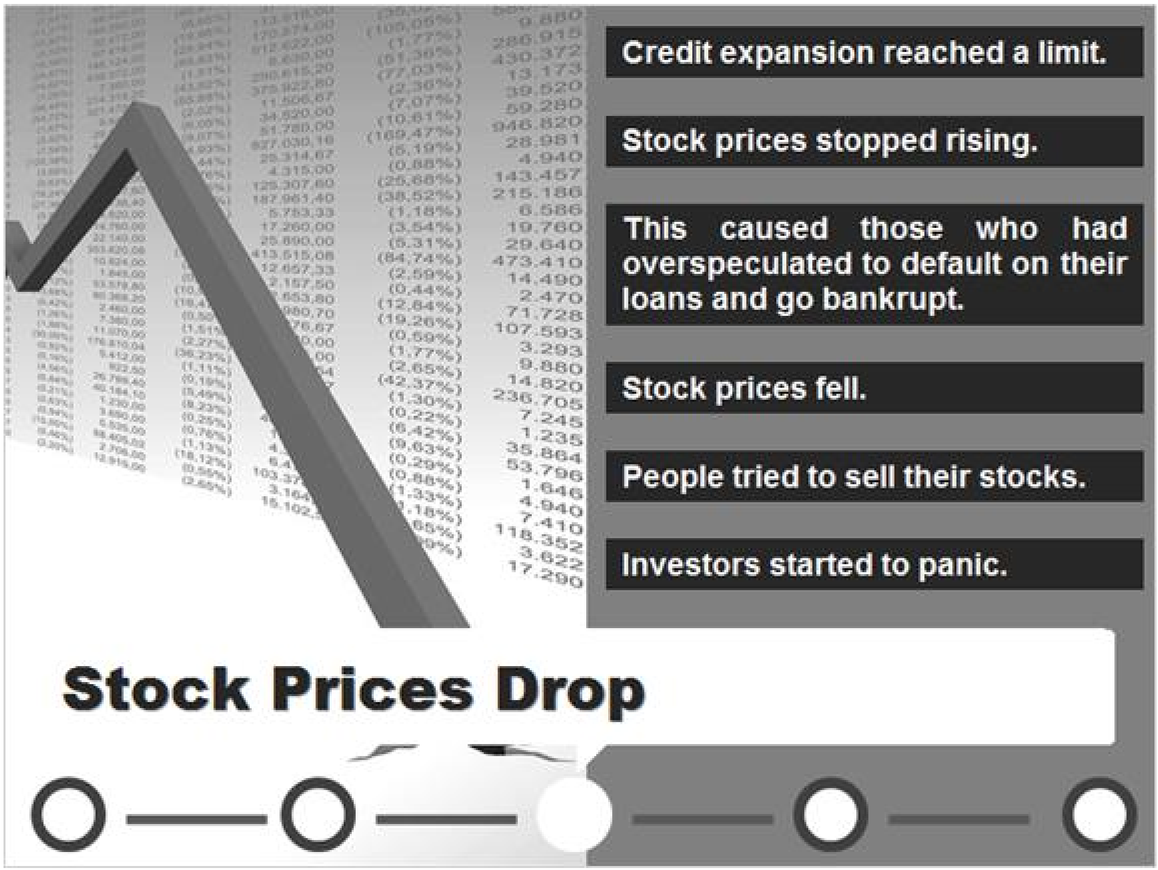
Overspeculation



Before the 1929 stock market crash, too many people, banks, and businesses were investing too much money into the stock market. This led to overspeculation. Speculation is fine if you can afford to lose the money you invested. Overspeculation is doing too much speculation, putting yourself in a position where you cannot afford to lose the money you have invested. One example of overspeculation was by banks. Banks invested the money that their customers had deposited into the stock market rather than keeping it in the bank.

