

### Lesson Description

In this lesson, students participate in an activity that illustrates falling wages, rising unemployment and falling prices. They learn about the role of the collapsing U.S. banking system in causing the Great Depression. They participate in a simulation to learn what a bank failure is and how bank failures can lead to bank panics. Finally, they observe the impact that many events occurring at the same time might have on the economy.

### Concepts

- Bank failure
- Bank panic
- Bank reserves
- Bank run
- Deflation
- Money supply (stock)

### Objectives

Students will:

- Define deflation, bank failure and money supply (stock).
- Explain the relationship between declining prices and business revenue.
- Analyze the relationship among declining business revenue, wages and employment.
- Analyze the relationship between bank failures and bank panic.
- Explain the role consumer confidence plays in maintaining a strong financial system.

### 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.
- **Standard 1A:** The causes of the crash of 1929 and the Great Depression.

#### National Standards in Economics

- **Standard 10:** Institutions evolve in market economies 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 and enforced 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.

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- Benchmark 1, Grade 12: The basic money supply in the United States consists of currency, coins and checking account deposits.
- Benchmark 2, Grade 12: In many economies, when banks make loans, the money supply increases; when loans are paid off, the money supply decreases.
- **Standard 18:** A nation's overall levels of income, employment and prices are determined by the interaction of spending and production decisions made by all households, firms, government agencies and others in the economy.
  - Benchmark 5, Grade 12: When desired expenditures for consumption, investment, government spending and net exports are less than the value of a nation's output of final goods and services, GDP decreases, and inflation and/or employment decreases.
- **Standard 19:** Unemployment imposes costs on individuals and nations. Unexpected inflation imposes costs on many people and benefits some others because it arbitrarily redistributes purchasing power. Inflation can reduce the rate of growth of national living standards because individuals and organizations use resources to protect themselves against the uncertainty of future prices.
  - Benchmark 1, Grade 4: Inflation is an increase in most prices; deflation is a decrease in most prices.

### National Council for the Social Studies Strands

- Time, continuity and change
- Power, authority and governance
- Production, distribution and consumption

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## Time Required

120-180 minutes

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## Materials

- A copy of *The Great Depression: An Overview* from the introduction section of this unit for each student
- Copies of Handout 3.1 to provide one worksheet for each student in each group (*Note: It is preferable to have two groups for each worker scenario.*)
- A copy of Handout 3.2, cut apart to provide the appropriate card to each group
- Eight calculators (one per group)
- A copy of Handout 3.3 for each student
- Visuals 3.1 and 3.2
- A copy of Handout 3.4, cut apart to provide a card for each student
- Three pieces of paper: one labeled "First Community," one labeled "Second Federal" and a third labeled "Third State"
- Copies of Handout 3.5, cut apart to provide currency as indicated on the cards

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- A copy of Handout 3.6, cut apart to provide title spines for various-sized books
- Cellophane tape (tape titles to book spines)
- A copy of Handout 3.7 for each student
- Sheet of chart paper and marker for each group of four to five students

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### Procedures

1. Tell the students that they are going to participate in activities to help them better understand causes of the Great Depression. Explain that the first activity is a budget activity in which students will take roles as construction workers, railroad workers, farmers and teachers in 1928 and again in 1933.
2. Divide the class into eight small groups. Tell students in two groups that they are farmers, in two groups that they are teachers, in two groups that they are construction workers and in two groups that they are railroad workers. Distribute the appropriate budget worksheet from *Handout 3.1: Budget Scenarios* to each student in each group and a calculator to each group. Distribute the appropriate card from *Handout 3.2: Budget Scenario Cards* to a member of each group.  
*(Note: There are two different scenario cards for each type of worker—railroad, construction, farmer and teacher.)*
3. Tell the students to read the directions at the top of the page and complete the columns on the budget sheet for 1928. Tell students that when they finish, the students with the budget card should read the card to the group. Then the students should complete the columns for 1933 and answer the questions that follow the table.
4. Allow time for students to work. When students have finished working, have a spokesperson from each group tell the worker's income in 1928, read the worker's 1933 card and discuss the family's budget changes. After groups have shared information, discuss as a class the groups' responses to the questions on Handout 3.1. Refer to *Handout 3.1: Answer Key* for this discussion.
5. Discuss the following questions.
  - In 1933, when your income decreased, why did the percentage of your income spent on housing and perhaps other items increase? *(Because income decreased, even if the dollar amount spent on a category remained constant, the percent of income spent on that category increased.)*
  - Raise your hand if your group spent the same dollar amount on food in 1928 as you did in 1933. *(Answers will vary.)*
  - What tradeoffs did you make in order to feed yourself and/or your family? *(What did you have to give up?) (Answers will vary.)*

