# THE GREAT DEPRESSION

1929 – 1939

A Curriculum for High School Students

Produced by the Federal Reserve Bank of St. Louis

CENTRAL to AMERICA'S ECONOMY™

## A Message from the Fed Chairman

I once told a colleague, "If you want to understand geology, study earthquakes. If you want to understand economics, study the biggest calamity to hit the U.S. and world economies." I'm a Great Depression buff the way some people are Civil War buffs—and it's because the issues raised by the Depression, and its lessons, are still relevant today.

The Great Depression was the worst economic disaster in U.S. history. Factories closed down, about a quarter of the workforce was unemployed (with many more finding only part-time work), stock prices plummeted and thousands of banks failed. The Depression involved every part of the country and every sector of our economy, and its impact was felt globally, as well. The extreme nature of the Depression motivates the study of macroeconomics by inviting students to compare the performance and structure of the economy "back then" with what they see around them today. In order to make those comparisons, students must tackle economic basics like GDP, inflation and deflation, and unemployment.

Although it was long ago, the Depression's influence is still very much with us. Certainly, the experience led the government to take a much broader role in stabilizing the economy and the financial system. Many of our most important government agencies and programs, from Social Security (to help the elderly and disabled) and federal deposit insurance (to eliminate banking panics) to the Securities and Exchange Commission (to regulate financial activities) were created in the 1930s—each a legacy of the Depression.

The Federal Reserve's response to this economic collapse has been extensively analyzed, and the Fed has learned lessons from that experience that have enabled it to more effectively respond to economic crises since that time. We hope this Great Depression curriculum package helps you teach your students about the history and causes of the Depression—and, most important, what we as a country learned from it.

Ben S. Bernanke

# The Great Depression: A Curriculum Overview

History holds many economic lessons. The Great Depression, in particular, is an event that provides the opportunity to teach and learn a great deal about economics—whether you're studying the economic reasons that the Depression took place, the factors that helped it come to an end or the impact on Americans who lived through it. This curriculum is designed to provide you with economic lessons that you can share with your students to help them understand this significant experience in U.S. history.

## Introductory Essay

The curriculum begins with an introductory essay, "The Great Depression: An Overview," written by David C. Wheelock, a research economist at the Federal Reserve Bank of St. Louis and an expert on the Great Depression. The essay is incorporated into many of the lessons, as students are asked to read and refer to various sections of the essay.

Following the essay, the curriculum includes six stand-alone lessons, allowing the teacher to pick and choose the lessons most appropriate for his or her students. Although each lesson is written to stand alone, the lessons are sequenced for instruction so that a teacher can use the entire unit.

## Lesson Format

Each lesson includes:

- a list of economic concepts taught in the lesson,
- the economics and history content standards and the social studies strands addressed in each lesson,
- learner objectives,
- estimated time required,
- a list of materials required,
- a detailed set of procedures,
- an assessment,
- blackline masters for visuals, and
- handouts for the teacher to copy and distribute.

## Lesson Content

**Lesson 1 – Measuring the Great Depression**

This lesson introduces tools—such as Gross Domestic Product (GDP), the unemployment rate and the Consumer Price Index (CPI)—that are used to measure the economy's health, through an analysis of simple bar charts and graphs. Developing an understanding of these concepts is critical to understanding the magnitude of the economic problems that took place during the Great Depression.

**Lesson 2 – What Do People Say?**

There are many suggested causes for the Great Depression. It is important for students to understand that occurrences such as the stock market crash—and other events that affected particular sectors of the economy—were important, but not significant enough to cause the Great Depression. By reading fictitious letters that reflect actual problems and people's concerns during the Great Depression, students begin to identify with the people of that era and to uncover the problems that people experienced during the Great Depression.

**Lesson 3 – What Really Caused the Great Depression?**
Through participation in two simulations, students determine that bank panics and a shrinking money supply were the primary causes of the Great Depression. Through an additional activity, they see how the many other factors they have discussed, such as problems in the agricultural sector and the stock market crash, exacerbated the situation.

**Lesson 4 – Dealing with the Great Depression**
Students learn about programs initiated through the New Deal. By comparing and categorizing New Deal programs, they recognize that the value of most of these programs was their effects on the confidence that U.S. citizens had in the economy. Students also identify the impact that these programs had on the role of the U.S. government in the economy.

**Lesson 5 – Turn Your Radio On**
Students use excerpts from Franklin Delano Roosevelt's "fireside chats" to identify his plans for restoring the economy. They determine that using available technology to communicate was important to FDR's effort to restore consumer confidence.

**Lesson 6 – Could It Happen Again?**
Students learn about the roles and functions of the Federal Reserve System. Through a simulation, they learn how the Fed manages the money supply through open market operations. They identify what central bankers have learned about implementing monetary policy as a result of the Great Depression. Furthermore, they recognize the steps the central bank has taken to respond effectively to financial crises since that time.

## National Standards Correlation
Each lesson in the Great Depression curriculum is correlated with the National Standards in Economics, the National Standards for History, and the National Council for the Social Studies Strands, and these standards and strands are listed in the front section of each lesson. In addition, correlation grids can be found on pages 5, 8 and 9 of this curriculum overview.

## Glossary of Terms
The glossary of terms includes an alphabetical list of economic terms used in the lessons, a definition of each term and a reference to the lesson(s) in which the term is used.

## Appendix
The appendix of the curriculum includes:

- a multiple choice pre- and post-test,
- an evaluation form,
- a reference list, and
- a list of resources such as newsreels, photos, books and web sites.

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# Lesson Correlations with the National Standards in Economics, the National Standards for History and the National Council for the Social Studies Strands

## National Standards in Economics

| National Voluntary Content Standards in Economics | | | | | |
|---|---|---|---|---|---|
| | 10 | 11 | 18 | 19 | 20 |
| Lesson 1 | | | X | X | |
| Lesson 2 | X | X | | | |
| Lesson 3 | X | X | X | | |
| Lesson 4 | | | X | X | X |
| Lesson 5 | X | X | | X | X |
| Lesson 6 | | X | | X | X |

### Lesson 1

**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 1, Grade 8: Gross Domestic Product (GDP) is a basic measure of a nation's economic output and income. It is the total market value, measured in dollars, of all final goods and services produced in the economy in a year.

**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 12: The unemployment rate is the percentage of the labor force that is willing and able to work, does not currently have a job, and is actively looking for work.
- Benchmark 6, Grade 12: The consumer price index (CPI) is the most commonly used measure of price-level changes. It can be used to compare the price level in one year with price levels of earlier or later periods.
- Benchmark 8, Grade 12: The costs of inflation are different for different groups of people. Unexpected inflation hurts savers and people on fixed incomes; it helps people who have borrowed money at a fixed rate of interest.
- Benchmark 9, Grade 12: Inflation imposes costs on people beyond its effects on wealth distribution because people devote resources to protect themselves from expected inflation.

### Lesson 2

**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.

- Benchmark 2, Grade 12: In many economies, when banks make loans, the money supply increases; when loans are paid off, the money supply decreases.

## Lesson 3

**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.

- 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 causes an increase in most prices; deflation causes a decrease in most prices.

## Lesson 4

**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 1, Grade 8: Gross Domestic Product (GDP) is a basic measure of a nation's economic output and income. It is the total market value, measured in dollars, of all final goods and services produced in the economy in one year.
- Benchmark 3, Grade 12: One person's spending is other people's income. Consequently, an initial change in spending (consumption, investment, government or net exports) usually results in a larger change in national levels of income, spending and output.

**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 2, Grade 8: The labor force consists of people ages 16 and over who are employed or actively seeking work.
- Benchmark 1, Grade 12: The unemployment rate is the percentage of the labor force that is willing and able to work, does not currently have a job and is actively looking for employment.

**Standard 20:** Federal government budgetary policy and the Federal Reserve System's monetary policy influence the overall levels of employment, output and prices.

- Benchmark 1, Grade 12: Fiscal policies are decisions by the federal government to change spending and tax levels. These decisions are adopted to influence national levels of output, employment and prices.
- Benchmark 2, Grade 12: In the short run, increasing federal spending and/or reducing taxes can promote more employment and output, but these policies also put upward pressure on the price level and interest rates. Decreased federal spending and/or increased taxes tend to lower price levels and interest rates over the long term, but they reduce employment and output levels in the short run.

## Lesson 5

**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.

- Benchmark 1, Grade 12: The basic money supply in the United States consists of currency, coins and checking account deposits.

**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 2, Grade 8: The labor force consists of people ages 16 and over who are employed or actively seeking work.
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## Lesson 6

**Standard 11:** Money makes it easier to trade, borrow, save, invest and compare the value of goods and services.

- 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 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 decease in most prices.
- Benchmark 3, Grade 8: Inflation reduces the value of money.
- Benchmark 7, Grade 12: The costs of inflation are different for different groups of people. Unexpected inflation hurts savers and people on fixed incomes; it helps people who have borrowed money at a fixed rate of interest.

**Standard 20:** Federal government budgetary policy and the Federal Reserve System's monetary policy influence the overall levels of employment, output, and prices.

- Benchmark 8, Grade 12: Monetary policies are decisions by the Federal Reserve System that lead to changes in the supply of money and the availability of credit. Changes in the money supply can influence overall levels of spending, employment and prices in the economy by inducing changes in interest rates charged for credit and by affecting the levels of personal and business investment spending.
- Benchmark 9, Grade 12: The major monetary policy tool that the Federal Reserve System uses in open market purchases or sales of government securities. Other policy tools used by the Federal Reserve System include increasing or decreasing the discount rate charged on loans it makes to commercial banks and raising or lowering reserve requirements for commercial banks.

# National Standards for History

| Era 8 | | | |
|---|---|---|---|
| | Standard 1 | Standard 1A | Standard 2 |
| Lesson 1 | X | X | |
| Lesson 2 | X | | |
| Lesson 3 | X | X | |
| Lesson 4 | | | X |
| Lesson 5 | | | X |
| Lesson 6 | X | X | |

### Lesson 1
**Era 8, Standard 1:** The causes of the Great Depression and how it affected American society.

**Era 8, Standard 1A:** The causes of the crash of 1929 and the Great Depression.

### Lesson 2
**Era 8, Standard 1:** The causes of the Great Depression and how it affected American society.

### Lesson 3
**Era 8, Standard 1:** The causes of the Great Depression and how it affected American society.

**Era 8, Standard 1A:** The causes of the crash of 1929 and the Great Depression.

### Lesson 4
**Era 8, Standard 2:** How the New Deal addressed the Great Depression.

### Lesson 5
**Era 8, Standard 2:** How the New Deal addressed the Great Depression.

### Lesson 6
**Era 8, Standard 1:** The causes of the Great Depression and how it affected American society.

**Era 8, Standard 1A:** The causes of the crash of 1929 and the Great Depression.

## National Council for the Social Studies Strands

| Lessons | Time, Continuity and Change | Power, Authority and Governance | Production, Distribution and Consumption | Science, Technology and Society | Civic Ideals and Practices |
|---|---|---|---|---|---|
| Lesson 1 | X | | X | | |
| Lesson 2 | X | | X | | |
| Lesson 3 | X | X | X | | |
| Lesson 4 | X | X | X | | X |
| Lesson 5 | X | X | X | X | X |
| Lesson 6 | X | X | X | | |

# The Great Depression: An Overview *by David C. Wheelock*

Why should students learn about the Great Depression? Our grandparents and great-grandparents lived through these tough times, but you may think that you should focus on more recent episodes in American life. In this essay, I hope to convince you that the Great Depression is worthy of your interest and deserves attention in economics, social studies and history courses.

