

Lesson Description

People suggest various causes for the Great Depression. In this lesson, students act as newspaper reporters to learn about this time in history. These reporters look for information from fictitious letters that reflect actual problems and people's concerns during this tragic time in our economic history. Based on what they learn through the letters, students construct a newsletter explaining the cause(s) of this economic catastrophe.

Concepts

Banks
Money supply (stock)

Objectives

Students will:

- Identify suggested causes of the Great Depression.
- Analyze suggested causes of the Great Depression.

Content Standards

National Standards for History

Era 8, Grades 9-12:

- **Standard 1:** The causes of the Great Depression and how it affected American society.

National Standards in Economics

- **Standard 10:** Institutions evolve in market economics to help individuals and groups accomplish their goals. Banks, labor unions, corporations, legal systems and not-for-profit organizations are examples of important institutions. A different kind of institution, clearly defined property rights, is essential to a market economy.
 - Benchmark 1, Grade 8: Banks and other financial institutions channel funds from savers to borrowers and investors.
- **Standard 11:** Money makes it easier to trade, borrow, save, invest and compare the value of goods and services.
 - Benchmark 2, Grade 12: In many economies, when banks make loans, the money supply increases; when loans are paid off, the money supply decreases.

Lesson 2 | What Do People Say?

National Council for the Social Studies Strands

- Time, continuity and change
- Production, distribution and consumption

Time Required

90 minutes

Materials

- A copy of The Great Depression: An Overview (from the introduction section of this unit) for each student.
- A copy of Handouts 2.1, 2.2, 2.3 and 2.4 for each student
- A copy of Handout 2.1: Answer Key and Handout 2.2: Answer Key for the teacher
- Highlight marker for each student

Procedures

1. Ask the students what they think the expression “The Roaring Twenties” means. (*Answers will vary.*) Explain that the expression refers to the 1920s. This period was considered “roaring” because it was a time of prosperity and change in the United States.
 - New technological improvements were changing lifestyles in the United States.
 - People were having their homes updated with electricity.
 - Radios, refrigerators, electric appliances and telephones were becoming a part of the American way of life.
 - Cars were becoming affordable for the middle class, thanks to Henry Ford.
 - Many influential people felt that the good times were here to stay.
2. Explain that although people thought the good times would last forever, beginning in 1929 and throughout the 1930s, the economy experienced the worst economic downturn in U.S. history—the Great Depression. Over time, people have suggested many causes for the Depression. Because economic conditions were so bad, and so many things happened between 1929–1940, economists and historians still study the Great Depression to better understand its causes.
3. Tell the students that they are going to work as reporters for a local newspaper, the *Smalltown Herald*. Their jobs require them to do research on special topics and to produce newsletters on these

topics. As they read, they should gather information to construct a newsletter about the Great Depression that will be included as a special section in the weekend edition of the newspaper.

4. Explain that reporters review many sources before writing articles for publication. Students have the opportunity to read part of an essay on the Great Depression written by an economist at the Federal Reserve Bank of St. Louis. Distribute a copy of *The Great Depression: An Overview* and tell students to read the sections “What Caused the Great Depression?” and “Money, Banking and Deflation.” Divide the students into pairs. Distribute a copy of *Handout 2.1: Suggested Causes of the Great Depression* and tell pairs of students to answer the questions on the handout.
5. After students have had time to work, check for understanding by reviewing the questions using *Handout 2.1: Answer Key*.
6. Tell the students that their research should reveal the economic problems that existed during the Great Depression. Distribute a copy of *Handout 2.2: Reporter’s Research Notes* to each student. Explain that students will be working in groups and should use this handout to take notes for their newsletters.
7. Divide students into groups of four to six and distribute a copy of *Handout 2.3: Letters in Time*, and a highlight marker to each student. These letters are fictitious but are based on actual letters and other primary sources from this era. Allow group members to read and highlight information they think is important. Ask each group to look for clues in the letters that identify economic conditions that might have contributed to economic problems during this time period. Instruct students to record the information on Handout 2.2. Tell each group to select a spokesperson to report for the group. (*Note: As an alternative, assign pairs or small groups only one letter and then conduct a discussion.*)
8. Allow approximately 15 minutes for the groups to read the letters and complete Handout 2.2. Have the groups share with the class the conditions and economic problems identified in the letters. See *Handout 2.2: Answer Key* for suggested answers. Use the following points to lead a discussion of economic conditions and problems mentioned in Handout 2.2. Tell students to add notes to their handouts as needed.
 - Ford Motor Company closed its Model T plant in 1927 for six months. The plant was closed to plan, design and retool to build the Model A.
 - How might closing the Ford Model T plant affect the economy? (*It would primarily affect the workers and businesses that were associated with Ford in Detroit, as well as any suppliers who were located outside of Detroit.*)
 - How were mortgage payments a burden on people who lost their jobs? (*People who lost jobs would not be able to repay their loans.*) People’s mortgage payments would remain the same, but they would not have the income to make the payments. Banks would repossess the houses, but the houses would not have the same value that they had when the loans were made.