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- How would these spending decisions affect the economy? (*Reduce overall spending on goods and services.*)
  - Although in your role, you retained your job, one in every four (or 25 percent) of the workforce was unemployed. What effect did this have on spending? (*decreased spending*)
  - If you were unemployed, what choices might you have had to make? (*Answers will vary, but could include stopping house payments or selling farmland and equipment.*)
  - If you had additional family members come to live with you in 1933, what happened to the income per person—per capita income—for your family? (*It decreased.*)
6. Explain that what happened to students in their groups was happening to people across the country during the Great Depression.
- The country experienced **deflation**, which is a decline in the average price level. During the Great Depression, the prices of goods and services decreased by nearly 30 percent.
  - At first, this might seem like a good thing. But as our activity showed, with lower prices, businesses such as textile mills, railroads, farmers, car manufacturers and others earned less revenue.
  - With less revenue, businesses could not afford to pay people as much and/or employ as many people. In the Great Depression, the economy suffered unemployment as high as 25 percent, and wages fell.
  - As prices decreased, business revenues decreased, wages decreased and unemployment increased. When people were earning less or were unemployed and were not earning any income, they bought fewer goods and services. As a result, businesses earned even less revenue. With wages decreasing and unemployment increasing, borrowers were not able to repay loans. Loan defaults and bankruptcies followed, which produced more bank failures and further declines in output, prices and employment.
7. Refer students to *The Great Depression: An Overview* from the introduction section of this unit. Instruct students to read the sections “*What Caused the Great Depression*” and “*Money, Banking and Deflation*” for the next class. Distribute a copy of *Handout 3.3: Overview Questions* to each student. Instruct students to answer the questions in class, or assign as homework.
8. Review the reading and student homework by discussing the following.
- What are some of the theories that have been advanced over the years regarding the cause of the Great Depression? (*stock market crash, protectionist trade policies, failure of capitalism, excess of the 1920s, falling money stock*)
  - What were the negative impacts of the stock market crash? (*destroyed wealth, sparked doubts about the health of the economy*) Even though the stock market crash had negative affects on the economy, these weren’t large enough to cause the Great Depression.
  - What problems did the Smoot-Hawley Tariff of 1930 cause? (*increased the cost of imported goods and led to retaliation by major trading partners of the United States*) Although the collapse of world trade was a significant event, protectionist policies alone were not enough to cause the Great Depression.

- What does being on the gold standard mean? (*This means that the U.S. government would exchange dollars for gold at a fixed price.*) Commercial banks and the Federal Reserve were required by law to hold a portion of their reserves as gold coin or bullion. A decrease in gold reserves would tend to contract the money stock. So, large withdrawals of gold (or cash) from banks could reduce bank reserves so much that banks were forced to reduce their outstanding loans—i.e., require full payment or foreclose. This would further reduce deposits and shrink the money stock (money supply). People in other countries who held deposits in U.S. banks, uncertain about the health of the U.S. economy, withdrew gold deposits. Gold withdrawals were a critical factor, especially starting in the fourth quarter of 1931 and continuing through the first quarter of 1933. This was one reason why the money stock fell.
  - What explanation regarding the cause of the Great Depression has stood the test of time? (*The explanation that has stood the test of time is one that focuses on the collapse of the U.S. banking system and the contraction of the nation's money stock.*)
  - What was the main reason that explains why the money stock fell during the Great Depression? (*Banking panics were the main reason why the money stock fell during the Great Depression.*) Banking systems rely on the confidence of depositors that they will be able to access their funds in the bank whenever they need them. If depositors lose confidence due to the failure of a large bank, people will rush to withdraw their money from banks to avoid losing their funds if their own bank were to fail.
9. Remind students that in the budget activity, people had lost their savings because banks in the community failed. Tell students that they will participate in role-playing to help them understand what bank failures and panics are. Display *Visual 3.1: What Are Reserves?* Explain that this is a statement of deposits, loans and reserves for Community Bank. Discuss the following.
- Banks take in deposits. **Bank reserves** are the amount of deposits not loaned out by banks. A bank's reserves can be calculated by subtracting a bank's total loans from its total deposits. Point out that Community Bank has \$6,500 in reserves.
  - The United States, along with most of rest of the world, has a fractional reserve banking system. This means that banks take in deposits and lend most of the money that they take in. The banks keep only a fraction of deposits on reserve. Ordinarily, this system works well, but it does depend on the willingness of people to hold bank deposits.
  - People who borrow money from banks use the money to buy houses, cars or other items. They also use the money to start businesses, remodel their homes, go to college and so on. The money loaned out is spent almost immediately by borrowers to pay for purchases.
  - Because only a small fraction of the banks' customers' deposits are kept on reserve, not everyone can get all of their money out of the bank in cash on the same day. This is generally not considered a problem because, under normal conditions, all of the banks' customers do not wish to withdraw all of their funds at the same time.
10. Explain that students will again take the role of individuals living during the 1930s. The students live in a community that has three banks. Distribute all cards from *Handout 3.4: Banking Simulation Cards*. Select a student to distribute money from *Handout 3.5: Currency Cards* to other students based on their cards' information. Ask those students who are bankers to come to the front of the room and sit at a desk facing the class. Give each banker the correct bank sign and tape to tape their sign to the desk.

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- Tell the bankers that they will be open for business in a few minutes.
  - Tell the remaining students to take action as instructed on their cards.
11. After students have had the opportunity to complete transactions, discuss the following.
    - How many of you made deposits in your bank account? (6)
    - How many of you made loan payments to your bank? (4)
    - How many of you were unable to make loan payments? (2)
    - How many of you want to withdraw money from your bank? (12)
    - Did anyone have any problems? (Yes.) Why? (*We tried to withdraw our money, and the bank didn't have our money.*)
    - With which bank did you have your account? (*Second Federal Bank*)
    - How did this make you feel? (*angry, frustrated*)
  12. Display *Visual 3.2: Second Federal Bank Headline* and point out that Second Federal Bank failed. This means that the bank ran out of cash and could not honor withdrawal requests. Ask the Second Federal banker how much money she/he had in reserve at the start of the activity. (\$800) Ask the students who withdrew or wanted to withdraw money from Second Federal Bank to come to the front of the room and total how much money the group withdrew or wanted to withdraw from the bank. (\$1,850) Tell students to return to their seats.
  13. Ask the students with accounts at Third State and First Community banks how they feel about the safety of their money in their bank accounts after reading the headline. (*nervous, concerned*) Ask the students what they might do. (*Go to their banks and withdraw their money.*)
  14. Explain that people were withdrawing money from their banks—more money than the banks had in reserves. Ask how many students had loans from Second Federal that they were unable to pay and how much they were unable to pay. (*Two had loans from Second Federal—Alan Disharoon couldn't pay \$100, and Robert Renz couldn't pay \$150.*) Ask the Second Federal banker what would have been different if these individuals had made their loan payments as expected. (*The banker would have had some additional money coming into the bank. That money could have been used to satisfy customers' demands for withdrawals.*)
  15. Explain that **bank failures** occur when banks are unable to meet depositors' demands for their money. Explain that throughout history there have been episodes in which too many people have tried to take their money out of their banks at the same time and, as a result, banks have failed or suspended operations. Regardless of whether a bank suspends operations for some time or it fails, customers lose confidence.
  16. Explain that when many depositors run into a bank at the same time to get their money out, it is called a "bank run." This might happen if all of the customers of Third State and First Community went to the banks to withdraw their money. When a bank run begins at one bank and

spreads to other banks, causing people to lose confidence in banks, it is called a **bank panic**. Bank panics cause more **bank failures**, and the cycle continues.