One reason to study the Great Depression is that it was by far the worst economic catastrophe of the 20th century and, perhaps, the worst in our nation's history. Between 1929 and 1933, the quantity of goods and services produced in the United States fell by one-third, the unemployment rate soared to 25 percent of the labor force, the stock market lost 80 percent of its value and some 7,000 banks failed.

At the store, the price of chicken fell from 38 cents a pound to 12 cents, the price of eggs dropped from 50 cents a dozen to just over 13 cents, and the price of gasoline fell from 10 cents a gallon to less than a nickel. Still, many families went hungry, and few could afford to own a car.

Another reason to study the Great Depression is that the sheer magnitude of the economic collapse—and the fact that it involved every aspect of our economy and every region of our country—makes this event a great vehicle for teaching important economic concepts. You can learn about inflation and deflation, Gross Domestic Product (GDP), and unemployment by comparing the Depression with more recent experiences. Further, the Great Depression shows the important roles that money, banks and the stock market play in our economy.

A third reason to study the Great Depression is that it dramatically changed the role of government, especially the federal government, in our nation's economy. Before the Great Depression, federal government spending accounted for less than 3 percent of GDP. By 1939, federal outlays exceeded 10 percent of GDP.[1] (At present, federal spending accounts for about 20 percent of GDP.) The Great Depression also brought us the Federal Deposit Insurance Corp. (FDIC), regulation of securities markets, the birth of the Social Security System and the first national minimum wage.

## What Caused the Great Depression?

Economists continue to study the Great Depression because they still disagree on what caused it. Many theories have been advanced over the years, but there remains no single, universally agreed-upon explanation as to why the Depression happened or why the economy eventually recovered.

The 1929 stock market crash often comes to mind first when people think about the Great Depression. The crash destroyed considerable wealth. Perhaps even more important, the crash sparked doubts about the health of the economy, which led consumers and firms to pull back on their spending, especially on big-ticket items like cars and appliances. However, as big as it was, the stock market crash alone did not cause the Great Depression.

Some economists point a finger at protectionist trade policies and the collapse of international trade. The Smoot-Hawley tariff of 1930 dramatically increased the cost of imported goods and led to retaliatory actions by the United States' major trading partners. The Great Depression was a worldwide phenomenon, and the collapse of international trade was even greater than the collapse of world output of goods and services. Still, like the stock market crash, protectionist trade policies alone did not cause the Great Depression.

Other experts offer different explanations for the Great Depression. Some historians have called the Depression an inevitable failure of capitalism. Others blame the Depression on the "excesses" of the 1920s: excessive production of commodities, excessive building, excessive financial speculation or an excessively skewed

distribution of income and wealth. None of these explanations has held up very well over time.
One explanation that *has* stood the test of time focuses on the collapse of the U.S. banking system and resulting contraction of the nation's money stock. Economists Milton Friedman and Anna Schwartz make a strong case that a falling money stock caused the sharp decline in output and prices in the economy.[2]

As the money stock fell, spending on goods and services declined, which in turn caused firms to cut prices and output and to lay off workers. The resulting decline in incomes made it harder for borrowers to repay loans. Defaults and bankruptcies soared, creating a vicious spiral in which more banks failed, the money stock contracted further, and output, prices and employment continued to decline.[3]

## Money, Banking and Deflation

Money makes the economy function. Money evolved thousands of years ago because barter—the direct trading of goods or services for other goods or services—simply didn't work. A modern economy could not function without money, and economies tend to break down when the quantity or value of money changes suddenly or dramatically. Print too much money, and its value declines—that is, prices rise (inflation). Shrink the money stock, on the other hand, and the value of money rises—that is, prices fall (deflation).

In modern economies, bank deposits—not coins or currency—comprise the lion's share of the money stock. Bank deposits are created when banks make loans, and deposits contract when customers repay loans. The amount of loans that banks can make, and hence the quantity of deposits that are created, is determined partly by regulations on the amount of reserves that banks must hold against their deposits and partly by the business judgment of bankers.

In the United States, bank reserves consist of the cash that banks hold in their vaults and the deposits they keep at Federal Reserve banks. Reserves earn little or no interest, so banks don't like to hold too much of them. On the other hand, if banks hold too few reserves, they risk getting caught short in the event of unexpected deposit withdrawals.

In the 1930s, the United States was on the gold standard, meaning that the U.S. government would exchange dollars for gold at a fixed price. Commercial banks, as well as Federal Reserve banks, held a portion of their reserves in the form of gold coin and bullion, as required by law.

An increase in gold reserves, which might come from domestic mining or inflows of gold from abroad, would enable banks to increase their lending and, as a result, would tend to inflate the money stock. A decrease in reserves, on the other hand, would tend to contract the money stock. For example, large withdrawals of cash or gold from banks could reduce bank reserves to the point that banks would have to contract their outstanding loans, which would further reduce deposits and shrink the money stock.

The money stock fell during the Great Depression primarily because of banking panics. Banking systems rely on the confidence of depositors that they will be able to access their funds in banks whenever they need them. If that confidence is shaken—perhaps by the failure of an important bank or large commercial firm—people will rush to withdraw their deposits to avoid losing their funds if their own bank fails.

Because banks hold only a fraction of the value of their customers' deposits in the form of reserves, a sudden, unexpected attempt to convert deposits into cash can leave banks short of reserves. Ordinarily, banks can borrow extra reserves from other banks or from the Federal Reserve. However, borrowing from other banks becomes extremely expensive or even impossible when depositors make demands on all banks. During the Great Depression, many banks could not or would not borrow from the Federal Reserve because they either lacked acceptable collateral or did not belong to the Federal Reserve System.[4]

Starting in 1930, a series of banking panics rocked the U.S. financial system. As depositors pulled funds out of banks, banks lost reserves and had to contract their loans and deposits, which reduced the nation's money stock. The monetary contraction, as well as the financial chaos associated with the failure of large numbers of banks, caused the economy to collapse.

Less money and increased borrowing costs reduced spending on goods and services, which caused firms to cut back on production, cut prices and lay off workers. Falling prices and incomes, in turn, led to even more economic distress. Deflation increased the real burden of debt and left many firms and households with too little income to repay their loans. Bankruptcies and defaults increased, which caused thousands of banks to fail. In each year from 1930 to 1933, more than 1,000 U.S. banks closed.

Banking panics are pretty much a thing of the past, thanks to federal deposit insurance. Widespread failures of banks and savings institutions during the 1980s did not cause depositors to panic, which limited withdrawals from the banking system and prevented serious reverberations throughout the economy.

## Recovery

The monetary hemorrhage experienced during the Great Depression finally ended when President Franklin D. Roosevelt declared a national bank holiday just one day after he took office in March 1933. Roosevelt ordered all banks closed, including the Federal Reserve banks. He permitted them to reopen only after each bank received a government license. Meanwhile, the federal government set up a temporary system of federal deposit insurance and followed up a year later by creating the Federal Deposit Insurance Corporation (FDIC) and a permanent deposit insurance system.

Roosevelt's policies restored confidence in the banking system, and money poured back into the banks. The money stock began to expand, which fueled increased spending and production as well as rising prices. Economic recovery was slow, but at least the bottom had been reached and the corner turned.

History books often credit Roosevelt's New Deal for leading the economic recovery from the Great Depression. Under the New Deal, the government put in place many programs of relief and recovery that employed thousands of people and made direct cash grants or loans to individuals, firms and local governments. However, at least in the first few years of the New Deal, federal government spending did not increase substantially.

Furthermore, some aspects of the New Deal may even have hampered recovery. For example, some economists believe that the National Recovery Act (NRA) may have slowed the recovery by encouraging the formation of industrial cartels, which limited competition and may have discouraged employment. Others note that some New Deal agricultural programs perversely discouraged production and reduced the demand for farm labor. Still, by restoring confidence in the financial system and in the U.S. economy as a whole, Roosevelt's policies undoubtedly did much to spark the economic recovery.

## Could It Happen Again?

That's the big question. As economists have learned more and more about the importance of monetary and banking forces in both the contraction and recovery phases of the Great Depression, they have recognized the importance of sound macroeconomic policies in ensuring a strong economy. The Great Depression was not a failure of capitalism or of markets, but rather a result of misguided government policies—specifically, the Federal Reserve allowing the money stock to collapse as panics engulfed the banking system. If the Fed had stepped up to the plate and ensured that banks had ample reserves to meet their customers' withdrawal demands, the money stock would not have declined, and the economy probably would not have sharply contracted.

Although the Fed could not by law directly lend to banks that did not belong to the Federal Reserve

System, the Fed could have purchased securities in the open market and flooded the banking system with reserves. Since the Great Depression, the Federal Reserve has responded faster to shocks that have threatened the banking and payments system.

The Great Depression also demonstrated the importance of price stability. Deflation was an important cause of falling incomes and financial distress, as households and firms found it increasingly difficult to repay debts. Because debt contracts almost always specify repayment of a fixed-dollar sum, deflation increases the real cost of a given nominal debt.

Thus, deflation often leads to increases in loan defaults and bankruptcies, which in turn raise the number of bank failures and produces further declines in income, output and employment. Price stability is now widely accepted as the paramount goal for monetary policy because fluctuations in the price level—whether deflation or inflation—can cause financial instability and hinder economic growth.

It is unlikely that doctors will ever find a cure for the common cold. Similarly, it is unlikely that economists will ever find a remedy for the negative effects of the business cycle. From time to time, shocks will hit the economy and will cause output and employment to fluctuate. However, the Great Depression has taught us that sound economic policies will help ensure that ordinary fluctuations in output and employment do not grow into major economic catastrophes.

*David C. Wheelock is an assistant vice president and economist at the Federal Reserve Bank of St. Louis.*

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[1] In 1929, federal outlays totaled $3.1 billion *(Economic Report of the President)*; GDP totaled $108.1 billion (Gordon, *Macroeconomics*).

[2] Milton Friedman and Anna J. Schwartz. *A Monetary History of the United States, 1867-1960*. Princeton: Princeton University Press, 1963.

[3] Federal Reserve Chairman Ben Bernanke wrote an important article showing that banking panics contributed to the nation's economic collapse not only by reducing the money stock, but also by increasing the costs of borrowing and lending. Ben S. Bernanke. "Nonmonetary Effects of the Financial Crisis in Propagation of the Great Depression," *American Economic Review*, June 1983, v. 73, iss. 3, pp. 257-76.

[4] Before 1980, only banks that were members of the Federal Reserve System could borrow directly from Federal Reserve banks.

## Lesson Description

In this lesson, students learn about data used to measure an economy's health—inflation/deflation measured by the Consumer Price Index (CPI), output measured by Gross Domestic Product (GDP) and unemployment measured by the unemployment rate. Students analyze graphs of these data, which provide snapshots of the economy during the Great Depression. These graphs help students develop an understanding of the condition of the economy, which is critical to understanding the Great Depression.

## Concepts

Consumer Price Index
Deflation
Depression
Inflation
Nominal Gross Domestic Product
Real Gross Domestic Product
Unemployment rate

## Objectives

Students will:

- Define inflation and deflation, and explain the economic effects of each.
- Define Consumer Price Index (CPI).
- Define Gross Domestic Product (GDP).
- Explain the difference between Nominal Gross Domestic Product and Real Gross Domestic Product.
- Interpret and analyze graphs and charts that depict economic data during the Great Depression.

## 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 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 1, Grade 8: Gross Domestic Product (GDP) is a basic measure of a nation's economic output and income. It is the total market value, measured in dollars, of all final goods and services produced in the economy in a year.

