**Causes of The Great Depression**

Directions: Below are eleven generally recognized causes of the Great Depression. Brainstorm evidence to explain how each helped to cause the Depression. Then rank the causes in order, with 1 representing the strongest factor and 11 the weakest. Be prepared to defend your rankings

1. \_\_\_\_\_\_ Misdistribution of income and purchasing power
2. \_\_\_\_\_\_ Overexpansion of agricultural production
3. \_\_\_\_\_\_ Overproduction of industry
4. \_\_\_\_\_\_ Automation
5. \_\_\_\_\_\_ Unregulated banking practices
6. \_\_\_\_\_\_ American tariff policy
7. \_\_\_\_\_\_ Impact of European and world economies
8. \_\_\_\_\_\_ Monopolistic pricing
9. \_\_\_\_\_\_ Philosophy and policies of the Hoover Administration
10. \_\_\_\_\_\_ Overexpansion of Credit
11. \_\_\_\_\_\_ Stock market speculation and crash

**Causes of The Great Depression (KEY)**

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1. \_\_\_\_\_\_ Misdistribution of income and purchasing power
   * The wealth and prosperity of the Industrial Era and 1920s was concentrated at the top of society creating a widening gap between the rich and poor. Statistics show that 5% of the population controlled approximately 30-35% of the income. This gap left a very large (in number) lower class who had very little purchasing power therefore long term economic stability was threatened by the low demand.
2. \_\_\_\_\_\_ Overexpansion of agricultural production
   * Farmers, aided by new machinery, continued to grow and produce crops to meet the demands of WW I leading to a surplus which lowered the price of their goods and limited profits. When many farms took out loans to purchase new machinery and expand their business, the resulting loss of profits caused banks to foreclose on many farms.
3. \_\_\_\_\_\_ Overproduction of industry
   * Similar to farmers, industry produced at increasing rates throughout the decade to meet the artificial demand created by WW I and the accessibility of credit. As companies eventually slowed production factories closed and workers were laid off.
4. \_\_\_\_\_\_ Automation
   * New machinery and technology allowed for higher production and efficiency which negatively impacted labor as workers were replaced by machine.
5. \_\_\_\_\_\_ Unregulated banking practices
   * Banks were allowed to grant risky loans, set unfair interest rates and invested their profits and clients investments into the stock market and other speculative investments. When the stock market collapsed many banks did not have the cash on hand to meet the needs of their customers.
6. \_\_\_\_\_\_ American tariff policy
   * Throughout the Industrial Era, the U.S. raised tariffs on foreign imports in order to protect American companies from competition. This had a negative effect on farmers who relied on the exporting of their goods to European markets who in turn raised their tariffs causing the agricultural industry to falter.
7. \_\_\_\_\_\_ Impact of European and world economies
   * WW I loans to the Allied countries needed to be paid back to the U.S., yet GB and France were also owed reparations from Germany and the other Central Powers. The U.S. under the Dawes Plan of 1924 loaned Germany money to rebuild after the war and in turn Germany paid off some of the reparations.
8. \_\_\_\_\_\_ Monopolistic pricing
   * Continuing lack of competition allowed businesses to take advantage of consumers by controlling prices without any incentive to improve and innovate.
9. \_\_\_\_\_\_ Philosophy and policies of the Hoover Administration
   * Conservative economic policies associated with the concept of “laissez faire” reduced taxes, regulations and oversight of business and banking. Without rules business and banks continued to maximize profits at the expense of workers and consumers widening the misdistribution of wealth.
10. \_\_\_\_\_\_ Overexpansion of Credit
    * The ease and accessibility of credit or installment plans created a false sense of demand which artificially drove up production without being paid off these debt put a tremendous strain on the economy especially after the stock market crash.
11. \_\_\_\_\_\_ Stock market speculation and crash
    * While widely accepted as the trigger event to the Great Depression the crash on Black Tuesday was the result of years of stock market instability. Risky investments, speculative behavior and deceit inflated the wealth and prosperity associated with the stock market. As investors began to panic late in 1929 this heightened sense of worry cause a major sell off of stocks prompting the crash. Millions of dollars in seeming American wealth simply disappeared.