17. Point out that as people remove money from the banking system, the **money supply (stock)** shrinks.
- The shrinking money supply means that people and businesses are able to borrow less from banks.
  - People buy fewer goods and services.
  - Businesses sell fewer goods and services because people have less to spend.
  - Prices decline.
  - Business revenues decline.
  - Businesses are able to buy fewer supplies and equipment. Businesses are unable to employ as many workers, they must pay workers less or a combination of both.
  - Workers who are paid less or lose their jobs may buy fewer goods and services and may be unable to repay bank loans.
  - More banks fail; so, the economy's supply of money and credit shrinks. This causes a decline in business revenues, which leads to more unemployment and/or decreases in wages.
18. Discuss the following:
- What is a bank failure? (*occurs when banks are unable to meet depositors' demands for their money*)
  - What is a **bank run**? (*occurs when many depositors attempt to withdraw all of their funds from their bank at the same time*)
  - What is a bank panic? (*occurs when a bank run begins at one bank and spreads to other banks, causing people to lose confidence in banks*)
  - How did bank panics contribute to the collapse of the nation's banking system and a reduction in the money stock? (*As people withdrew their money from the banks, the amount banks had to lend—the money stock—decreased. Bank panics caused additional bank failures, which contributed to the panic and lack of confidence in the banking system. As the money stock fell, spending on goods and services decreased. This caused firms to cut prices and output and to lay off workers.*)

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### Closure

19. Explain that today, as the class finishes its discussion of the causes of the Great Depression, students can help clean up and reorganize Great Depression teaching resources. Invite a strong student to come to the front of the class. Ask the student to help by holding some books. Tell the student to hold his or her arms outward with palms facing up. Instruct the student to hold his/her arms perfectly straight and not bend his/her arms at all. *(Note: As you stack books with titles from Handout 3.6 taped to spines on the student's arms, he/she will eventually be unable to hold the books. His or her arms will begin to shake. When that happens, draw the conclusion that even though the prominent cause of the Great Depression was bank panics, there were many factors that contributed to the depth and length of the Great Depression. If you haven't finished the discussion at that time, continue.)*
  
20. Place the book with the title *Bank of the United States Fails* on its spine on the student's outstretched arms so that the spine is facing the rest of the class. Explain that this was a large commercial bank that failed in 1930. Because of its name, people thought it was associated with the government. As a result, people in the United States as well as in other countries were frightened by its failure, which led to bank panics.
  
21. Place the book with the title *Stock Market Crash in 1929* on its spine on the student's arms so that the spine of the book is facing the rest of the class. Discuss the following points:
  - In 1929, the stock market crashed. This destroyed wealth and caused people to question whether or not the economy was strong. With the questioning came uncertainty. When people are uncertain about the economy, they tend to spend less. Uncertainty would have contributed to the problems firms had selling goods and services.
  - Even though the crash had negative effects on the economy, these were not large enough by themselves to cause the Great Depression.
  
22. Place the book with the title *Smoot-Hawley Tariff of 1930—Protectionist Policies* on its spine on the arms of the student. The Smoot-Hawley Tariff was imposed in 1930. Along with other protectionist policies, it caused the prices of imported goods to increase. Other countries, concerned that their firms were having difficulty selling their goods in the United States, retaliated by imposing tariffs, quotas or other means of protection in their countries. Discuss the following points:
  - This made it more difficult for U.S. firms to sell their goods abroad.
  - Even though the Smoot-Hawley Tariff and other protectionist policies had negative effects on the economy, these effects were not large enough by themselves to cause the Great Depression.
  
23. Place the book with the title *Outflow of Gold from the U.S. Banking System* on its spine on the student's arms with the spine facing the rest of the class. In the 1930s, the United States was on the gold standard. This means that the U.S. government would exchange dollars for gold at a fixed price. Commercial banks and the Federal Reserve held a portion of their reserves as gold coin and as gold bullion. A decrease in gold reserves would tend to contract the money stock.



Therefore, large withdrawals of gold (or cash) from banks could reduce bank reserves so much that banks would be forced to contract their outstanding loans. This would further reduce deposits and shrink the money stock, contributing to any existing problems.

24. Place the book with the title *Bank Panics and Suspensions* on its spine on the student's arms, so that the spine of the book is facing the rest of the class. Discuss the following points:
- Remember that bank panics were the main reason that explained why the money stock fell during the Great Depression. The failure of the Bank of the United States, the failure of other banks and the suspension of operations by nearly 7,000 banks created bank panics.
  - Banking systems rely on the confidence of depositors that depositors will be able to access their funds that are in the bank whenever they need them. If depositors lose confidence, due to the failure of a large bank or a large commercial firm, people will rush to withdraw their money from banks to avoid losing their funds in case their own bank failed.
  - When depositors remove money from the system, banks may be forced to reduce their outstanding loans; that is, require full payment or foreclose. When this happens, the money stock is reduced further.
25. Point out that the explanation for the Great Depression that has stood the test of time is that the U.S. banking system collapsed, and the U.S. money stock contracted as a result. These two events combined with other factors to create the most significant economic event of the 20th century.