- **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 12: The unemployment rate is the percentage of the labor force that is willing and able to work, does not currently have a job, and is actively looking for work.
  - Benchmark 6, Grade 12: The consumer price index (CPI) is the most commonly used measure of price-level changes. It can be used to compare the price level in one year with price levels of earlier or later periods.
  - Benchmark 8, Grade 12: The costs of inflation are different for different groups of people. Unexpected inflation hurts savers and people on fixed incomes; it helps people who have borrowed money at a fixed rate of interest.
  - Benchmark 9, Grade 12: Inflation imposes costs on people beyond its effects on wealth distribution because people devote resources to protect themselves from expected inflation.

### National Council for the Social Studies Strands

- Time, continuity and change
- Production, distribution and consumption

## Time Required

120 minutes

## Materials

- Seven sets of colored markers
- Seven pieces of flip-chart paper
- Masking tape
- Chalkboard
- A copy of Handouts 1.1, 1.3, 1.4, 1.5, 1.6 and 1.7 for each student
- A copy of Handout 1.2, cut apart
- Visuals 1.1, 1.2, 1.3, 1.4, 1.5, 1.6 and 1.7
- A copy of Visuals 1.2, 1.3, 1.5 and 1.6 for each student
- A copy of *The Great Depression: An Overview* from the introduction section of this unit for each student

## Procedures

1. Write **depression** on the chalkboard and have students brainstorm synonyms. *(despair, sadness, gloominess and misery)* Write "great" on the chalkboard and have the students brainstorm synonyms. *(huge, immense, enormous, vast and grand)* Write "Great Depression" on the board, and ask students to draw conclusions about the meaning of the two words together. Tell the students that the class is beginning a unit on the Great Depression.

2. Distribute a copy of the *Great Depression: An Overview* and tell students to read the first five paragraphs. Ask students, based on their reading, why people should study the Great Depression. *(It was the worst economic catastrophe of the 20th century. The collapse involved every aspect of the economy and every region of the country. It dramatically changed the role of government, particularly the federal government.)*

3. Distribute a copy of *Handout 1.1: Notes for Measuring the Great Depression* to each student and display *Visual 1.1: Economic Definitions*. Tell the students that these terms will be introduced as they study the Great Depression. Review the definitions with the students and have the students fill out the term and definition columns using the information on the visual. Explain that the students will be completing the examples and notes columns throughout this lesson.

4. Divide the students into seven groups. Provide each group with a piece of flip-chart paper, multiple colored markers and masking tape. Ask each group to select a reporter. Assign each group a definition from Handout 1.1. Have the students draw the definition on the paper by using symbols or images of the words. Tell them they have five minutes to complete the task. When the groups have finished, have the group reporters (with the help of the other group members) explain their drawings to the class. When all groups have finished, discuss the process of illustrating the definitions. Talk about the difficulty of translating these words and concepts into images.

5. Point out that economists express these important economic concepts in numbers (i.e., data) and transfer these numbers into a type of picture (e.g., graphs and charts). Tell the students that each graph paints a picture in time, and each graph has limitations.

6. Refer to Visual 1.1. Remind the students that they should use Handout 1.1 to take notes. Explain inflation and deflation as follows:

   - **Inflation** is defined as a general upward movement in the price of goods and services in an economy.
   - Prices of individual goods and services rise (and fall) at different rates. Inflation and deflation measure the average or general tendency of price changes. The prices of some things may fall during periods of inflation (e.g., computers in the 1980s) even though the prices of the majority of goods and services are rising.
   - Ask the students if they have ever heard their parents or grandparents mention concern about inflation. *(Answers will vary.)* Point out that although the U.S. economy has not experienced a significant period of high inflation during students' lifetimes, their parents or

grandparents may be concerned about inflation because they lived through a time when the economy was experiencing high inflation during the 1970s.

- During a period of inflation, if prices increase at a faster rate than people's salaries or wages, people aren't able to buy as many goods and services.
- **Deflation** is a general downward movement in the prices of goods and services in an economy.
- Point out that there have also been periods when the U.S. economy experienced deflation. Although falling prices may seem appealing because people could buy more goods and services with their incomes than they could before, there are reasons to be concerned about deflation.
- Deflation is often accompanied by falling wages and increasing unemployment. Also, during periods of deflation, debtors have to repay their loans with dollars that are more valuable (i.e., dollars that have greater purchasing power). So, in essence, debtors have borrowed cheap dollars and are repaying with dollars that will buy more. In addition, consumers and producers who are in debt may suffer; as their incomes drop, their loan payments remain the same.

7. Display *Visual 1.2: Effects of Deflation and Inflation Venn Diagram* and give each student a copy of Visual 1.2. Distribute numbered strips from *Handout 1.2: Effects of Deflation and Inflation Statements*. Call on individual students by number to read their statements. As a class, decide where to place the information on the Venn diagram.

8. Have a student read the first strip. Ask the class where class members think this information belongs in the Venn diagram. *(deflation circle)* Discuss the statement and write a summary such as "increases purchasing power of the dollar" in the deflation circle of the diagram. Instruct students to do the same. *(Answers in the deflation circle of Visual 1.3 may include increases purchasing power of a dollar; can cause people to postpone spending; may cause firms to lay off workers, causing unemployment to rise; or may cause wages to fall. Answers in the inflation circle may include decreases purchasing power of a dollar, discourages saving, reduces the value of savings or may cause people to spend rather than hold cash in order to buy before prices go up.)*

9. Ask students to work in pairs and fill in the area of the Venn diagram where the two circles overlap with characteristics that deflation and inflation share. Call on students to provide answers for the intersection area. Fill in the Venn diagram on the visual when valid answers are given. *(Answers may include price level changes, price instability, difficult to make financial decisions for future spending, affects spending behavior, and creates winners and losers.)* Instruct students to keep the Venn diagram handout for future reference.

10. Remind the students that inflation is defined as a general upward movement in the prices of goods and services in an economy, and deflation is a general downward movement in the prices of goods and services in an economy. Tell students that changes in the price of a single good or service or even a few goods and services do not indicate that the economy is experiencing deflation or inflation. Milton Friedman, Nobel Laureate economist, stated, "The high price of cars doesn't cause inflation any more than a drop in the price of hand calculators causes deflation."

11. Explain that because price stability is important to a healthy economy, price levels for the U.S. economy are measured, and there are several measures. One measure of price level changes with which students may be most familiar is the **Consumer Price Index**, or CPI. This is a statistic that is reported monthly and indicates annual percentage changes in price levels. Ask the students to read the definition of the Consumer Price Index (CPI) from Visual 1.1.

12. Explain that the CPI measures changes in the price levels as experienced by consumers in their day-to-day purchases and is used by economists to analyze the cost of living. It is a way to compare consumers' purchasing power during different time periods. It also allows people to measure inflation or deflation year-to-year or during different historical periods.

13. Display *Visual 1.3: Year-Over-Year Percentage Change in Consumer Price Index* and distribute a copy of the visual to each student. Discuss the following:
    - What information is located on the horizontal or X-axis of both graphs? *(years by decade)*
    - What information is located on the vertical or Y-axis of both graphs? *(rate of inflation—i.e., the percentage change in annual price levels)*
    - What does 0 percent on the vertical axis mean? *(that there is no inflation or deflation—no change in price level from the previous year)*
    - When the bar is above 0 percent, is the economy experiencing inflation or deflation? *(inflation)*
    - When the bar is below 0 percent, is the economy experiencing inflation or deflation? *(deflation)*
    - Compare the decade 1929-1939 with 1989-1999. How would you describe each decade? *(1929-1939 appears to have volatile price level swings, which include years of inflation and years of deflation. 1989-1999 appears to have a high degree of price stability with low and stable inflation.)*
    - Refer to the second graph. During the period 1929-1940, in which years did the price level rise relative to the previous year and during which years did the price level fall relative to the previous year? *(rising: 1933, 1934, 1935, 1937, 1939 and 1940; falling: 1930, 1931, 1932, 1936 and 1938)*

14. Display *Visual 1.1: Economic Definitions*, and remind the students to use Handout 1.1 to take notes. Define Gross Domestic Product (GDP) as the market value of all final goods and services produced in an economy in a given year. Discuss the following:
    - Economists use GDP data to measure the growth of the economy by comparing the change in GDP from one year to the next.
    - The U.S. economy has grown on average about 3.0 percent to 3.5 percent annually.
    - "Market value" refers to the value of goods and services in current prices.
    - Only final goods and services are counted. "Final goods and services" are those not used in the production of other goods and services. "Intermediate goods" are those produced and used in the production of another product.
    - For example, tires produced and used by a car manufacturer to assemble new cars are

intermediate goods. Only the car is counted as part of GDP. The tires are not counted.

- Tires purchased by consumers to replace the tires on the cars they currently own are counted as part of GDP.
- Only goods produced during the current year are counted as part of GDP for that year.
- Only goods produced within a country's borders are counted as part of GDP.
- When GDP is computed using current prices, inflation makes it difficult to determine how much the change in GDP from one year to the next is due to inflation and how much is the result of an increase in production of goods and services.
- GDP that has not been adjusted for inflation is referred to as **nominal GDP**.
- If prices have risen and GDP is calculated based on current prices, the change in the size of GDP could be due to the increased prices. To measure growth from year to year, economists adjust nominal GDP for inflation. To do this, they compute GDP in terms of the dollar prices of a base year. This resulting statistic is known as **real GDP**.
- Because real GDP is adjusted for inflation, a change in real GDP reflects an actual change in production and not a change in prices.

15. Distribute a copy of *Handout 1.3: Nominal vs. Real GDP* to each student. Have students work through the handout in pairs. Display *Visual 1.4: Nominal vs. Real GDP—Answer Key*. Review the answers in class.

16. Display *Visual 1.5: Real Gross Domestic Product* and distribute a copy of the visual to each student. Explain that this is an example of real GDP data displayed pictorially as a line graph. Discuss the following:

    - What information in shown on the X-axes of both graphs? On the Y-axes of both graphs? *(years by decades; log of real GDP)*

*Note to the teacher: The numbers on the Y- axes are the natural logarithms of the level of GDP in year 2000 prices. It is common to use logs on graphs because, with the use of logs, a given vertical distance reflects a specific rate of change in GDP regardless of the specific level (amount) of GDP. If logarithms are not used, then recent changes in GDP would appear much larger in proportion to changes in earlier years because the GDP amounts are so much larger now than they were in the past. The use of logs allows for the comparison of growth rates and makes it easier to visualize the difference between recent experiences and those of the 1930s.*

- What does the trend (dotted) line on the graph indicate? *(that the U.S. economy has grown over time—it produced more goods and services over time—or the market value of all final goods and services produced in the country has historically been rising)*
- What period in history is most noticeably below trend in GDP? *(between 1930 and 1940)*
- What does this suggest happened during that time? *(Answers will vary. Some students may suggest that it indicates a very bad recession or a depression, that there was a high level of unemployment or that the economy wasn't producing as many goods and services as in other periods.)*

17. Tell students to look at the second graph on the page. Point out that this is a bar graph which shows GDP growth from 1928 through 1940, which are the years for which GDP was most below trend on the first graph. Explain that during all of these years, GDP growth was below trend. Ask the students during what years GDP growth was the lowest. *(1932, 1933 and 1934)*

18. Display *Visual 1.6: Civilian Unemployment Rate* and distribute a copy of the visual to each student. Remind students to use Handout 1.1 to take notes and discuss the following:

    - This graph shows the civilian unemployment rates from 1919-2006. The **unemployment rate** represents the number of unemployed as a percentage of the labor force, and an annual unemployment rate is reported monthly by the Department of Labor's Bureau of Labor Statistics.
    - Civilian, noninstitutional persons 16 years of age or older are classified as unemployed if they do not have jobs, have actively looked for work in the prior four weeks and are currently available for work.
    - Through a monthly survey, the government collects statistics on the unemployed to determine the extent and nature of unemployment. After these statistics are obtained, they have to be interpreted properly so they can be used—together with other economic data—by policymakers to make decisions as to whether measures should be taken to influence the future course of the economy or to aid those affected by joblessness.