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- A “tariff” is a tax on imported goods. The tax raises the price of imported goods and services relative to the prices of domestic goods and services. How did the Smoot-Hawley Tariff affect the prices of imported goods and services? *(It caused prices to rise.)* Tariffs and other protectionist policies did not help the economy. These policies greatly decreased international trade at a time when it should have been encouraged.
 - When the United States puts tariffs on imports, other countries retaliate and put tariffs on U.S. products. Therefore, eventually countries that are trading partners will add taxes to the extent that fewer goods and services globally are demanded and produced. This is what happened during the Great Depression.
 - Keeping a balanced federal budget was important to President Hoover. How did raising taxes affect the economy? *(Answers will vary. Students may suggest that taxes bring more revenue to the federal government.)*
 - Raising taxes transferred money from consumers and businesses to the government so consumers and businesses couldn’t buy as many goods and services as they could before taxes were raised. This decreased the demand for goods and services and, ultimately, reduced demand for workers who produced those goods and provided those services.
 - What happened to the stock market? *(It crashed in 1929.)*
 - How did the crash affect the economy? *(People lost money—wealth was destroyed. People were uncertain about the economy.)*
 - Why did farms fail? *(Answers will vary. Students may say that farmers could not sell their crops or farmers could not repay their loans.)*
 - World War I made it impossible for many European farmers to grow and sell their crops. As a result, U.S. farmers saw a large increase in the demand for their crops. Many U.S. farmers took out loans to expand their operations to meet this worldwide demand. When World War I ended and European communities began to rebuild, European farmers re-entered the farm crop markets. Because this increased the supply of farm crops, the price for these crops decreased. U.S. farmers were unable to sell their crops at the prices they expected. Many were unable to cover their costs or to repay loans, and many farms failed.
9. Explain that the students have identified many of the suggested causes of the Great Depression. Ask the students whether any of these events were significant enough to cause such a catastrophic event. *(Answers will vary. Students may suggest that the stock market crash was big enough or that the collapse of the farm economy was big enough.)* None of these alone was sufficient to cause the Great Depression, with the possible exception of bank panics and resulting contraction of the money stock.

Closure

10. Review the main points of the lesson by asking the following questions:
- What are some of the events or problems that people have suggested as causes of the Great Depression? *(closing of the Ford plant in Detroit, collapse of farm income in many areas, stock market crash, bank panics, Smoot-Hawley tariff and protectionist policies, problems in the housing market)*

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- Why didn't any of these factors alone—closing the Ford plant in Detroit, the stock market crash, the imposition of the Smoot-Hawley tariff, farm failures or housing problems—cause the Great Depression? *(None of these single factors was large enough to cause the Great Depression—some were more regional, some were related to a particular sector of the economy.)*
- What is the event that has stood the test of time and analysis as the major cause of the Great Depression? *(banking panics)*
- How did the other events contribute to the catastrophe? *(The stock market crash destroyed wealth and eroded people's confidence in the economy. The closing of the Ford Company Model T plant, the collapse of the farming industry and problems with the housing industry all contributed to increases in unemployment, reduction in people's incomes, reduction in people's ability to repay loans and reduction in the money stock. The Smoot-Hawley tariff increased the price of imported goods in the United States and, because other countries retaliated, made it more difficult for the United States to sell its exports.)*