### Assessment

26. Distribute a copy of *Handout 3.7: Assessment* to each student. Tell students to read the instructions.

Answers:

3. *A local economist explained that the bank was a victim of economic conditions such as falling prices, rising unemployment and consumer uncertainty.*
5. *Many farmers in the community were unable to repay bank loans because crop prices in markets all over the world set another record low.*
4. *Locally, conditions in the agriculture and manufacturing sectors support these explanations.*
1. *When the bank opened its doors at 10 a.m. today, an unending line of customers were waiting to withdraw their money.*
5. *The steel plant has laid off 20 percent of its workforce in the past three months, with plans to cut another 20 percent by year-end.*
2. *An anonymous source reported that he and others were unable to withdraw their money from the bank.*
5. *Again today, at close, the Dow was down another 2 percent.*

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The last card is missing. Write a concluding statement for the broadcast.

*Possible answer: "It appears that we are in for a bumpy ride in the economy. Stay tuned."*

27. Divide the class into groups. Distribute a sheet of chart paper and marker to each group. Give the student the following prompt: "A bank panic is like a brush fire." Tell the groups that they are to identify how a bank panic is like a brush fire. Tell them to draw a diagram illustrating their group members' ideas and appoint a spokesperson to explain the group's description.

*Answers:*

- *It is necessary to have professionals deal with both brush fires and bank panics.*
- *It is important to contain both brush fires and bank panics.*
- *It is better to take action to prevent brush fires and bank panics than to try and stop them.*

### Visual 3.1: What Are Reserves?

#### Deposits, Loans and Reserves for the Community Bank

DEPOSITS	
Name	Amount
John Ellis	\$4,500
Shermone Thomas	\$3,000
Yadaf Gopalan	\$5,000
Michaela Chepikov	\$7,000
Angela Marstall	\$6,000
Elaine Gifford	\$3,500
Ruth Walls	\$10,000
Bella Winston	\$5,000
<b>Total Deposits</b>	<b>\$44,000</b>
LOANS	
Name	Amount
Marc Taylor	\$7,500
Elise Golden	\$3,500
Raymel Starks	\$4,000
Alexi Bourdavich	\$10,500
Sandra Chou	\$5,000
Barkly Kannenberg	\$7,000
<b>Total Loans</b>	<b>\$37,500</b>
RESERVES	
Total Deposits	\$44,000
– Total Loans	\$37,500
<b>Reserves</b>	<b>\$6,500</b>

Visual 3.2: Second Federal Bank Headline



**SECOND FEDERAL BANK  
FAILS CUSTOMERS**

Customers Line Up in the Streets  
to Collect Money

## Handout 3.1: Budget Scenarios

### Construction Worker

You are a construction worker in 1928 earning an **annual** after-tax income of \$3,000. You have a spouse and four children. The table below shows what percent of your income you spent on various categories. Use the percentages indicated to determine the dollar amount spent on each category. Be certain that the total dollars spent equals \$3,000. After you have completed the 1928 column, read the card your group received for 1933 and complete the 1933 columns.

	1928		1933	
Budget Item	Budget Percent	Dollar Amount	Budget Percent	Dollar Amount
Food	30%	\$	%	\$
Clothing	15%	\$	%	\$
Housing	30%	\$900	%	\$900*
Medical care	4%	\$	%	\$
Transportation	10%	\$	%	\$
Miscellaneous	6%	\$	%	\$
Saving	5%	\$	%	\$
<b>Total</b>	<b>100%</b>	<b>\$3,000</b>	<b>%</b>	<b>\$2,200</b>

\* Because mortgage payments are fixed, the dollar amount for housing cannot decrease. It becomes a larger percentage of the 1933 budget due to a decline in income.

After completing the 1933 columns, answer the following questions.

1. In general, what happened to your ability to buy goods and services in 1933 compared with 1928?
2. Which expenditures increased as a percentage of your income and which decreased as a percentage of your income?
3. Explain why you made the choices that you did about how to spend your income in 1933.
4. Give specific examples of how conditions in 1933 affected your standard of living.

## Lesson 3 | What Really Caused the Great Depression?

### Handout 3.1: Budget Scenarios

#### Railroad Worker

You are a railroad worker in 1928 earning an **annual** after-tax income of \$3,600. You have a spouse and six children. The table below shows what percent of your income you spent on various categories. Use the percentages indicated to determine the dollar amount spent on each category. Be certain that the total dollars spent equals \$3,600. After you have completed the 1928 column, read the card your group received for 1933 and complete the 1933 columns.

	1928		1933	
Budget Item	Budget Percent	Dollar Amount	Budget Percent	Dollar Amount
Food	30%	\$	%	\$
Clothing	15%	\$	%	\$
Housing	30%	\$1,080	%	\$1,080*
Medical care	4%	\$	%	\$
Transportation	10%	\$	%	\$
Miscellaneous	6%	\$	%	\$
Saving	5%	\$	%	\$
<b>Total</b>	<b>100%</b>	<b>\$3,600</b>	<b>%</b>	<b>\$2,600</b>

\* Because mortgage payments are fixed, the dollar amount for housing cannot decrease. It becomes a larger percentage of the 1933 budget due to a decline in income.

After completing the 1933 columns, answer the following questions.

1. In general, what happened to your ability to buy goods and services in 1933 compared with 1928?
2. Which expenditures increased as a percentage of your income and which decreased as a percentage of your income?
3. Explain why you made the choices that you did about how to spend your income in 1933.
4. Give specific examples of how conditions in 1933 affected your standard of living.

### Handout 3.1: Budget Scenarios

#### Farmer

You are a farmer in 1928 earning an **annual** after-tax income of \$3,200. You have a spouse and eight children. The table below shows what percent of your income you spent on various categories. Use the percentages indicated to determine the dollar amount spent on each category. Be certain that the total dollars spent equals \$3,200. After you have completed the 1928 column, read the card your group received for 1933 and complete the 1933 columns.