19. Discuss the graph as follows:

    - What information is shown on the X and Y axes of both graphs? *(X—year, and Y—percent of unemployment)*
    - During what years did the economy experience the lowest rates of unemployment? *(1943-1945)*
    - What events were occurring from 1943 to 1945? *(World War II)*
    - Why would unemployment be lowest at this time? *(With so many men in the armed forces and so many workers required to produce war goods, few people were unemployed.)*
    - During what year did the economy experience the highest rate of unemployment? *(1933)*
    - What was the rate? *(25 percent)*

20. Tell the students to refer to Handout 1.1 as they review all of the data from this lesson. Display Visual 1.3 and refer students to their copies of the CPI graphs. Discuss the following:

    - What happened to the CPI between 1929 and 1939? *(The CPI fell by as much as 10 percent, rose slightly and then fell again.)*
    - Does this mean that the economy on average was experiencing inflation or deflation? *(deflation)*

21. Display Visual 1.5 again and refer students to their copies of the real GDP graphs. Ask the students what happened to real GDP between 1929 and 1939. *(It fell and didn't return to its pre-1929 amount until after 1939.)*

22. Display Visual 1.6 again and refer students to their copies of the unemployment rate graphs. Discuss the following:

    - What happened to unemployment between 1929 and 1933? *(It rose significantly, reaching nearly 25 percent in 1933.)*
    - When did the unemployment rate return to its pre-1929 value? *(sometime after 1940)*

23. Define **depression** as a period of severely declining economic activity spread across the economy (not limited to particular sectors or regions) normally visible in a decline in real GDP, real income, employment, industrial production, wholesale-retail credit and the loss of overall confidence in the economy. Point out that the data the students just reviewed illustrates how "great" the Great Depression was. A 25 percent unemployment rate means that one out of every four people was unemployed. Falling prices might seem like a good thing, but falling prices lead to reductions in incomes and contribute to rising unemployment. Declining GDP means that not as many goods and services are being produced. Indeed, the Great Depression was the most significant economic catastrophe in U.S. history.

24. Explain that the remaining lessons in the unit will provide opportunities for students to learn about the causes of the Great Depression and the recovery from it, as well as consider whether such a significant event could happen again.

## Closure

25. Ask the students why, after all this time, people still study the Great Depression. *(It was the worst economic catastrophe of the 20th century. The collapse involved every aspect of the economy and every region of the country. The Great Depression dramatically changed the role of government in the economy, particularly the federal government.)*

26. Review the important economic content of the lesson by asking the following questions:

    - What is inflation? *(Inflation can be defined as a general upward price movement of goods and services in an economy. An increase in the price of one good, such as oil, does not constitute inflation; inflation occurs when an economy experiences a sustained increase in price levels. Equivalently, inflation is a period of continuously falling value of money, i.e. falling purchasing power.)*
    - What is deflation? *(Deflation can be defined as a general downward price movement of goods and services in an economy. A decrease in the price of one good, such as calculators, does not constitute deflation; deflation occurs when an economy experiences a sustained decrease in price levels. Equivalently, deflation is a period of continuously rising value of money.)*
    - What is the CPI? *(The Consumer Price Index, or CPI, is a measure of the average change*

*over time in the prices paid by urban consumers for a market basket of consumer goods and services.)*

- What was happening to the price level during the Great Depression? *(It fell by roughly one-third, in excess of 10 percent per year.)*
- What is the unemployment rate? *(the percentage of the labor force who are unemployed)*
- What was happening to unemployment during the Great Depression? (*Unemployment rose, reaching 25 percent of the labor force.)*
- What is Gross Domestic Product? *(the market value of all final goods and services produced in an economy in a year)*
- What was happening to GDP during the Great Depression? *(fell 29 percent from 1929 to 1933)*

27. Distribute a copy of *Handout 1.4: Multiple Matching*. Have the students complete the exercise following the instructions on the handout. Some phrases may have multiple answers. Remind the students they are looking for the most appropriate answers.

28. Display *Visual 1.7: Multiple Matching Answer Key* and allow students to correct their answers.

## Assessment

29. Distribute a copy of *Handout 1.5: Political Cartoon*. Tell students to answer the questions that follow.

    *Answers:*

    - *Uncle Sam—United States; FDR—Franklin Delano Roosevelt; Air pump—inflation*
    - *FDR's efforts to raise prices or inflate prices because of declining price levels*

30. Distribute a copy of *Handout 1.6: What is in the Chairman's Briefcase?* Instruct students to respond to the question, using appropriate terminology for the names of the graphs.

    *Answers:*

    - *Students would choose the three graphs discussed in this unit—CPI, real GDP and unemployment rate.*
    - *CPI indicates that the economy is experiencing deflation in 1933.*
    - *The real GDP indicates that the output of goods and services is shrinking.*
    - *The unemployment rate indicates that unemployment is increasing significantly.*
    - *These three graphs would be chosen because they give an overview of three of the most important aspects of the economy—price levels, output and unemployment.*

31. Distribute a copy of *Handout 1.7: Glad You Asked Assessment Activity*. Tell students to read the community letters and John's responses. Instruct students to match each of John's responses with the corresponding letter by writing the letter's number on the blank line next to each of John's responses. Next, they should decide whether John's response is accurate and why.

*Answers:*

- *Response to Letter 2, response to Letter 1, response to Letter 4 and response to Letter 3.*
- *The response to Letter 2 is accurate. If a person receives a 4.2 percent increase in wages or salary, but inflation is 4.2 percent, then the person has no additional purchasing power. The response letter also defines CPI correctly.*
- *The response to Letter 1 is accurate. An increase in the price of one good or service does not indicate that the economy is experiencing inflation. Inflation is an upward movement in the general price level.*
- *The response to Letter 4 is accurate. The connection between being unable to find a job and GDP is described accurately.*
- *The response to Letter 3 is accurate. With inflation or deflation, there are winners and losers. If prices are falling and your income remains constant, then you are able to buy more with the same amount of income.*

*Note: The following data sources were used to create the tables and charts in this lesson:*

Consumer Price Index, 1919-2006: Bureau of Labor Statistics (Department of Labor).

Gross National Product (real GNP), 1919-47: Robert J. Gordon, *Macroeconomics*, 8th ed., Appendix A. Addison-Wesley Publishing Co., 2000.

Gross Domestic Product (real GDP), 1948-2006: U.S. Department of Commerce, Bureau of Economic Analysis.

Unemployment Rate, 1919-30: Christina Romer, "Spurious Volatility in Historical Unemployment Data," *Journal of Political Economy* 94 (1), 1986, pp. 1-37.

Unemployment Rate, 1931-46: *Historical Statistics of the United States, Colonial Times to 1957* (Department of Commerce, 1960).

Unemployment Rate, 1947-2006: Bureau of Labor Statistics (Department of Labor).

*Additional sources for the lesson plans are listed in the "References and Resources" section.*

# Visual 1.1: Economic Definitions

**Consumer Price Index (CPI)** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

**Deflation** is a general downward movement of prices for goods and services in an economy.

**Depression** is a very severe recession; a period of severely declining economic activity spread across the economy (not limited to particular sectors or regions) normally visible in a decline in real GDP, real income, employment, industrial production, wholesale-retail credit and the loss of the overall confidence in the economy.

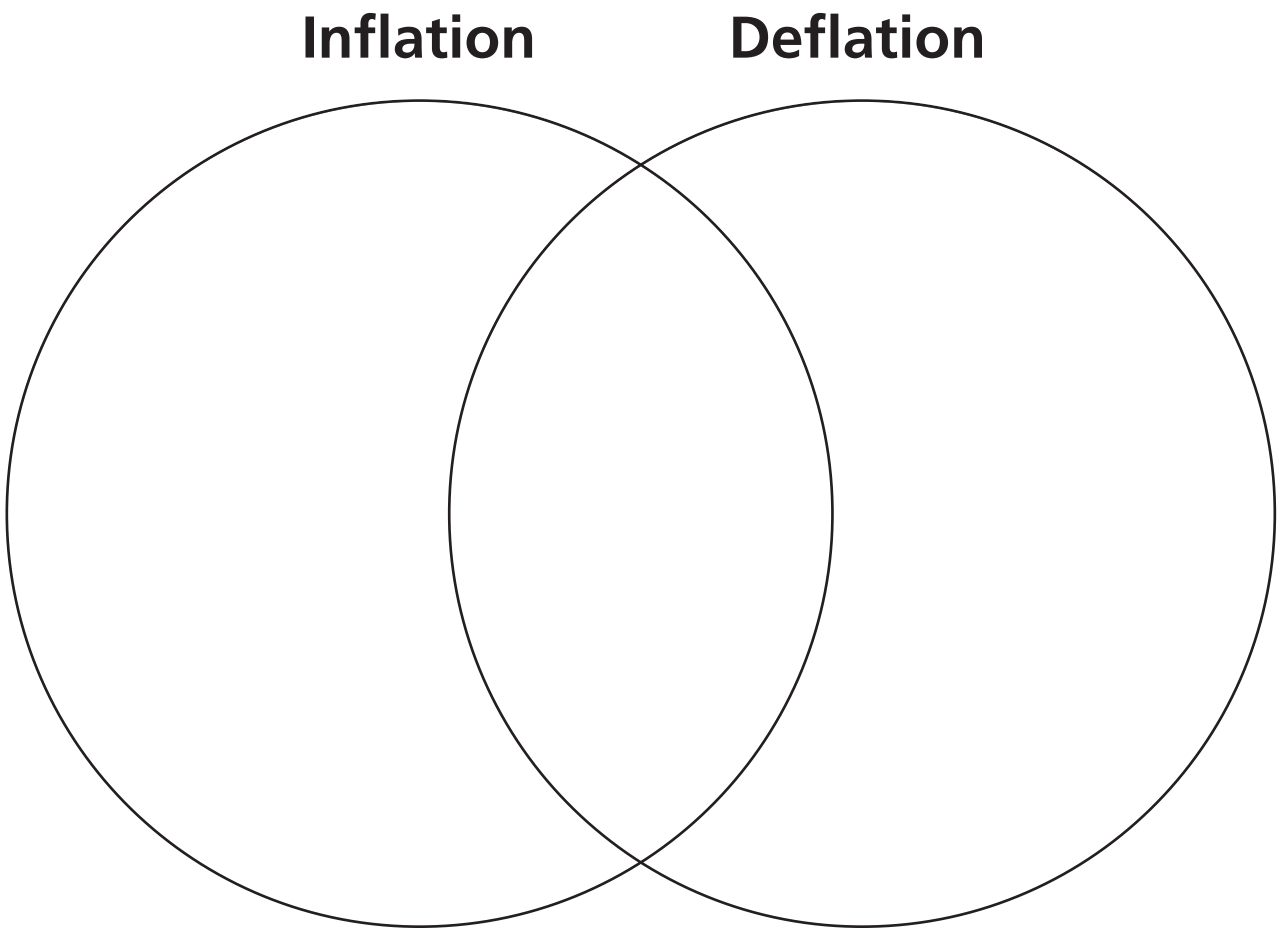
**Inflation** is a general upward movement of prices for goods and services in an economy.

**Nominal Gross Domestic Product (GDP)** is the market value of all final goods and services produced within a country in a year.

**Real Gross Domestic Product (GDP)** is the production of all final goods and services within a country valued at constant prices (i.e., adjusted for inflation or deflation).

