

CHAPTER 8
Section Summary
SECTION 1 CAUSES OF THE DEPRESSION

READING CHECK

In 1928, how did Americans show their approval for the way Republicans handled the economy?

VOCABULARY STRATEGY

What does the word *converge* mean in the underlined sentence? What context clues can you find in the surrounding words or phrases? Circle any words or phrases in the paragraph that help you figure out what *converge* means.

READING SKILL

Recognize Causes Look over the concept web. Select a cause of the Great Depression. Explain how it contributed to the depression.

The Roaring Twenties were a Republican decade. Beginning in 1920, Republican Presidents led the nation and took credit for the good economic times. In 1928, the country continued to support the Republicans by electing **Herbert Hoover** President. However, the nation's prosperity was not as deep or as sturdy as it appeared.

American farmers faced difficult times in the 1920s. They had borrowed money to buy land and machinery to increase the harvest yields during World War I. Although the demand for American crops fell after the war, farmers were still producing large harvests. Cheap food flooded the markets, lowering farmers' profits and making debt repayment hard.

Industrial workers, whose wages rose steadily, did better than farmers. The owners of companies did even better. They became very rich. In fact, in 1929, the wealthiest 0.1 percent of the population earned about the same amount of money as the bottom 42 percent. However, the people with great wealth could not buy enough goods to keep the economy strong. Still, many workers took advantage of easy credit to buy products. This disguised the problem and helped the economy to grow.

By 1929, it became clear that too much money was being poured into stock **speculation**. Investors often borrowed money to buy stocks, then sold them to turn a quick profit. Frantic buying and selling inflated the prices of stocks to unrealistic levels. Finally, all the problems began to converge. A sharp drop in stock prices led to panicked selling. Stock prices bottomed out on **Black Tuesday**, October 29, 1929, wiping out whole fortunes in hours.

The stock market crash marked the beginning of the **Great Depression**, a period lasting from 1929 to 1941 in which the U.S. economy faltered and unemployment soared. Thousands of banks closed and many businesses failed. The government tried to boost the sale of American goods by passing the **Hawley-Smoot Tariff**, which placed high taxes on foreign goods. Foreign governments responded by placing tariffs on American goods. The result was closed markets and unsold goods, which destroyed international trade. Economists still disagree on what was the most important factor leading to the Great Depression, which eventually affected the whole world.

Review Questions

1. How did World War I affect farmers and help lead to the Great Depression?

2. Why was stock speculation a problem?