	1928		1933	
Budget Item	Budget Percent	Dollar Amount	Budget Percent	Dollar Amount
Food	25%	\$	%	\$
Clothing	15%	\$	%	\$
Housing	30%	\$960	%	\$960*
Medical care	4%	\$	%	\$
Transportation	12%	\$	%	\$
Miscellaneous	9%	\$	%	\$
Saving	5%	\$	%	\$
<b>Total</b>	<b>100%</b>	<b>\$3,200</b>	<b>%</b>	<b>\$2,400</b>

\* Because mortgage payments are fixed, the dollar amount for housing cannot decrease. It becomes a larger percentage of the 1933 budget due to a decline in income.

After completing the 1933 columns, answer the following questions.

1. In general, what happened to your ability to buy goods and services in 1933 compared with 1928?
2. Which expenditures increased as a percentage of your income and which decreased as a percentage of your income?
3. Explain why you made the choices that you did about how to spend your income in 1933.
4. Give specific examples of how conditions in 1933 affected your standard of living.

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### Handout 3.1: Budget Scenarios

#### Teacher

You are a teacher in 1928 earning an **annual** after-tax income of \$2,300. You are not married. The table below shows what percent of your income you spent on various categories. Use the percentages indicated to determine the dollar amount spent on each category. Be certain that the total dollars spent equals \$2,300. After you have completed the 1928 column, read the card your group received for 1933 and complete the 1933 columns.

	1928		1933	
Budget Item	Budget Percent	Dollar Amount	Budget Percent	Dollar Amount
Food	30%	\$	%	\$
Clothing	15%	\$	%	\$
Housing	30 %	\$690	%	\$690*
Medical care	4%	\$	%	\$
Transportation	10%	\$	%	\$
Miscellaneous	6%	\$	%	\$
Saving	5%	\$	%	\$
<b>Total</b>	<b>100%</b>	<b>\$2,300</b>	<b>%</b>	<b>\$1,800</b>

\* Because mortgage payments are fixed, the dollar amount for housing cannot decrease. It becomes a larger percentage of the 1933 budget due to a decline in income.

After completing the 1933 columns, answer the following questions.

1. In general, what happened to your ability to buy goods and services in 1933 compared with 1928?
2. Which expenditures increased as a percentage of your income and which decreased as a percentage of your income?
3. Explain why you made the choices that you did about how to spend your income in 1933.
4. Give specific examples of how conditions in 1933 affected your standard of living.



### Handout 3.1: Budget Scenarios—Answer Key

#### Construction Worker

You are a construction worker in 1928 earning an **annual** after-tax income of \$3,000. You have a spouse and four children. The table below shows what percent of your income you spent on various categories. Use the percentages indicated to determine the dollar amount spent on each category. Be certain that the total dollars spent equals \$3,000. After you have completed the 1928 column, read the card your group received for 1933 and complete the 1933 columns.

		1928	1933	
Budget Item	Budget Percent	Dollar Amount	Budget Percent	Dollar Amount
Food	30%	$\$3,000 \times .30 = \$900$	%	\$
Clothing	15%	$\$3,000 \times .15 = \$450$	%	\$
Housing	30%	$\$3,000 \times .30 = \$900$	$\$900/\$2,200 = 41\%$	$\$900^*$
Medical care	4%	$\$3,000 \times .04 = \$120$	%	\$
Transportation	10%	$\$3,000 \times .10 = \$300$	%	\$
Miscellaneous	6%	$\$3,000 \times .06 = \$180$	%	\$
Saving	5%	$\$3,000 \times .05 = \$150$	%	\$
<b>Total</b>	<b>100%</b>	<b>\$3,000</b>	<b>%</b>	<b>\$2,200</b>

\* Because mortgage payments are fixed, the dollar amount for housing cannot decrease. It becomes a larger percentage of the 1933 budget due to a decline in income.

Answers for the remaining cells in the 1933 columns will vary depending on student decisions.

After completing the 1933 columns, answer the following questions.

- In general, what happened to your ability to buy goods and services in 1933 compared to 1928? *(My ability to buy goods and services decreased.)*
- Which expenditures increased as a percentage of your income and which decreased as a percentage of your income? *(Answers should include—housing increased as a percent of my income. Other answers will depend on student choices.)*
- Explain why you made the choices that you did about how to spend your income in 1933. *(Answers will vary depending on students' decisions.)*
- Give specific examples of how conditions in 1933 affected your standard of living. *(My income declined, which meant that I was able to buy fewer goods and services, causing my standard of living to decline. For the group that had additional family members move in: Because there were more people having to live on less income, the standard of living fell.)*

## Lesson 3 | What Really Caused the Great Depression?

### Handout 3.1: Budget Scenarios—Answer Key

#### Railroad Worker

You are a railroad worker in 1928 earning an **annual** after-tax income of \$3,600. You have a spouse and six children. The table below shows what percent of your income you spent on various categories. Use the percentages indicated to determine the dollar amount spent on each category. Be certain that the total dollars spent equals \$3,600. After you have completed the 1928 column, read the card your group received for 1933 and complete the 1933 columns.

	1928		1933	
Budget Item	Budget Percent	Dollar Amount	Budget Percent	Dollar Amount
Food	30%	$\$3,600 \times .30 = \$1,080$	%	\$
Clothing	15%	$\$3,600 \times .15 = \$540$	%	\$
Housing	30%	$\$3,600 \times .30 = \$1,080$	$\$1,080/\$2,600 = 42\%$	\$1,080*
Medical care	4%	$\$3,600 \times .04 = \$144$	%	\$
Transportation	10%	$\$3,600 \times .10 = \$360$	%	\$
Miscellaneous	6%	$\$3,600 \times .06 = \$216$	%	\$
Saving	5%	$\$3,600 \times .05 = \$180$	%	\$
<b>Total</b>	<b>100%</b>	<b>\$3,600</b>	<b>%</b>	<b>\$2,600</b>

\* Because mortgage payments are fixed, the dollar amount for housing cannot decrease. It becomes a larger percentage of the 1933 budget due to a decline in income.