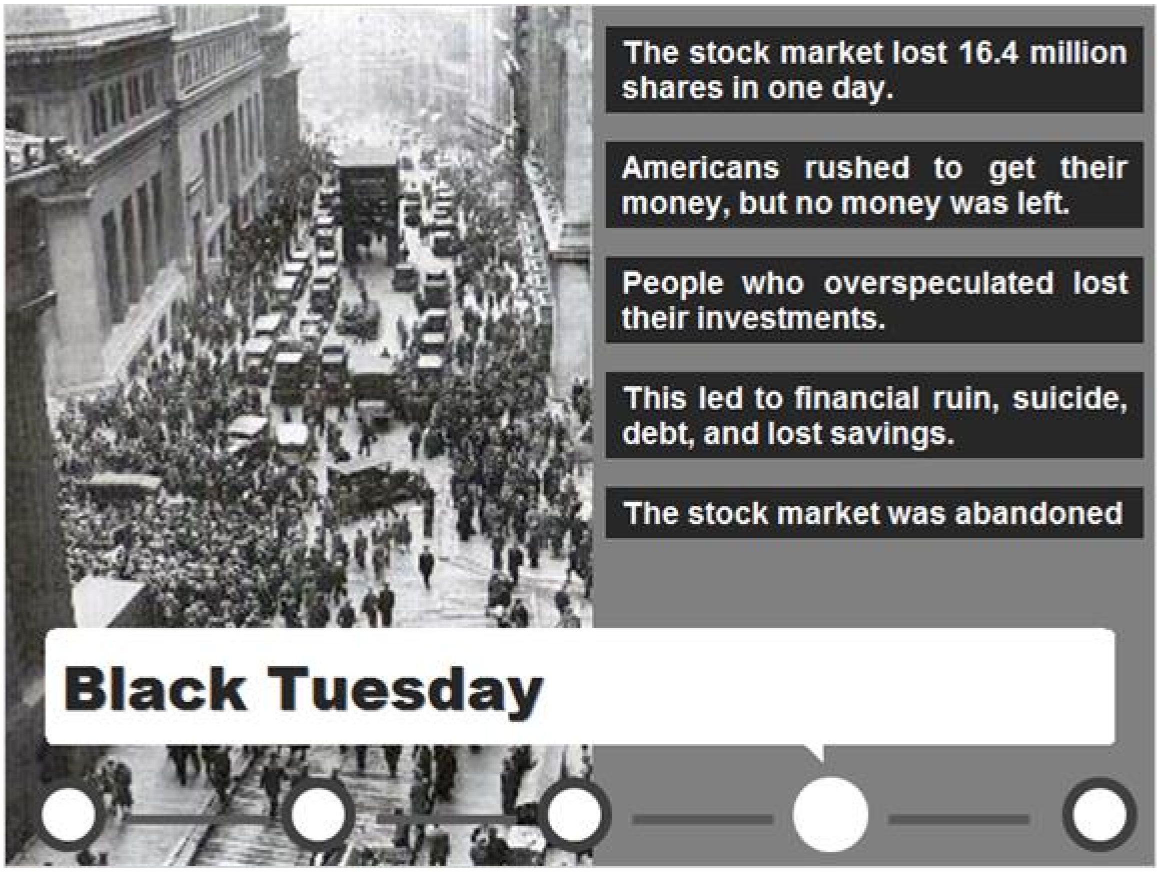
Prior to the 1929 stock market crash, there were also a very large number of small investors in the stock market. People saw the stock market as a quick way to make money since prices were going up all the time. The more people who entered the market, the more stock prices went up. Some of these people overspeculated in the stock market.