Assessment

11. Ask students to work in pre-assigned groups of four to six and tell them to use information from Handouts 2.1 and 2.2 to construct a newsletter that reflects what they have learned about the causes of the Great Depression. Included in each newsletter should be any four of the following:
 - a one-page, double-spaced newspaper article on the factors that contributed to the Great Depression, including a newspaper-like title for the article;
 - a poem that expresses what life was like during the Great Depression;
 - lyrics to a song that might be performed during the Great Depression to express conditions of the time;
 - a letter to the editor expressing a specified concern about the economy or an economic problem and the writer's recommendation of a solution for that problem; or
 - a comic strip that might be published in the newspaper during the Great Depression.
12. Distribute a copy of *Handout 2.4: Assessment Rubric* to each student, and explain that this is the evaluation on which student newsletters will be assessed.

Handout 2.1: Suggested Causes of the Great Depression

Use the information from the sections “What Caused the Great Depression?” and “Money, Banking and The Great Depression” in *The Great Depression: An Overview* to answer the following questions.

1. What event is often the first to come to mind when people think of the Great Depression?
2. What did happen as a result of the stock market crash?
3. Was the crash big enough to cause the Great Depression?
4. What specific trade policies do some economists suggest were the cause of the Great Depression?
5. Were protectionist trade policies alone enough to cause the Great Depression?
6. What were some of the excesses of the 1920s that some economic historians suggest caused the Great Depression?
7. What is the one explanation for the Great Depression that has stood the test of time?
8. What happens if the money supply (stock) shrinks?
9. What is the largest component of the stock of money in modern economies?
10. What happens to the money stock when banks make loans? When loans are repaid?

Handout 2.1: Suggested Causes of the Great Depression—*Continued*

11. What determines the amount of loans that banks can make?

12. Why don't banks like to hold reserves?

13. What if banks don't hold enough reserves?

14. What did it mean to say that the United States was on the gold standard?

15. What could increase gold reserves?

16. What would increased gold reserves and cash reserves allow banks to do?

17. What could decrease gold reserves?

18. How would decreased cash reserves and gold reserves affect banks?

19. What was the main reason the money stock fell during the Great Depression?

20. On what do banking systems rely?

Handout 2.1: Suggested Causes of the Great Depression—Answer Key

1. What event is often the first to come to mind when people think of the Great Depression? *(the stock market crash)*
2. What did happen as a result of the stock market crash? *(Considerable wealth was destroyed, people began to have doubts about the health of the economy, and consumers and firms cut back on their spending.)*
3. Was the crash big enough to cause the Great Depression? *(No.)*
4. What specific trade policies do some economists suggest caused the Great Depression? *(the Smoot-Hawley tariff and protectionist trade policies)*
5. Were protectionist trade policies alone enough to cause the Great Depression? *(No.)*
6. What were some of the excesses of the 1920s that some economic historians suggest caused the Great Depression? *(capitalism, such as excessive production of commodities, excessive building, excessive financial speculation and an excessively skewed distribution of income and wealth)*
7. What is the one explanation that has stood the test of time? *(the collapse of the U.S. banking system and resulting contraction in the nation's money stock)*
8. What happens if the money supply (stock) shrinks? *(deflation)*
9. What is the largest component of the stock of money in modern economies? *(bank deposits)*
10. What happens to the money stock when banks make loans? *(The money stock increases.)*
11. When loans are repaid? *(The money stock decreases.)*
12. What determines the amount of loans that banks can make? *(in part, regulations on the amount of reserves that banks are required to hold against their deposits and, in part, the business judgment of bankers)*
13. Why don't banks like to hold reserves? *(They earn little or no interest.)*