Answers for the remaining cells in the 1933 columns will vary depending on student decisions.

After completing the 1933 columns, answer the following questions.

1. In general, what happened to your ability to buy goods and services in 1933 compared with 1928? (*My ability to buy goods and services decreased.*)
2. Which expenditures increased as a percentage of your income and which decreased as a percentage of your income? (*Answers should include—housing increased as a percent of my income. Other answers will depend on student choices.*)
3. Explain why you made the choices that you did about how to spend your income in 1933. (*Answers will vary depending on students' decisions.*)
4. Give specific examples of how conditions in 1933 affected your standard of living. (*My income declined, which meant that I was able to buy fewer goods and services, causing my standard of living to decline. For the group that had additional family members move in: Because there were more people having to live on less income, the standard of living fell.*)

### Handout 3.1: Budget Scenarios—Answer Key

#### Farmer

You are a farmer in 1928 earning an **annual** after-tax income of \$3,200. You have a spouse and eight children. The table below shows what percent of your income you spent on various categories. Use the percentages indicated to determine the dollar amount spent on each category. Be certain that the total dollars spent equals \$3,200. After you have completed the 1928 column, read the card your group received for 1933 and complete the 1933 columns.

	1928		1933	
Budget Item	Budget Percent	Dollar Amount	Budget Percent	Dollar Amount
Food	25%	$\$3,200 \times .25 = \$800$	%	\$
Clothing	15%	$\$3,200 \times .15 = \$480$	%	\$
Housing	30%	$\$3,200 \times .30 = \$960$	$\$960/\$2,400 = 40\%$	\$960*
Medical care	4%	$\$3,200 \times .04 = \$128$	%	\$
Transportation	12%	$\$3,200 \times .12 = \$384$	%	\$
Miscellaneous	9%	$\$3,200 \times .09 = \$288$	%	\$
Saving	5%	$\$3,200 \times .05 = \$160$	%	\$
<b>Total</b>	<b>100%</b>	<b>\$3,200</b>	<b>%</b>	<b>\$2,400</b>

\* Because mortgage payments are fixed, the dollar amount for housing cannot decrease. It becomes a larger percentage of the 1933 budget due to a decline in income.

Answers for the remaining cells in the 1933 columns will vary depending on student decisions.

After completing the 1933 columns, answer the following questions.

- In general, what happened to your ability to buy goods and services in 1933 compared with 1928? *(My ability to buy goods and services decreased.)*
- Which expenditures increased as a percentage of your income and which decreased as a percentage of your income? *(Answers should include—housing increased as a percent of my income. Other answers will depend on student choices.)*
- Explain why you made the choices that you did about how to spend your income in 1933. *(Answers will vary depending on students' decisions.)*
- Give specific examples of how conditions in 1933 affected your standard of living. *(My income declined, which meant that I was able to buy fewer goods and services, causing my standard of living to decline. For the group that had additional family members move in: Because there were more people having to live on less income, the standard of living fell.)*

## Lesson 3 | What Really Caused the Great Depression?

### Handout 3.1: Budget Scenarios—Answer Key

#### Teacher

You are a teacher in 1928 earning an **annual** after-tax income of \$2,300. You are not married. The table below shows what percent of your income you spent on various categories. Use the percentages indicated to determine the dollar amount spent on each category. Be certain that the total dollars spent equals \$2,300. After you have completed the 1928 column, read the card your group received for 1933 and complete the 1933 columns.

	1928		1933	
Budget Item	Budget Percent	Dollar Amount	Budget Percent	Dollar Amount
Food	30%	$\$2,300 \times .03 = \$690$	%	\$
Clothing	15%	$\$2,300 \times .15 = \$345$	%	\$
Housing	30%	$\$2,300 \times .30 = \$690$	$\$690/\$1,800 = 38\%$	$\$690^*$
Medical care	4%	$\$2,300 \times .04 = \$92$	%	\$
Transportation	10%	$\$2,300 \times .10 = \$230$	%	\$
Miscellaneous	6%	$\$2,300 \times .06 = \$138$	%	\$
Saving	5%	$\$2,300 \times .05 = \$115$	%	\$
<b>Total</b>	<b>100%</b>	<b>\$2,300</b>	<b>%</b>	<b>\$1,800</b>

\* Because mortgage payments are fixed, the dollar amount for housing cannot decrease. It becomes a larger percentage of the 1933 budget due to a decline in income.

Answers for the remaining cells in the 1933 columns will vary depending on student decisions.

After completing the 1933 columns, answer the following questions.

1. In general, what happened to your ability to buy goods and services in 1933 compared to 1928? (*My ability to buy goods and services decreased.*)
2. Which expenditures increased as a percentage of your income and which decreased as a percentage of your income? (*Answers should include—housing increased as a percent of my income. Other answers will depend on student choices.*)
3. Explain why you made the choices that you did about how to spend your income in 1933. (*Answers will vary depending on students' decisions.*)
4. Give specific examples of how conditions in 1933 affected your standard of living. (*My income declined, which meant that I was able to buy fewer goods and services, causing my standard of living to decline. For the group that had additional family members move in: Because there were more people having to live on less income, the standard of living fell.*)

## Handout 3.2: Budget Scenario Cards

### Construction Worker

In 1933, much less commercial and residential housing is being built. Prices for most goods and services have fallen by almost 29 percent. Nearly 25 percent of your co-workers have lost their jobs. Fortunately, you are still working, but you are working fewer hours and your hourly wage has decreased. As a result, your annual after-tax income for 1933 is \$2,200. You had some savings in a local bank, and you withdrew some of it and used it over the past year. However, banks in the community often must suspend operations, and it is difficult to withdraw any funds. Your housing expenses are fixed because you have a mortgage with a fixed interest rate. Decide how you will adjust your other expenditures.