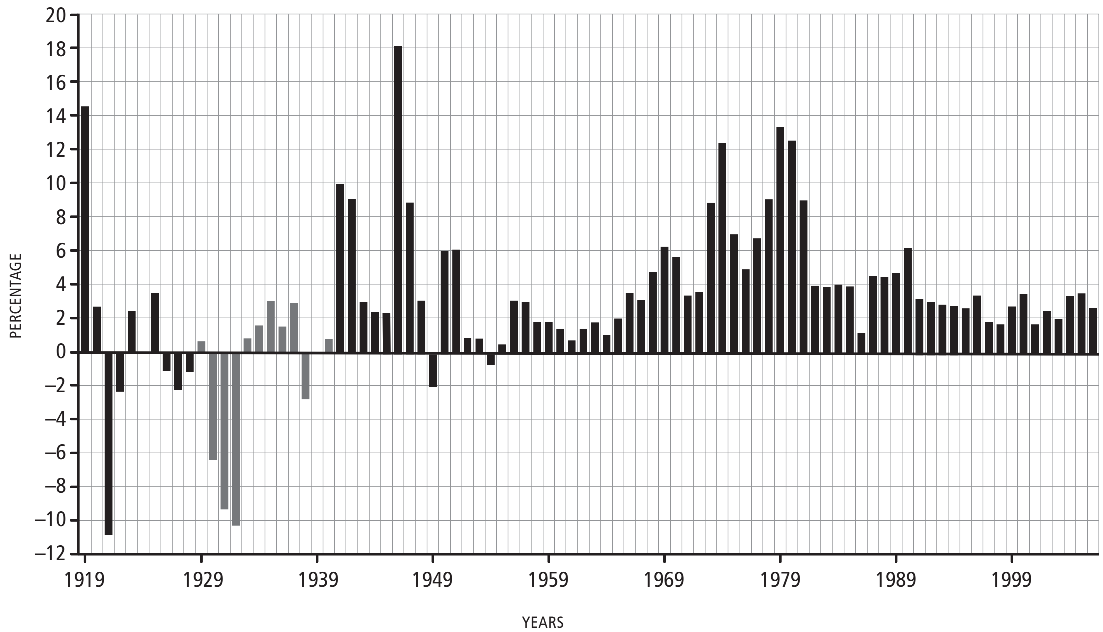
**Unemployment rate** is the percentage of the labor force who are unemployed.

## Visual 1.2: Effects of Deflation and Inflation Venn Diagram

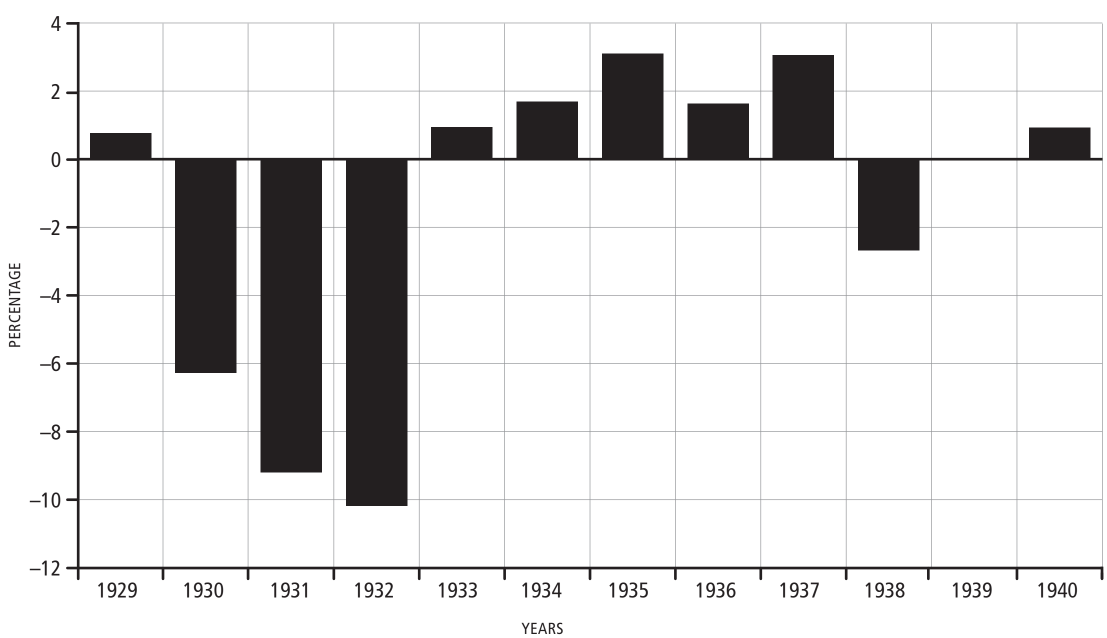


## Visual 1.3: Year-Over-Year Percentage Change in Consumer Price Index

### Consumer Price Index, 1919-2006




### Consumer Price Index, 1929-1940



## Visual 1.4: Nominal vs. Real GDP—Answer Key

You are a government statistician and have been asked to report on the GDP of Miniland, a small economy which produces only hot dogs and haircuts. Calculate the nominal GDP for year 1 and year 2 by multiplying the price of each good or service by the quantity of each good or service and adding the total production per year in dollars.

| Price X Quantity = GDP | | | | | | | |
|---|---|---|---|---|---|---|---|
| Year 1 | | | | Year 2 | | | |
| Item | Price | Quantity | GDP | Item | Price | Quantity | GDP |
| Hot Dogs | $1 | 10 | $10 | Hot Dogs | $3 | 20 | **$60** |
| Haircuts | $5 | 4 | $20 | Haircuts | $12 | 5 | **$60** |
| **Nominal GDP = $30** | | | | **Nominal GDP = $120** | | | |

If you looked at information that stated that GDP in year 1 was $30 and in year 2 was $120, you might conclude that the economy produced **4** times as many goods and services in year 2 compared with year 1.

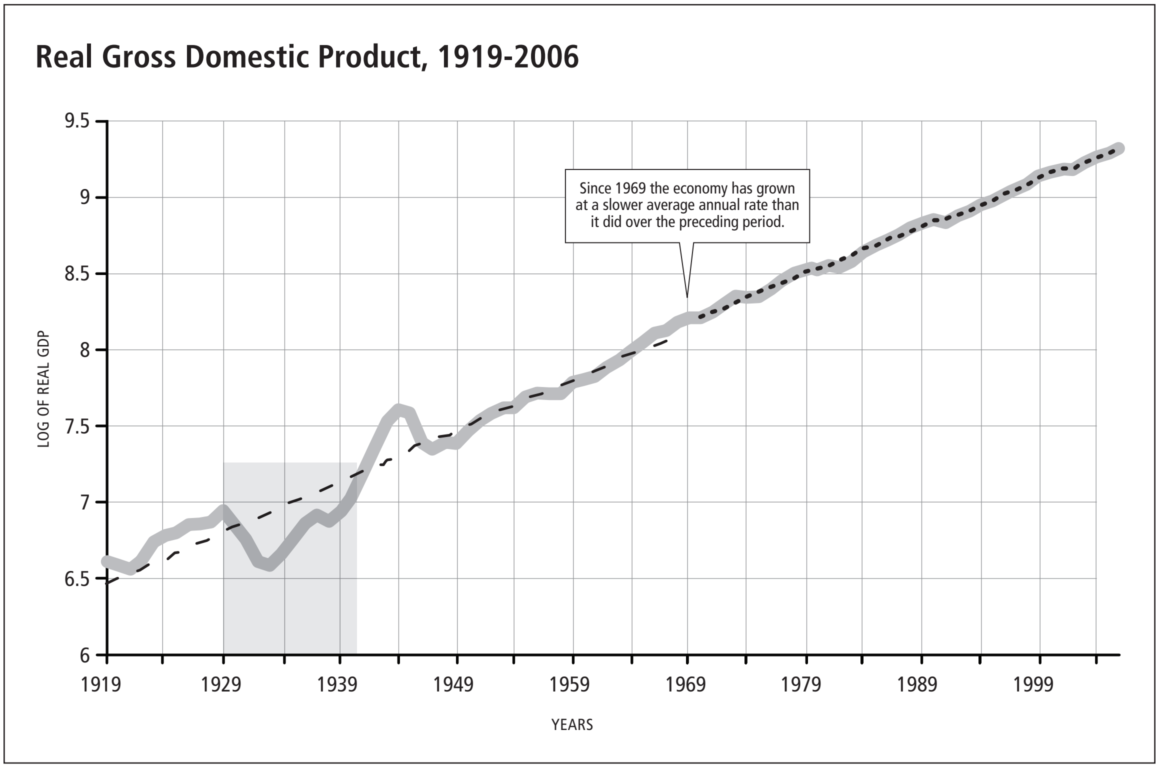
To compare GDP over time, however, you need to determine real GDP. Being a professional statistician, you know that it's possible that part of the increase in GDP from year 1 to year 2 could be due to inflation (rising prices), rather than increased output. Calculate real GDP for year 2 using year 1 as the base year.

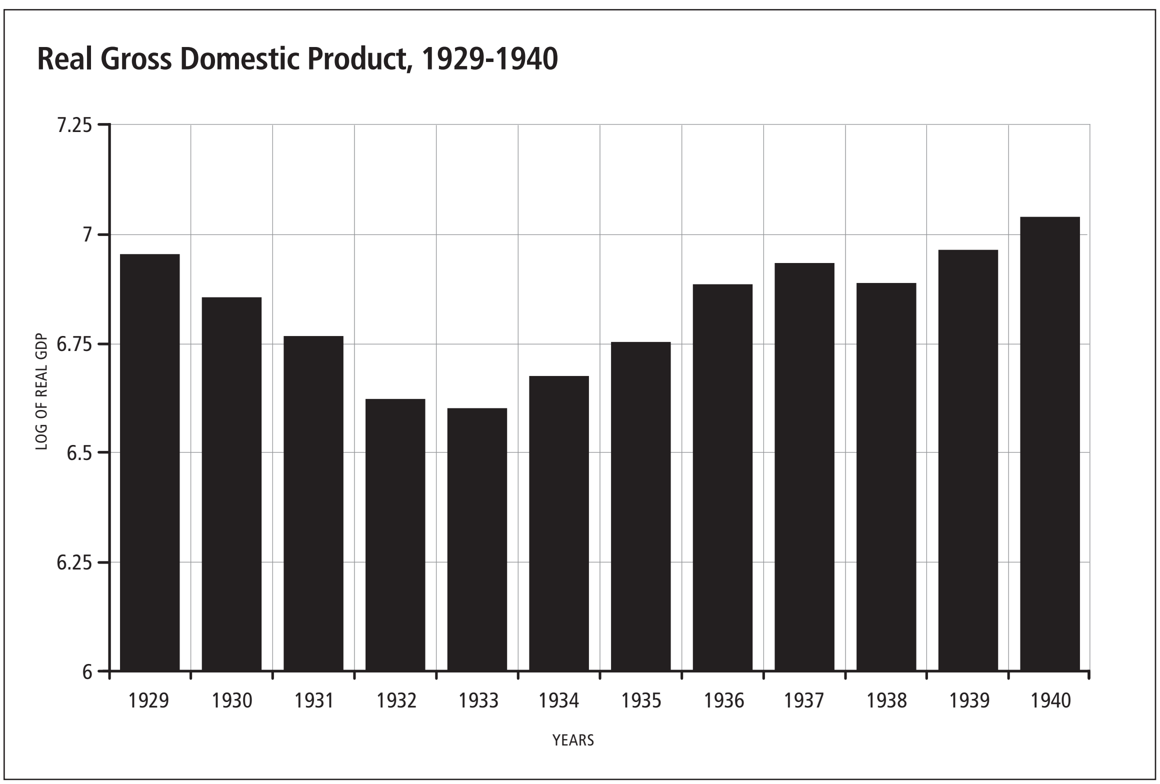
| Price X Quantity = GDP | | | | | | | |
|---|---|---|---|---|---|---|---|
| Year 1 | | | | Year 2 | | | |
| Item | Price | Quantity | GDP | Item | Price | Quantity | GDP |
| Hot Dogs | $1 | 10 | $10 | Hot Dogs | $1 | 20 | **$20** |
| Haircuts | $5 | 4 | $20 | Haircuts | $5 | 5 | **$25** |
| **Real GDP = $30** | | | | **Real GDP = $45** | | | |

To complete your report, explain whether you would use nominal GDP or real GDP in your report and give your reasons.