Stock Prices Drop



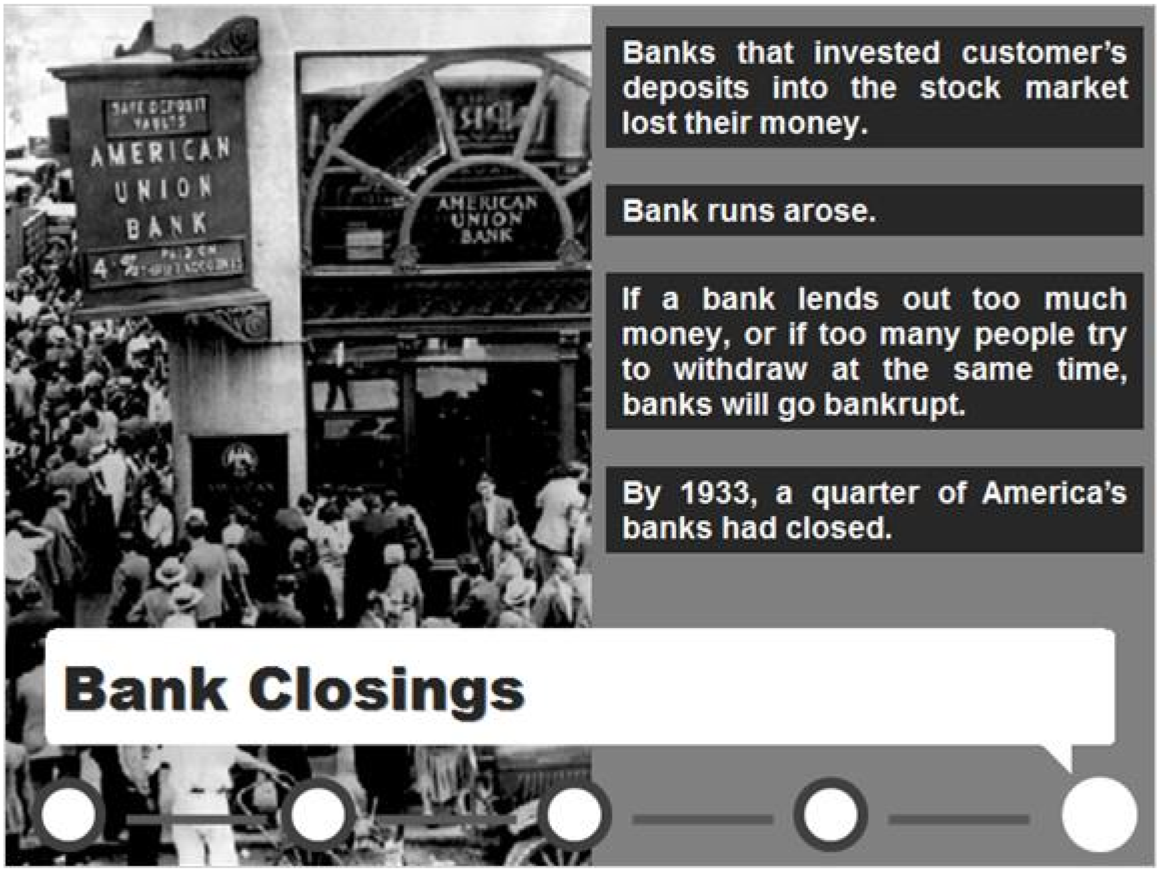
Eventually the credit expansion reached a limit as stock prices stopped rising. Those who overspeculated had to default on their loans, and went bankrupt. As businesses went bankrupt, the stock prices fell. People, banks, and businesses began to lose confidence in the stock market, and tried to sell their stocks. Because more stocks were being sold than bought, prices dropped again. This cycle persisted. As stock prices continued to fall, more people tried to sell, causing prices to go even lower. What was once an upward trend had become a downward trend, and investors started to panic.

Black Tuesday



On Tuesday, October 29, which would come to be called Black Tuesday, the stock market lost 16.4 million shares in one day. Americans rushed to get their money out of the market, but there was no money left to get back. People who had overspeculated lost their investments, which led to financial ruin and caused some to commit suicide. Investors who bought stocks with credit fell deeply into debt, while the savings of others vanished. An additional consequence of the crash was that no one invested more money in the stock market, leaving it abandoned.

Bank Closings



Banks that invested their customers' deposits into the stock market also lost their money. When word of this got out, bank runs arose, meaning many of its customers tried to withdraw money at the same time. No bank keeps all of its deposits, not even today. Instead, banks lend out some of the money they get so they can charge interest. They use the interest to pay their employees, and pay people a smaller interest rate for depositing money at the bank. If a bank lends out too much money, or if too many people try to withdraw at the same time, a bank will run out of money and go bankrupt. If this happens, everyone loses their deposits. This is exactly what happened at the start of the Great Depression. Even people who had not invested in the stock market lost money if their bank collapsed. In 1929, six hundred fifty-nine banks closed, and by 1933, one fourth of the banks in the United States had closed.

The picture on this slide depicts a crowd of people trying to retrieve their money from the American Union Bank in New York City. This bank opened in 1917 and closed in June 1931.