### Construction Worker

In 1933, much less commercial and residential housing is being built. Prices for most goods and services have fallen by almost 29 percent. Nearly 25 percent of your co-workers have lost their jobs. Fortunately, you are still working, but you are working fewer hours and your hourly wage has decreased. As a result, your annual after-tax income for 1933 is \$2,200. You had some savings in a local bank, and you withdrew some of it and used it over the past year. However, banks in the community often must suspend operations, and it is difficult to withdraw any funds. Your brother-in-law has lost his job. He wasn't able to make his house payment, so he has lost his home. Your brother-in-law, your sister and their three children are moving in with you and your family. Your housing expenses are fixed because you have a mortgage with a fixed interest rate. Decide how you will adjust your other expenditures.

### Railroad Worker

In 1933, prices for most goods and services have fallen nearly 29 percent. Farmers, manufacturers and others who ship goods via the railroad are shipping fewer goods and services. People are traveling less by railroad. As a result, the railroads' revenues have decreased. Many railroad workers lost their jobs. Although you haven't lost your job, you are working fewer hours each week and your wages have declined. In 1933, your annual after-tax income was \$2,600. You had some savings in a local bank, and you withdrew some of it and used it over the past year. However, banks in the community often must suspend operations, and it is difficult to withdraw any funds. Your housing expenses are fixed because you have a mortgage with a fixed interest rate. Decide how you will adjust your other expenditures.

### Railroad Worker

In 1933, prices for most goods and services have fallen nearly 29 percent. Farmers, manufacturers and others who ship goods via the railroad are shipping fewer goods and services. People are traveling less by railroad. As a result, the railroads' revenues have decreased. Many railroad workers lost their jobs. Although you haven't lost your job, you are working fewer hours each week, and your wages have declined. In 1933, your annual after-tax income was \$2,600. You had some savings in a local bank, and you withdrew some of it and used it over the past year. However, banks in the community often must suspend operations, and it is difficult to withdraw any funds. Your brother, who also worked for the railroad in another state, lost his job. He was unable to make his mortgage payments, so he has lost his home. Your brother, his wife and their five children are coming to live with you and your family. Your housing expenses are fixed because you have a mortgage with a fixed interest rate. Decide how you will adjust your other expenditures.

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### **Farmer**

In 1933, farm prices have decreased, along with the prices for most goods and services, by nearly 29 percent. You aren't able to sell your crops, livestock and products for as much as you could in 1928. As a result, your income has decreased, and you earned only \$2,400 in 1933. Although you had a small amount of savings in a local bank, the bank suspended operations and you aren't able to withdraw any funds. Your housing expenses are fixed because you have a mortgage with a fixed interest rate, and the farm serves as collateral for loans you used to buy equipment. Decide how you will adjust your other expenditures.

### **Farmer**

In 1933, farm prices have decreased, along with the prices for most goods and services, by nearly 29 percent. You aren't able to sell your crops, livestock and products for as much as you could in 1928. As a result, your income has decreased and you earned only \$2,400 in 1933. You had some savings in a local bank, and you withdrew some of it and used it over the past year. However, banks in the community often must suspend operations and it is difficult to withdraw any funds. Your aunt and uncle who live in Oklahoma have lost their farm. They have nowhere else to go; so, they and their four children are coming to live with you. Your housing expenses are fixed because you have a mortgage with a fixed interest rate, and the farm serves as collateral for loans you used to buy equipment. Decide how you will adjust your other expenditures.

### **Teacher**

In 1933, many of those in the community who provide money to pay your salary have lost their jobs and their farms. Additionally, many have left the community in an attempt to find work elsewhere. The community has had reduced your salary. Prices have fallen nearly 29 percent since 1928. Your after-tax income is \$1,800. You had savings, and you were able to withdraw it in 1932 before the bank closed. However, you have had to use your savings to survive the past year, and there's none left. You have a small home with a fixed mortgage payment. Decide how you will adjust your other expenditures.

### **Teacher**

In 1933, many of those in the community who provide money to pay your salary have lost their jobs and their farms. As a result, the community isn't able to pay you as much. Additionally, many have left the community in an attempt to find work elsewhere. Prices have fallen nearly 29 percent since 1928. Your after-tax income is \$1,800. You had savings, and you were able to withdraw it in 1932 before the bank closed. However, you have had to use your savings to survive the past year, and there's none left. Your brother, who worked as a mechanic, lost his job. He and his family have nowhere to live. Your brother, his wife and three children are moving in with you. You have a small home with a fixed mortgage payment. Decide how you will adjust your other expenditures.

### **Handout 3.3: Overview Questions**

Based on your reading, answer the following questions.

1. What are some of the theories that have been advanced over the years regarding the cause of the Great Depression?
2. What were the negative impacts of the stock market crash?
3. What problems did the Smoot-Hawley Tariff of 1930 cause?
4. What does being on a gold standard mean?
5. What explanation regarding the cause of the Great Depression has stood the test of time?
6. What was the main reason why the money stock fell during the Great Depression?