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14. What if banks don't hold enough reserves? *(They risk getting caught short if customers unexpectedly withdraw deposits.)*

15. What did it mean to say that the United States was on the gold standard? *(The U.S. government would exchange dollars for gold at a fixed price.)*

16. What could increase gold reserves? *(increased domestic mining of gold or increased inflows of gold from abroad)*

17. What would increased gold reserves allow banks to do? *(lend more and thereby inflate the money stock)*

18. What could decrease gold reserves? *(Large withdrawals of gold or cash from banks could reduce bank reserves.)*

19. How would decreased cash reserves and gold reserves affect banks? *(Banks would be forced to reduce their lending, which would deflate the money stock.)*

19. What was the main reason the money stock fell during the Depression? *(bank panics, in which bank customers withdrew as much of their deposits as they could)*

20. On what do banking systems rely? *(the confidence of depositors that they will be able to access their funds in the bank whenever they need them)*

Handout 2.2: Reporter's Research Notes

Event, Policy or Condition	Resulting Condition or Problem

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Handout 2.2: Reporter's Research Notes—Answer Key

Event, Policy or Condition	Resulting Condition or Problem
Temporary closing of Ford plant	Increased unemployment (plant closed for six months) resulted in workers with no income who couldn't buy goods and services or make payments.
Farm failures	Farm prices and incomes fell sharply; farmers couldn't keep farms operating and couldn't repay loans; banks repossessed farms and equipment but were unable to resell them. Banks had less money to lend.
Stock market crash	Prices for stocks fell dramatically; people lost wealth. People began to lose confidence in the economy.
Bank failures	People couldn't withdraw their money or get loans, lost their savings and lost confidence in the banking system, which caused bank panics.
Housing losses	Homeowners couldn't make payments, and builders couldn't sell new houses. Banks were forced to foreclose on consumer loans. Banks could not resell the houses that they had repossessed.
Smoot-Hawley tariff	The tariff raised prices of imported goods and made it more difficult for the United States to sell its exports. Other countries retaliated by imposing tariffs on U.S. goods.
Federal Reserve monetary policy	The Fed discount window lending was limited to member banks. The Fed's ability to conduct policy was tied to/limited by the gold standard. An outflow of gold caused bank reserves to fall. Bank panics caused people to lose confidence in the banking system.
Fiscal policy	Policies resulted in an emphasis on a balanced budget, which meant higher taxes on those who were still employed. People who paid more taxes had less income available to spend or save.

Handout 2.3: Letters in Time

Letter #1

May 1930

Dear President Hoover,

I am writing to you on behalf of economists everywhere. There is considerable concern that the Smoot-Hawley Act of 1930 might cause more harm to our weakened economy. President Wilson said this when he vetoed stiff tariffs before his presidency ended: "If ever there was a time when Americans had anything to fear from foreign competition, that time has passed. If we wish to have Europe settle her debts, governmental or commercial, we must be prepared to buy from her." Tariffs will make the prices of imported goods higher. People will be less likely to buy higher-priced items. With the huge war debts from abroad, how can we expect payment if we refuse to buy European goods? We must be able to purchase goods from abroad if we are to enable them to repay the debt owed to us. Smoot-Hawley can only make things worse for our debt collection from abroad.

Smoot-Hawley was discussed in Congress before Oct. 29, 1929. It had a negative impact on the stock market. We understand that you have a desire to see higher duties on certain agricultural products. The value of a Tariff Commission that can adjust import duties might be beneficial to other business sectors by taking out "excessive and privileged protection" for certain manufactured goods. These tariffs should be revised upward only where "there has been a substantial slackening of activity in an industry during the past few years and a consequent decrease of employment due to insurmountable competition."

Again, I urge you to veto this bill as 1,028 economists earlier requested. This tariff will raise prices to consumers, damage export trade, hurt farmers, promote inefficiency and promote foreign reprisals. I can only see serious damage in the future if this Act passes and you sign it.

I think that the Federal Reserve should increase the money supply so that consumers who need loans to help them weather this economic slowdown can get them.