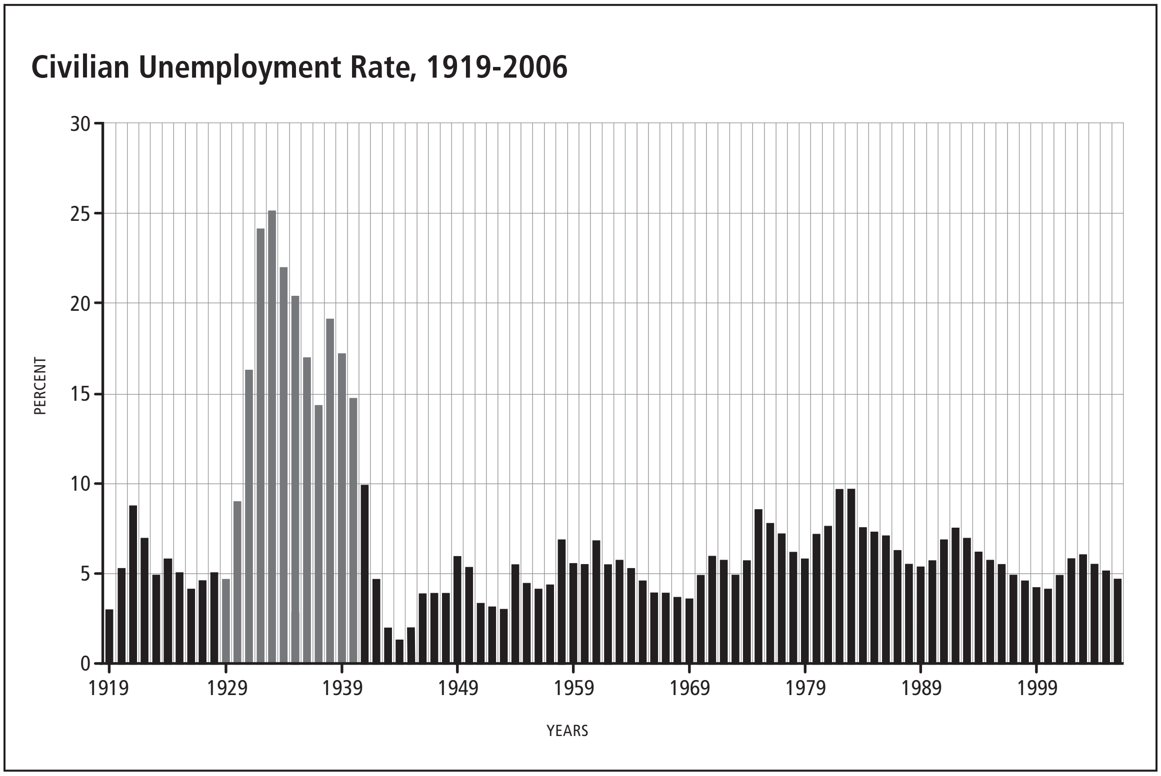
**Although you might provide information on both nominal and real GDP, to compare the growth of output in the economy over time, use real GDP.**

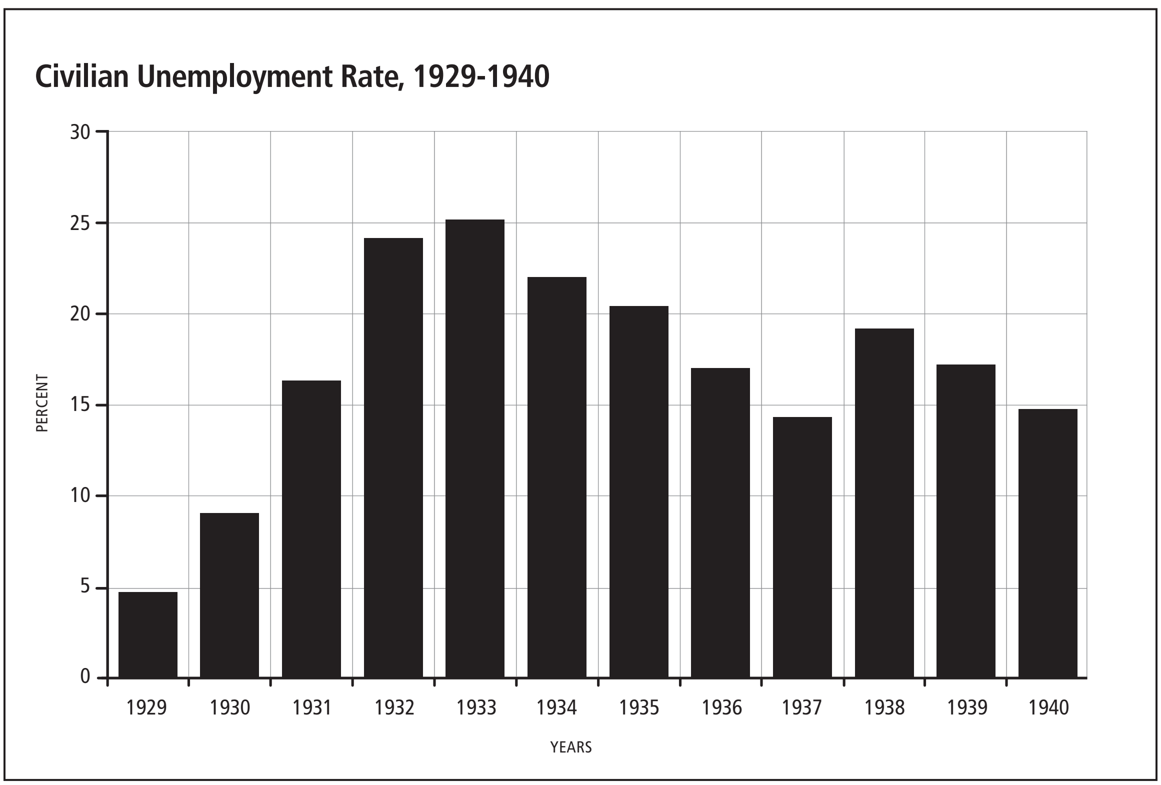
# Visual 1.5: Real Gross Domestic Product



## Visual 1.6: Civilian Unemployment Rate



# Visual 1.7: Multiple Matching—Answer Key

Instructions: Match the statements from Column A with the terms from Column B by placing the letter of the term on the blank line following each statement. The terms from Column B may be used more than once.

**Column A**

1. This is the market value of all final goods and services produced within a country during a year. ***G***
2. This fell 29 percent from 1929 to 1933. ***D***
3. This increased to 25 percent during the Great Depression. ***F***
4. This causes households and firms to postpone spending. ***B***
5. This is a severe period of declining real output and employment across sectors of the economy and regions of the country. ***C***
6. This is a measure of the overall price level of goods and services in the economy. ***A***
7. This is a sustained increase in the general price level. ***E***
8. This is a sustained decrease in the general price level. ***B***
9. This is the percentage of the labor force who are unemployed. ***F***
10. This decreases the purchasing power of the dollar. ***E***
11. This is the market value of all final goods and services produced within a country in a given year adjusted for inflation. ***D***

**Column B**

A. Consumer Price Index

B. Deflation

C. Depression

D. Real GDP

E. Inflation

F. Unemployment rate

G. Nominal GDP

## Handout 1.1: Notes for Measuring the Great Depression

| Term | Definition | Examples and Other Notes |
|---|---|---|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
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| | | |

## Handout 1.2: Effects of Deflation and Inflation Statements

Directions: Cut strips apart and distribute to students.

1. Deflation causes the purchasing power of a dollar to increase, because when prices are lower, a dollar will buy more goods and services.

2. Deflation increases the real cost of borrowing, because when the debt is repaid those dollars will purchase more goods and services than when they were originally borrowed.

3. Deflation can cause households and firms to postpone spending, because they will wait until the price goes down further to buy goods and services.

4. If wages remain the same while prices for goods and services are falling, people are able to purchase more goods and services with the same amount of income. In this case, deflation effectively raises wages.

5. A falling price level implies that firms must sell more goods and services to generate the revenue required to pay their workers. Therefore, firms lay off some employees, causing unemployment to rise and/or firms to decrease workers' wages.

6. Inflation causes the purchasing power of a dollar to decrease, because when prices are higher, a dollar will buy fewer goods and services.

7. Inflation can make it more difficult for businesses to plan for the future. It also causes costs of doing business to increase because of higher input prices (i.e., higher prices of labor, materials, etc.).

8. Because inflation reduces the value of savings, it gives consumers incentives to spend, rather than save. Not everyone's income rises as much as prices do and, therefore, individuals are not able to buy as many goods and services as they did in the past.

9. Inflation reduces the value of people's savings because a dollar saved today will not buy as many goods and services tomorrow.

10. Rather than place their savings in bank accounts where it might be lent to others to produce things that help the economy grow—such as new buildings, machinery, tools and equipment—people may use their savings to purchase jewelry, art or other collectibles that might retain their value in an inflationary period.

# Handout 1.3: Real vs. Nominal GDP

You are a government statistician and have been asked to report on the GDP of Miniland, a small economy which produces only hot dogs and haircuts. Calculate the nominal GDP for year 1 and year 2 by multiplying the price of each good and service by the quantity of each good or service and adding the total production per year in dollars.

| **Price X Quantity = GDP** | | | | | | | |
|---|---|---|---|---|---|---|---|
| Year 1 | | | | Year 2 | | | |
| Item | Price | Quantity | GDP | Item | Price | Quantity | GDP |
| Hot Dogs | $1 | 10 | $10 | Hot Dogs | $3 | 20 | |
| Haircuts | $5 | 4 | $20 | Haircuts | $12 | 5 | |
| **Nominal GDP = $** | | | | **Nominal GDP = $** | | | |

If you looked at information that stated that GDP in year 1 was $30 and in year 2 was $120, you might conclude that the economy produced ____times as many goods and services in year 2 compared with year 1.

To compare GDP over time, however, you need to determine real GDP. Being a professional statistician, you know that it's possible that part of the increase in GDP from year 1 to year 2 could be due to inflation (rising prices), rather than increased output. Calculate real GDP for year 2 using year 1 as the base year.

| **Price X Quantity = GDP** | | | | | | | |
|---|---|---|---|---|---|---|---|
| Year 1 | | | | Year 2 | | | |
| Item | Price | Quantity | GDP | Item | Price | Quantity | GDP |
| Hot Dogs | $1 | 10 | $10 | Hot Dogs | $1 | 20 | |
| Haircuts | $5 | 4 | $20 | Haircuts | $5 | 5 | |
| **Real GDP = $** | | | | **Real GDP = $** | | | |

**To complete your report, explain whether you would use nominal GDP or real GDP and give your reasons.**

## Handout 1.4: Multiple Matching

Instructions: Match the statements from Column A with the terms from Column B by placing the letter of the term on the blank line following each statement. The terms from Column B may be used more than once.

