Name ____________________ Date ____________________

CHAPTER 14 Section 1 (pages 464–471)

The Nation's Sick Economy

BEFORE YOU READ

In the last section, you learned about the Harlem Renaissance in the 1920s.

In this section, you will read about the economic problems that led to the Great Depression.

AS YOU READ

Use the chart below to take notes about the economic situation each group faced in the late 1920s.

Farmers	Income declined
Industry	
Consumers	

TERMS AND NAMES

price support Law that keeps prices above a set level

credit Short-term loans to buy goods with promises to pay later

Alfred E. Smith Democratic presidential candidate in 1928

Dow Jones Industrial Average Index of stock prices of select companies

speculation Investments in high-risk ventures

buying on margin Buying stock by paying only a portion of the full cost up-front with promises to pay the rest later

Black Tuesday October 29, 1929, the day the stock market crashed

Great Depression Period of bad economic times in the United States that lasted from 1929 to 1941

Hawley-Smoot Tariff Act Law that raised taxes on imports and worsened the Depression

Economic Troubles on the Horizon (pages 464–466)

Why was the nation's economy sick in the late 1920s?

During the 1920s, the economy boomed. But there were economic problems under the surface. Industries, such as clothing, steel-making, and mining, were hardly making a profit.

Many industries had been successful in the early 1920s. But by the late 1920s, they were losing money. These industries included auto manufacturing, construction, and consumer goods.

The biggest problems were in farming. After the war, the demand for food dropped and farmers suffered. Farmers' incomes went down. Many could not make the *mortgage* payments on their farms. As a result, many farmers lost their land.

Congress tried to help farmers by passing **price supports.** With price supports, the government would not allow food prices to fall below a certain level. But Calvin Coolidge vetoed the bill. Farmers' incomes continued to drop.

Farmers were not the only problem with the economy. Americans were buying less. Many found that prices were rising faster than their salaries. Many people bought goods on **credit**—an arrangement in which consumers agreed to make monthly payments with interest. But too many Americans were accumulating debt they could not afford to pay off.

In the late 1920s, much of America seemed prosperous, but there was an uneven distribution of income. A small number of rich people were getting richer. But a large number of people were not doing well and falling further behind.

1. **What problems did farmers face in the 1920s?**

Hoover Takes the Nation
(pages 466–467)

How *healthy was the stock market?*

Few people recognized the problems with the economy in 1928. The Republican Herbert Hoover easily defeated the Democratic challenger, **Alfred E. Smith.** People believed Hoover when he said the American economy was healthy. The **Dow Jones Industrial Average,** a measure of 30 popular stocks, was way up. People rushed to buy stocks. Many people were engaging in **speculation,** buying risky stocks in hopes of a quick profit. To do so, they were **buying on margin**—paying just a small down payment and borrowing the rest. The problem of buying on margin was that there was no way to pay off the loan if the stock price declined sharply.

2. **What was dangerous about how Americans bought stock?**

The Stock Market Crashes
(pages 467–469)

What *was Black Tuesday?*

Stock prices did begin to fall in September 1929. On Tuesday, October 29, 1929, called **Black Tuesday,** prices fell so sharply that people said the market had "crashed." People frantically tried to sell their shares which drove prices down further. There were no buyers. Many people lost all their savings. By mid-November, $30 billion—more than America had spent in World War I—had been lost.

3. **What happened on Black Tuesday?**

Financial Collapse (pages 469–471)

How *did the stock market crash affect businesses?*

The stock market crash signaled the **Great Depression.** This period of bad economic times when many people were out of work lasted from 1929 to 1940. Although the crash did not cause the Depression, it did make it worse. After the crash, many people panicked and took their money out of banks. Many banks were forced to close. When the banks failed, other depositors lost the savings they had in the banks.

Businesses also began to close. Millions of Americans lost their jobs. Workers who kept their jobs experienced pay cuts or reduced hours.

The Depression spread around the world. Germany was still paying war reparations. Other European countries were struggling with debts from the war. With Americans unable to buy their goods now, European economies suffered even more.

The situation became worse when Congress passed the **Hawley-Smoot Tariff Act.** Congress hoped that higher tariffs would push Americans to buy goods made in the United States. The result would be to help American industry. Instead, when the United States charged more to bring goods in, imports from Europe declined. Then Europeans had even less money to spend on U.S. goods, and American industry suffered.

The Great Depression had several causes:

- Tariffs and war debt policies that cut down the foreign market for American goods
- A crisis in the farm sector
- The availability of easy credit
- An unequal distribution of income

These factors led to a falling demand for consumer goods. The federal government hurt the economy with its policy of low interest rates causing businesses and consumers to borrow easily and build up too much debt.

4. **Why did many banks fail after the stock market crashed?**