Sincerely,
Daniel K. Pakko

Letter #2

March 1931

Dear Mae,

We are doing fine here. I hope you are all well. Sorry to hear that Sam was laid off from the Ford plant. Has he tried to get on at Chevrolet? I am relieved that cars are not made here. Ernest is making \$1 a day painting the bridge. He says he's happy that we have our truck farm. I sell eggs for seven cents a dozen. It helps pay for groceries. We took the money Daddy left me and paid off our little truck farm. Small farmers like us are being hurt badly by low prices for crops and produce. We never could afford much, and now that agricultural prices are lower everywhere, we still can't buy what we would like. We did, however, get a new radio. Our payment is 50 cents a month, and I sell enough eggs to make the payment. I want a new electric iron next. Maybe one day. Ernest says that the big farmers across the river are the ones who are really hurting. They borrowed a lot of money from the bank and now have to pay it back. Cotton is selling for practically nothing now. There is a lot of cheap cotton coming in from overseas. Our farmers can't compete. Ernest says some of the new tractors cost as much as \$300. Can you believe that? He says that big farmers are not able to get new loans so they will probably lose their farms. They can't pay for the loans they have now. He says we need another high tariff to keep cheap wheat and cotton from coming into America so our farmers can get higher prices for their crops.

At least we are eating. The potato crop was really good this year. I saw \$5 at the general store, but it might as well be a million with the income we have.

Yours truly,

Tessie

Letter #3

October 1931

Dear Treasury Secretary Mellon,

It is my firm belief that we should hold our economy to a balanced budget. With that in mind, I have asked Congress to raise taxes sharply in order to have the funds needed to balance our budget. The tax revenues brought in will be used to pay for the many projects that are going on in the United States. This will replace the tax cut that I instituted right after the stock market crash.

In order to stimulate our economy, I am urging state and local governments to increase their spending on public works projects. By raising taxes on incomes earned by those who receive jobs from these work programs, we will be able to fund more federal projects in order to put more people back to work.

These tax increases will allow us to balance the national budget while implementing work programs that put U.S. citizens back to work and restore their dignity.

Please join me in support of this endeavor.

President Herbert Hoover

Letter #4

January 1932

Dear Tessie,

I got your letter today. It was so good to hear from you. Sam can't find work like he was doing in the Ford plant, though he has gone to work at a mechanic shop fixing old cars. Glad you got a radio; we had to let ours go back—we couldn't pay for it. Sam is not making what he used to make. We are trying to sell our house. We owe \$2,200 for it and can't make the payment. Trouble is, everyone in our block is doing the same thing. There are houses all over Detroit for sale—even new ones that were built because the government said times were good. I hear people are losing their houses all over the country because they can't make the payments.

Sam had invested some money in the stock market. The stock we had was selling for \$10 a share. Since the stock market crashed, it is now only worth \$2 a share. It could have been worse, though. Thank goodness we had not gotten a loan to buy more shares of stock like Sam wanted to do. We wouldn't be able to repay the money. Our bank was a member bank of the Federal Reserve, so we didn't have to worry about it closing. That was more frightening than a stock market crash. At least we could get our money out of our account at the bank when we needed it.

Ford will be hiring soon, so maybe Sam can go back to work at the plant. Prosy, I wish that I could make what the owners of the big companies are making. Did you see where 5 percent of them made over 33 percent of the income in America? Though so many people can't afford things right now, the things they can buy are getting cheaper and cheaper. If I only had some money to spend! I hope people can afford to buy the new Fords.

Yours,

Mae

Letter #5

February 1933

Dear Mr. Haralson,

Auditors of our bank have found some areas of concern in the bank's portfolios. We have, per your suggestion as our bank president, invested heavily in the stock market. Since Oct. 29, 1929, the value of our investments has declined sharply. Because of this, will we be able to meet our customers' financial needs?