### Column A

1. This is the market value of all final goods and services produced within a country during a year. _____
2. This fell 29 percent from 1929 to 1933. _____
3. This increased to 25 percent during the Great Depression. _____
4. This causes households and firms to postpone spending._____
5. This is a severe period of declining real output and employment across sectors of the economy and regions of the country. _____
6. This is a measure of the overall price level of goods and services in the economy. _____
7. This is a sustained increase in the general price level. _____
8. This is a sustained decrease in the general price level. _____
9. This is the percentage of the labor force who are unemployed. _____
10. This decreases the purchasing power of the dollar. _____
11. This is the market value of all final goods and services produced within a country in a given year adjusted for inflation. _____

### Column B

A. Consumer Price Index

B. Deflation

C. Depression

D. Real GDP

E. Inflation

F. Unemployment rate

G. Nominal GDP

## Handout 1.5: Political Cartoon




Refer to the political cartoon above to answer the questions that follow.

A. What images are on the cartoon, and what do they represent?

B. Write several sentences explaining what this cartoon is depicting. Use relevant economic terms and concepts in your sentences.

## Handout 1.6: What is in the Chairman's Briefcase?

Read the following scenario and follow the instructions.

It is a sunny spring day in 1933, but the U.S. economy is far from sunny. The chairman of the Federal Reserve Board of Governors has been summoned to the Capitol to meet with the president of the United States. President Roosevelt has called on the chairman because the Federal Reserve, the central bank of the United States, was created in 1913 to provide an "elastic currency" that would expand and contract, based on public demand. President Roosevelt wants to know what economic data the Fed is looking at and what the Fed thinks about the current state of the economy.

The chairman of the Federal Reserve sits down in the Oval Office and begins his report to President Roosevelt. He opens his briefcase and pulls out three graphs that give an overview of the state of the economy. What three graphs would he choose, what does each indicate about the economy and why did he choose those graphs?

Graph 1: ____________________________________________________________

Graph 2: ____________________________________________________________

Graph 3: ____________________________________________________________

## Handout 1.7: Glad You Asked

John is a summer intern at *Word on the Street*, a weekly community newspaper. The assistant editor told him that since he did such a good job last week on his article on the park's mosquito prevention program, he is now being assigned to handle the "Glad You Asked" section of the paper. "Pick several questions and give a thorough answer to each. Our readers like this section because they learn a lot," the editor said.

Read the letters below and John's responses that follow. Decide which response goes with each letter by placing a number on the line next to the response. Explain whether the response letter is accurate and why.

**Letter # 1**

I have an upholstery repair shop and use my truck to make deliveries. It seems like every time I fill up my truck with gasoline, it costs more than the last time. And this has been going on all year. How in the world can your paper's business reporters say that we aren't having high inflation in this country?

Martin Emerson
Martin's Upholstery Shop

**Letter # 2**

On the radio today a financial commentator was reporting that the CPI—whatever that stands for—was 4.2 percent last year and that this was high inflation for the U.S. economy. My labor union contract has a COLA clause—cost of living adjustment—so my paycheck went up 4.2 percent, the same as the CPI. I think it's great to get a paycheck for 4.2 percent more than last year. I don't see what all the fuss is about. What's wrong with inflation, and, by the way, what is the CPI?

Earl Bodine
Plumbers Union

**Letter # 3**

I'm a retired school teacher and live on a fixed pension. I read in the paper last week that prices have fallen for two years in a row. Ed Rather's article described this situation as "significant deflation" and suggested that falling prices was a bad thing. I'm confused because I thought it was bad if prices go up, but good if prices fall. Do you need to send Ed back to school?

Beth O'Malley
Teacher

**Letter # 4**

*I'm a senior in college and will graduate this May with a degree in business. I had hoped to have lots of job interviews or perhaps even a job offer by now. Unfortunately, I'm having trouble even getting interviews. Even the clas-sified help-wanted column has been shrinking. (I'm sure your paper has noticed*

*this also!) My economics professor told us not to take not finding a job personally. He says the economy is mainly to blame because GDP has been falling for the past three quarters. He says that it may take us longer than last year's*

*graduating class to find jobs. I don't know if my professor was just trying to make me feel better or what. What's the connection between my not find-ing*

*a job and GDP?*

*Leslie Randall*

Forest Park College

**Below are the letters John wrote in response to the letters on the previous pages.**

**Response to Letter _____**

*Cost of Living Adjustments (COLA) clauses are tied to the CPI, so your union contract causes your pay to adjust to price level changes. It's true that a 4.2 percent increase in your paycheck is a good thing; however, that's a nominal increase in your pay. If you take the inflation (increase in price level) out of your paycheck, your real paycheck is no greater than last year. So your standard of living is no higher than last year. Your paycheck may be for a larger amount of money, but the prices you pay for the things you buy on average have increased by the same amount.*

*Certainly the COLA clause gives you some protection against inflation in that at least you receive higher pay to compensate for higher prices in the economy, but don't go out and buy a new ski boat because you think you are better off than last year. And many people are hurt from inflation because the dollars they've saved won't buy as much today as they had planned. So those who have saved for retirement or for their children's education will find that those dollars just won't go as far. Inflation has robbed them of purchasing power.*

**Is this response accurate? Why or why not?**

---

**Response to Letter _____**

*Although the price of gasoline may be going up, that doesn't mean that the price for all goods and services is rising. Within the economy, prices for some goods may be rising, while prices for other goods may be falling. But it's the overall price level that is measured when defining inflation. The CPI (Consumer Price Index) is a measurement of price changes in a market basket of goods and services that consumers regularly buy, including food, gasoline, clothing, medical care, education, rent, etc. Presently, the CPI is around 2 percent, which doesn't indicate that our economy is experiencing high inflation.*

**Is this response accurate? Why or why not?**

---

**Response to Letter ____**

*As they say, timing is everything! If you could have your choice, it would be nice to graduate during a time when the economy is expanding because lots of jobs are being created, so the demand for workers is much higher. Your professor is right: If the economy has slowed down considerably over the past nine months, businesses are seeing sluggish demand for their goods and services and are experiencing declining revenue as a result. Naturally they are going to hesitate to hire new workers under these conditions.*

*GDP measures the output of goods and services and is the best single barometer of the condition of the economy. If it's falling it may make job hunting a challenge in the near term. Because of the dynamic nature of an economy as large as ours, however, I'm sure there are some jobs out there for those with education, skills and a good work ethic.*

**Is this response accurate? Why or why not?**

## Lesson Description

People suggest various causes for the Great Depression. In this lesson, students act as newspaper reporters to learn about this time in history. These reporters look for information from fictitious letters that reflect actual problems and people's concerns during this tragic time in our economic history. Based on what they learn through the letters, students construct a newsletter explaining the cause(s) of this economic catastrophe.

## Concepts

Banks
Money supply (stock)

## Objectives

Students will:

- Identify suggested causes of the Great Depression.
- Analyze suggested causes of the Great Depression.

## 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.

### National Standards in Economics

- **Standard 10:** Institutions evolve in market economics 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 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.
    - Benchmark 2, Grade 12: In many economies, when banks make loans, the money supply increases; when loans are paid off, the money supply decreases.

### National Council for the Social Studies Strands

- Time, continuity and change
- Production, distribution and consumption

## Time Required

90 minutes

## Materials

- A copy of The Great Depression: An Overview (from the introduction section of this unit) for each student.
- A copy of Handouts 2.1, 2.2, 2.3 and 2.4 for each student
- A copy of Handout 2.1: Answer Key and Handout 2.2: Answer Key for the teacher
- Highlight marker for each student

## Procedures

1. Ask the students what they think the expression "The Roaring Twenties" means. *(Answers will vary.)* Explain that the expression refers to the 1920s. This period was considered "roaring" because it was a time of prosperity and change in the United States.
   - New technological improvements were changing lifestyles in the United States.
   - People were having their homes updated with electricity.
   - Radios, refrigerators, electric appliances and telephones were becoming a part of the American way of life.
   - Cars were becoming affordable for the middle class, thanks to Henry Ford.
   - Many influential people felt that the good times were here to stay.

2. Explain that although people thought the good times would last forever, beginning in 1929 and throughout the 1930s, the economy experienced the worst economic downturn in U.S. history—the Great Depression. Over time, people have suggested many causes for the Depression. Because economic conditions were so bad, and so many things happened between 1929-1940, economists and historians still study the Great Depression to better understand its causes.

3. Tell the students that they are going to work as reporters for a local newspaper, the *Smalltown Herald*. Their jobs require them to do research on special topics and to produce newsletters on these

topics. As they read, they should gather information to construct a newsletter about the Great Depression that will be included as a special section in the weekend edition of the newspaper.

4. Explain that reporters review many sources before writing articles for publication. Students have the opportunity to read part of an essay on the Great Depression written by an economist at the Federal Reserve Bank of St. Louis. Distribute a copy of *The Great Depression: An Overview* and tell students to read the sections "What Caused the Great Depression?" and "Money, Banking and Deflation." Divide the students into pairs. Distribute a copy of *Handout 2.1*: *Suggested Causes of the Great Depression* and tell pairs of students to answer the questions on the handout.

5. After students have had time to work, check for understanding by reviewing the questions using *Handout 2.1: Answer Key*.

6. Tell the students that their research should reveal the economic problems that existed during the Great Depression. Distribute a copy of *Handout 2.2: Reporter's Research Notes* to each student. Explain that students will be working in groups and should use this handout to take notes for their newsletters.

7. Divide students into groups of four to six and distribute a copy of *Handout 2.3: Letters in Time*, and a highlight marker to each student. These letters are fictitious but are based on actual letters and other primary sources from this era. Allow group members to read and highlight information they think is important. Ask each group to look for clues in the letters that identify economic conditions that might have contributed to economic problems during this time period. Instruct students to record the information on Handout 2.2. Tell each group to select a spokesperson to report for the group. *(Note: As an alternative, assign pairs or small groups only one letter and then conduct a discussion.)*

8. Allow approximately 15 minutes for the groups to read the letters and complete Handout 2.2. Have the groups share with the class the conditions and economic problems identified in the letters. See *Handout 2.2: Answer Key* for suggested answers. Use the following points to lead a discussion of economic conditions and problems mentioned in Handout 2.2. Tell students to add notes to their handouts as needed.

    - Ford Motor Company closed its Model T plant in 1927 for six months. The plant was closed to plan, design and retool to build the Model A.
    - How might closing the Ford Model T plant affect the economy? *(It would primarily affect the workers and businesses that were associated with Ford in Detroit, as well as any suppliers who were located outside of Detroit.)*
    - How were mortgage payments a burden on people who lost their jobs? *(People who lost jobs would not be able to repay their loans.)* People's mortgages payments would remain the same, but they would not have the income to make the payments. Banks would repossess the houses, but the houses would not have the same value that they had when the loans were made.

- A "tariff" is a tax on imported goods. The tax raises the price of imported goods and services relative to the prices of domestic goods and services. How did the Smoot-Hawley Tariff affect the prices of imported goods and services? *(It caused prices to rise.)* Tariffs and other protectionist policies did not help the economy. These policies greatly decreased international trade at a time when it should have been encouraged.
- When the United States puts tariffs on imports, other countries retaliate and put tariffs on U.S. products. Therefore, eventually countries that are trading partners will add taxes to the extent that fewer goods and services globally are demanded and produced. This is what happened during the Great Depression.
- Keeping a balanced federal budget was important to President Hoover. How did raising taxes affect the economy? *(Answers will vary. Students may suggest that taxes bring more revenue to the federal government.)*
- Raising taxes transferred money from consumers and businesses to the government so consumers and businesses couldn't buy as many goods and services as they could before taxes were raised. This decreased the demand for goods and services and, ultimately, reduced demand for workers who produced those goods and provided those services.
- What happened to the stock market? *(It crashed in 1929.)*
- How did the crash affect the economy? *(People lost money—wealth was destroyed. People were uncertain about the economy.)*
- Why did farms fail? *(Answers will vary. Students may say that farmers could not sell their crops or farmers could not repay their loans.)*
- World War I made it impossible for many European farmers to grow and sell their crops. As a result, U.S. farmers saw a large increase in the demand for their crops. Many U.S. farmers took out loans to expand their operations to meet this worldwide demand. When World War I ended and European communities began to rebuild, European farmers re-entered the farm crop markets. Because this increased the supply of farm crops, the price for these crops decreased. U.S. farmers were unable to sell their crops at the prices they expected. Many were unable to cover their costs or to repay loans, and many farms failed.

