Prosperity

- GDP went up 30\% from 1922-1928
- People bought cars and appliances like crazy; in turn these companies hired workers and kept them prosperous.
- Unemployment was under 3\%
- People made more and worked less
- Welfare Capitalism led to less union activity and a better standard of living
- Americans in turn spent their money, bought appliances, and flocked to leisure events.

The Stock Market

- Stock is ownership in a company
- If company succeeds, stock value goes up and is worth more
- If company fails, stock value goes down and is worth less
- In general investing in stocks is a gamble
- Stock market did great in the 1920’s
- More and more people invested
- The wealth of the 20’s proved to Americans that business was King and Harding and Coolidge were right.
- Therefore Americans believed in business and faithfully bought stock.
Election of 1928
- Coolidge did not run again in 1928
- Republicans nominated Herbert Hoover
- He led WWI Food Administration
- He was secretary of commerce in the 20’s
- Everything he touched turned to gold, he seemed the Superman of the times
- He was the perfect candidate for the pro-business times of the 20’s.
- Democrats nominated Al Smith. First Catholic nominated for President
- Hoover won, mainly due to the prosperity of the times.

Essential Questions
1. What made the 1920’s such a prosperous time?
2. Why did people gamble in stocks in the 1920’s?
3. Why were Americans feeling good about business in the 1920’s?
4. Why did Herbert Hoover win the election of 1928?

Economic Problems in the 1920’s
- The wealth was distributed unevenly.
- The rich had seen their income grow 60%, while the workers had seen a modest gain only.
- Consumers had bought most goods on credit.
- Savings accounts decreased in the 20’s due to buying.
- By the end of the decade, demand had gone down as people reached their credit limit
- This meant factories slowed down.
Buying on Margin

- This is buying stocks on credit
- **Ex:** 100 shares sold at $10 a share costs $1000.
- Under buying on margin, you only had to put 50% down, meaning you pay $500 and borrow $500.
- You pay the $500 back when you sell stocks.
- Since stocks went up and up, it seemed foolproof, and soon people bought stock for as little at 10%

Risk of “Buying on Margin”

- If the stock went up to $15 dollars a share, you sold your 100 shares for $1500. The buyer then paid back the $500, got his $500 back, and made $500.
- But as times got so good, buying at margin went down to 10% down payments
  - When the crash hits, stocks drop seventy percent.
  - Under this scenario, the $1000 dollar stock is sold for $300. So you not only lose money on the stock, but now you owe banks money.

Federal Reserve

- The Federal Reserve is in charge of regulating banks and loans
- They start to **put a clamp** on this buying at margin and slow it down fearing what it could cause.
  - But soon **corporations** begin to loan the money for this
  - Buying at margin picks up again and without the regulation goes on at 10% again.
  - Soon economist like **Roger Babson** warned of a crash.
Essential Questions

1. What were some signs that the economy of the late 1920’s was not so good?
2. What is buying on Margin?
3. Why did people buy on Margin?
4. What were the potential risks of buying on margin?
5. How did the FED try to stop the riskier form of buying on margin? Did it work?

The Stock Market Crashes

- **1928**: 50% growth in market
- **Bad signs**: business slowdown, filled warehouses, risky investment.
- **Thursday 24th Oct. 1929**, big investors start to sell their stocks, everybody else follows as prices drop so they don’t lose money
- **Rich bankers tried to buy the stocks** to stop this on Friday 25th. Stocks stabilized that Friday and Monday.
  - But by Tuesday 29th of the next week, people started dumping their stocks: **Black Tuesday**. The stock market lost ½ its value: 16 billion
  - Fortunes were wiped out.

The Effects of the Crash

- **Individuals lost fortunes** in the stock market or banks.
- **Margin Stock buyers** suffered double: They lost their investment and were now in debt to banks or corporations.
- **Banks closed**: Lending on margin would never be paid back. People worried about their money and this led to **bank runs**. People losing jobs would never pay back loans
- **Businesses were crushed**: Nobody to buy their products. They laid off workers
- **It spread to Europe**: The US could not lend them money. Their economies collapsed. They could not pay back debts. Tariffs were passed and this devastated trade.
Essential Questions

1. Why did the stock market finally crash?
2. How did some try to stop it? Did it work?
3. What was the double loss for buyers of stock on margin?
4. How did the banks get hit?