**Handout 3.4: Banking Simulation Cards**

<p><b>First Community Banker</b> You own the First Community Bank. You accept deposits and make loans. You have \$1,000 in reserves.</p>	<p><b>Second Federal Banker</b> You own the Second Federal Bank. You accept deposits and make loans. You have \$700 in reserves.</p>
<p><b>Third State Banker</b> You own the Third State Bank. You accept deposits and make loans. You have \$1,200 in reserves.</p>	<p><b>Ralph Smith</b> You are a farmer with an account at First Community Bank. You also borrowed money from the bank to buy land so that you could plant more acres of wheat. Make a loan payment of \$100 to First Community Bank.</p>
<p><b>Andrew Johnston</b> You have an account at Third State Bank. You also borrowed money from the bank to open an automobile repair business. Deposit \$100 in your account at Third State Bank.</p>	<p><b>Sarah Anderson</b> You are a widow and live alone. You have an account at Second Federal Bank. You have your life savings in that account. Withdraw \$100 from your account to pay your bills for the month.</p>
<p><b>Alan Disharoon</b> You are a farmer with an account at Second Federal Bank. You also borrowed money from the bank to buy land so that you could plant more acres of wheat. You haven't been able to sell your crop at the prices you expected. You can't make your loan payment of \$100. Remain in your seat.</p>	<p><b>Marty Walsh</b> You are a mechanic at an automobile repair shop. You have an account at Second Federal Bank. Business has been slow. You were not able to work as many hours as usual this week. Withdraw \$150 from your account.</p>
<p><b>John Surial</b> Your son is graduating from high school. He is the first one in the family to graduate from high school. Withdraw \$200 from your account at Second Federal Bank to buy him a new suit, shirt, shoes, a hat and a horse for graduation.</p>	<p><b>James Fleming</b> You are a farmer with an account at Second Federal Bank. You need money to pay for supplies. Withdraw \$300 from your account.</p>



**Henry Walker**

You own a store selling hardware and tools. You have a business account at Second Federal Bank. Sales are down, but you need to pay your workers and pay for supplies that you purchased last month. Withdraw \$500 from your account.

**Mae Paulson**

Your son is graduating from high school. He is the first in your family to graduate from high school. You want to buy him a new suit, shirt, shoes and hat for graduation. Withdraw \$100 from your account at Second Federal Bank.

**Katherine Watson**

During the month, you buy grocery items for your family of 12 at the store and the store owner keeps track of what you charge to your account. At the end of the month, you must pay the bill. Withdraw \$200 from your account at Second Federal Bank.

**Robert Renz**

You have an account at Second Federal Bank. You also borrowed money from the bank to open a small construction business. Because of cold weather, business has been bad. With other setbacks, you aren't able to make your \$150 loan payment. Remain in your seat.

**James Hendrickson**

Six months ago, you borrowed money from First Community Bank to buy a car. It was a big expense, but you are a traveling salesman and the car enabled you to meet your sales goals. Make a loan payment of \$50 to the bank.

**Bonnie Evans**

During the month, you buy grocery items for your family of 10 at the store and the store owner keeps track of what you charge to your account. At the end of the month, you must pay the bill. Withdraw \$150 from your account at Third State Bank.

**Robert Vinton**

You work at a factory producing shoes. You have an account at First Community Bank. Deposit \$50 of this week's wages in your account at the bank.

**Sandra Davis**

You give piano lessons in your home. You have been saving money from the lessons at home. You now have \$50 to deposit in your account at Third State Bank.

**George Brown**

You own a shoe factory. You have a business account at First Community Bank. You need money to pay workers and to pay for materials that you ordered. Withdraw \$250 from your bank account.

**Marian Taylor**

You work at the library in town. You have an account at Third State Bank. Deposit \$50 from this month's earnings in your account.

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<p><b>Albert Smithton</b> You sell encyclopedias and other books door-to-door. You order the books from the publisher and must pay for the orders each month. Withdraw \$100 from your account at First Community Bank to make the payment.</p>	<p><b>Harold Hill</b> You own a cart that you take door-to-door to sharpen knives, scissors and other implements. You borrowed money from Third State Bank to buy some new equipment. Make a \$50 loan payment to the bank.</p>
<p><b>Judd Poor</b> You work for a local farmer. You have been saving part of your wages for the last two months. Go to the Third State Bank and deposit \$50 in your account.</p>	<p><b>Roger Williams</b> You own the local newspaper. You have to pay your paper supplier. Withdraw \$300 from your account at Second Federal Bank.</p>
<p><b>Bill Bailey</b> You work at the local newspaper operating a printing press. You have saved \$50 over the last three weeks. Deposit the money in your account at First Community Bank.</p>	<p><b>Ed Canter</b> You work for the railroad loading and unloading freight. You need new work clothes. Withdraw \$50 from your account at First Community Bank.</p>

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Handout 3.5: Currency Cards



**Handout 3.6: Book Spine Titles**

**Smoot-Hawley Tariff of 1930—Protectionist Policies**

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**Stock Market Crash of 1929**

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**Bank of the United States Fails**

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**Bank Panics and Suspensions**

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**Outflow of Gold from the U.S. Banking System**

## Handout 3.7: Assessment

The following is the script for an evening news broadcast. Unfortunately, the cue cards were dropped on the floor and are not in order. Put the following statements in the order in which the news broadcaster should report these events by numbering the cards, beginning with "1." If events could have happened at the same time, give them the same number. Two cards have already been numbered.

3 A local economist explained that the bank was a victim of economic conditions such as falling prices, rising unemployment and consumer uncertainty.

5 Many farmers in the community were unable to repay bank loans because crop prices in markets all over the world set another record low.

\_\_\_\_\_ Locally, conditions in the agriculture and manufacturing sectors support these explanations.

\_\_\_\_\_ When the bank opened its doors at 10 a.m. today, an unending line of customers were waiting to withdraw their money.

\_\_\_\_\_ The steel plant has laid off 20 percent of its workforce in the past three months, with plans to cut another 20 percent by year-end.

\_\_\_\_\_ An anonymous source reported that he and others were unable to withdraw their money from the bank.

\_\_\_\_\_ Again today, at close, the Dow was down another 2 percent.

\_\_\_\_\_ The last card is missing. Write a concluding statement for the broadcast.