The newspaper this morning reported that the U.S. unemployment has risen to 25 percent. In our city, unemployment is even higher. Businesses to which we have made loans are closing and firing workers. Home mortgage payments are staying the same, yet many of our customers in this time of high unemployment and low prices are unable to repay their loans, due to the loss of income. We have had to foreclose on many home loans and, because of the flood of houses on the market, we find that we're taking possession of worthless properties that nobody can afford to buy.

These factors concern this bank's board of directors. Please let us know what the plans are to make sure that our bank stays solvent and a good citizen of our community.

Sincerely,

Taylor M. Wydown

Chairman, Bank Board of Directors

Letter #6

April 1933

Dear President Roosevelt,

We are writing to you in response to your letter. The Federal Reserve Board wants to report that all banks that are members of the Federal Reserve System are doing well. They were provided funds through the Fed's discount window to ensure that banks had enough money on hand to meet consumers' demands. As you know, the discount window is a mechanism for the Fed to extend credit or loans to eligible banks to help those banks meet their customers' needs. We quite agree with Andrew Mellon, former Treasury Secretary, that if we leave the stock market to its own mechanisms, it will eventually correct itself.

In defense of Fed actions, here are some relevant facts that you must consider:

- The discount rate (the rate at which the Federal Reserve lends to commercial banks) was decreased.
- The Federal Reserve has been very liberal in its lending to member banks so the member banks could meet their obligations.
- Our economy is tied to the gold standard. Outflow of gold from the banking system could cause the money stock to decrease. The interest rate must rise sharply if we are to stem the flow of gold out of our Treasury, because higher interest rates will continue to attract dollar deposits.

The Federal Reserve is keeping to the dictates of the laws that put our institution into place. Please note that everything we are doing is within the realm of what can be done by the Federal Reserve.

Respectfully yours,

Board of Governors

Federal Reserve System

Handout 2.4: Assessment Rubric

Category	10 Points	8-9 Points	5-6-7 Points	3-4 Points	1-2 Points
Knowledge of content	Always provides accurate information and demonstrates a thorough understanding of basic and sophisticated concepts.	Consistently provides accurate information and demonstrates a thorough understanding of the basic concepts.	Frequently provides accurate information and demonstrates average understanding of the basic concepts.	Mixes accurate and inaccurate information and demonstrates less than average understanding of the basic concepts.	Provides little accurate information and demonstrates poor understanding of the basic concepts.
Organization and creativity	Always clearly connects newsletter components to the overall theme. Extremely clear and logical in describing conditions and economic problems.	Consistently connects newsletter components to the overall theme. Convincing in describing conditions and economic problems.	Frequently connects newsletter components to the overall theme and shows originality. Adequately describes conditions.	Occasionally connects newsletter components to the overall theme. Less than adequately describes conditions.	Rarely connects newsletter components to the overall theme. Provides poor descriptions for economic conditions.
Style	Extremely persuasive in stating views about the causes of the Great Depression. Always uses correct grammar and punctuation. Writes with great confidence. Notes showed great insight from the information in the lesson.	Persuasive in stating views about the causes of the Great Depression. Consistently uses correct grammar and punctuation. Writes with confidence. Notes showed good insight from the information in the lesson.	Frequently persuasive in stating views of the Great Depression. Frequently uses correct grammar and punctuation. Writes with some confidence. Notes showed some insight from information in the lesson.	Occasionally persuasive in stating views of the Great Depression. Occasionally uses correct grammar and punctuation. Writes with little confidence. Notes showed little insight from information in the lesson.	Rarely persuasive in stating views about the Great Depression. Rarely uses correct grammar and punctuation. Writes with very little confidence. Did not use information from the lesson.
Analyses	Conclusions drawn from the information are always logical and insightful. Statements are always supported by relevant data.	Conclusions drawn from the information are most often logical and insightful. Statements are consistently supported by relevant data.	Conclusions drawn from the information are frequently logical and insightful. Statements are frequently supported by relevant data.	Conclusions drawn from the information are occasionally logical and insightful. Statements are occasionally supported by relevant data.	Conclusions drawn from the information lack logic and insight. Statements are rarely supported by relevant data.