9. Explain that the students have identified many of the suggested causes of the Great Depression. Ask the students whether any of these events were significant enough to cause such a catastrophic event. *(Answers will vary. Students may suggest that the stock market crash was big enough or that the collapse of the farm economy was big enough.)* None of these alone was sufficient to cause the Great Depression, with the possible exception of bank panics and resulting contraction of the money stock.

## Closure

10. Review the main points of the lesson by asking the following questions:

    - What are some of the events or problems that people have suggested as causes of the Great Depression? *(closing of the Ford plant in Detroit, collapse of farm income in many areas, stock market crash, bank panics, Smoot-Hawley tariff and protectionist policies, problems in the housing market)*

- Why didn't any of these factors alone—closing the Ford plant in Detroit, the stock market crash, the imposition of the Smoot-Hawley tariff, farm failures or housing problems—cause the Great Depression? *(None of these single factors was large enough to cause the Great Depression—some were more regional, some were related to a particular sector of the economy.)*
- What is the event that has stood the test of time and analysis as the major cause of the Great Depression? *(banking panics)*
- How did the other events contribute to the catastrophe? *(The stock market crash destroyed wealth and eroded people's confidence in the economy. The closing of the Ford Company Model T plant, the collapse of the farming industry and problems with the housing industry all contributed to increases in unemployment, reduction in people's incomes, reduction in people's ability to repay loans and reduction in the money stock. The Smoot-Hawley tariff increased the price of imported goods in the United States and, because other countries retaliated, made it more difficult for the United States to sell its exports.)*

## Assessment

11. Ask students to work in pre-assigned groups of four to six and tell them to use information from Handouts 2.1 and 2.2 to construct a newsletter that reflects what they have learned about the causes of the Great Depression. Included in each newsletter should be any four of the following:
    - a one-page, double-spaced newspaper article on the factors that contributed to the Great Depression, including a newspaper-like title for the article;
    - a poem that expresses what life was like during the Great Depression;
    - lyrics to a song that might be performed during the Great Depression to express conditions of the time;
    - a letter to the editor expressing a specified concern about the economy or an economic problem and the writer's recommendation of a solution for that problem; or
    - a comic strip that might be published in the newspaper during the Great Depression.

12. Distribute a copy of *Handout 2.4: Assessment Rubric* to each student, and explain that this is the evaluation on which student newsletters will be assessed.

# Handout 2.1: Suggested Causes of the Great Depression

Use the information from the sections "What Caused the Great Depression?" and "Money, Banking and The Great Depression" in *The Great Depression: An Overview* to answer the following questions.

1. What event is often the first to come to mind when people think of the Great Depression?

2. What did happen as a result of the stock market crash?

3. Was the crash big enough to cause the Great Depression?

4. What specific trade policies do some economists suggest were the cause of the Great Depression?

5. Were protectionist trade policies alone enough to cause the Great Depression?

6. What were some of the excesses of the 1920s that some economic historians suggest caused the Great Depression?

7. What is the one explanation for the Great Depression that has stood the test of time?

8. What happens if the money supply (stock) shrinks?

9. What is the largest component of the stock of money in modern economies?

10. What happens to the money stock when banks make loans? When loans are repaid?

## Handout 2.1: Suggested Causes of the Great Depression—*Continued*

11. What determines the amount of loans that banks can make?

12. Why don't banks like to hold reserves?

13. What if banks don't hold enough reserves?

14. What did it mean to say that the United States was on the gold standard?

15. What could increase gold reserves?

16. What would increased gold reserves and cash reserves allow banks to do?

17. What could decrease gold reserves?

18. How would decreased cash reserves and gold reserves affect banks?

19. What was the main reason the money stock fell during the Great Depression?

20. On what do banking systems rely?

## Handout 2.1: Suggested Causes of the Great Depression—Answer Key

1. What event is often the first to come to mind when people think of the Great Depression?
   *(the stock market crash)*

2. What did happen as a result of the stock market crash? (*Considerable wealth was destroyed, people began to have doubts about the health of the economy, and consumers and firms cut back on their spending.)*

3. Was the crash big enough to cause the Great Depression? (*No.)*

4. What specific trade policies do some economists suggest caused the Great Depression? (*the Smoot-Hawley tariff and protectionist trade policies)*

5. Were protectionist trade policies alone enough to cause the Great Depression? (*No.)*

6. What were some of the excesses of the 1920s that some economic historians suggest caused the Great Depression? (*capitalism, such as excessive production of commodities, excessive building, excessive financial speculation and an excessively skewed distribution of income and wealth)*

7. What is the one explanation that has stood the test of time? (*the collapse of the U.S. banking system and resulting contraction in the nation's money stock)*

8. What happens if the money supply (stock) shrinks? (*deflation)*

9. What is the largest component of the stock of money in modern economies? (*bank deposits)*

10. What happens to the money stock when banks make loans? (*The money stock increases.)*

11. When loans are repaid? (*The money stock decreases.)*

12. What determines the amount of loans that banks can make? *(in part, regulations on the amount of reserves that banks are required to hold against their deposits and, in part, the business judgment of bankers)*

13. Why don't banks like to hold reserves? (*They earn little or no interest.)*

14. What if banks don't hold enough reserves? (*They risk getting caught short if customers unexpectedly withdraw deposits.)*

15. What did it mean to say that the United States was on the gold standard? (*The U.S. government would exchange dollars for gold at a fixed price.)*

16. What could increase gold reserves? (*increased domestic mining of gold or increased inflows of gold from abroad)*

17. What would increased gold reserves allow banks to do? (*lend more and thereby inflate the money stock)*

18. What could decrease gold reserves? (*Large withdrawals of gold or cash from banks could reduce bank reserves.)*

19. How would decreased cash reserves and gold reserves affect banks? (*Banks would be forced to reduce their lending, which would deflate the money stock.)*

19. What was the main reason the money stock fell during the Depression? (*bank panics, in which bank customers withdrew as much of their deposits as they could)*

20. On what do banking systems rely? (*the confidence of depositors that they will be able to access their funds in the bank whenever they need them)*

## Handout 2.2: Reporter's Research Notes

| Event, Policy or Condition | Resulting Condition or Problem |
|---|---|
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |

## Handout 2.2: Reporter's Research Notes—Answer Key

| Event, Policy or Condition | Resulting Condition or Problem |
|---|---|
| Temporary closing of Ford plant | Increased unemployment (plant closed for six months) resulted in workers with no income who couldn't buy goods and services or make payments. |
| Farm failures | Farm prices and incomes fell sharply; farmers couldn't keep farms operating and couldn't repay loans; banks repossessed farms and equipment but were unable to resell them. Banks had less money to lend. |
| Stock market crash | Prices for stocks fell dramatically; people lost wealth. People began to lose confidence in the economy. |
| Bank failures | People couldn't withdraw their money or get loans, lost their savings and lost confidence in the banking system, which caused bank panics. |
| Housing losses | Homeowners couldn't make payments, and builders couldn't sell new houses. Banks were forced to foreclose on consumer loans. Banks could not resell the houses that they had repossessed. |
| Smoot-Hawley tariff | The tariff raised prices of imported goods and made it more difficult for the United States to sell its exports. Other countries retaliated by imposing tariffs on U.S. goods. |
| Federal Reserve monetary policy | The Fed discount window lending was limited to member banks. The Fed's ability to conduct policy was tied to/limited by the gold standard. An outflow of gold caused bank reserves to fall. Bank panics caused people to lose confidence in the banking system. |
| Fiscal policy | Policies resulted in an emphasis on a balanced budget, which meant higher taxes on those who were still employed. People who paid more taxes had less income available to spend or save. |

## Handout 2.3: Letters in Time

## Letter #1

May 1930

Dear President Hoover,

I am writing to you on behalf of economists everywhere. There is considerable concern that the Smoot-Hawley Act of 1930 might cause more harm to our weakened economy. President Wilson said this when he vetoed stiff tariffs before his presidency ended: "If ever there was a time when Americans had anything to fear from foreign competition, that time has passed. If we wish to have Europe settle her debts, governmental or commercial, we must be prepared to buy from her." Tariffs will make the prices of imported goods higher. People will be less likely to buy higher-priced items. With the huge war debts from abroad, how can we expect payment if we refuse to buy European goods? We must be able to purchase goods from abroad if we are to enable them to repay the debt owed to us. Smoot-Hawley can only make things worse for our debt collection from abroad.

Smoot-Hawley was discussed in Congress before Oct. 29, 1929. It had a negative impact on the stock market. We understand that you have a desire to see higher duties on certain agricultural products. The value of a Tariff Commission that can adjust import duties might be beneficial to other business sectors by taking out "excessive and privileged protection" for certain manufactured goods. These tariffs should be revised upward only where "there has been a substantial slackening of activity in an industry during the past few years and a consequent decrease of employment due to insurmountable competition."

Again, I urge you to veto this bill as 1,028 economists earlier requested. This tariff will raise prices to consumers, damage export trade, hurt farmers, promote inefficiency and promote foreign reprisals. I can only see serious damage in the future if this Act passes and you sign it.

I think that the Federal Reserve should increase the money supply so that consumers who need loans to help them weather this economic slowdown can get them.

Sincerely,
Daniel K. Pakko

## Letter #2

March 1931

Dear Mae,

We are doing fine here. I hope you are all well. Sorry to hear that Sam was laid off from the Ford plant. Has he tried to get on at Chevrolet? I am relieved that cars are not made here. Ernest is making $1 a day painting the bridge. He says he's happy that we have our truck farm. I sell eggs for seven cents a dozen. It helps pay for groceries. We took the money daddy left me and paid off our little truck farm. Small farmers like us are being hurt badly by low prices for crops and produce. We never could afford much, and now that agricultural prices are lower everywhere, we still can't buy what we would like. We did, however, get a new radio. Our payment is 50 cents a month, and I sell enough eggs to make the payment. I want a new electric iron next. Maybe one day. Ernest says that the big farmers across the river are the ones who are really hurting. They borrowed a lot of money from the bank and now have to pay it back. Cotton is selling for practically nothing now. There is a lot of cheap cotton coming in from overseas. Our farmers can't compete. Ernest says some of the new tractors cost as much as $300. Can you believe that? He says that big farmers are not able to get new loans so they will probably lose their farms. They can't pay for the loans they have now. He says we need another high tariff to keep cheap wheat and cotton from coming into America so our farmers can get higher prices for their crops.

At least we are eating. The potato crop was really good this year. I owe $5 at the general store, but it might as well be a million with the income we have.

Yours truly,

Tessie

## Letter #3

October 1931

Dear Treasury Secretary Mellon,

It is my firm belief that we should hold our economy to a balanced budget. With that in mind, I have asked Congress to raise taxes sharply in order to have the funds needed to balance our budget. The tax revenues brought in will be used to pay for the many projects that are going on in the United States. This will replace the tax cut that I instituted right after the stock market crash.

In order to stimulate our economy, I am urging state and local governments to increase their spending on public works projects. By raising taxes on incomes earned by those who receive jobs from these work programs, we will be able to fund more federal projects in order to put more people back to work.

These tax increases will allow us to balance the national budget while implementing work programs that put U.S. citizens back to work and restore their dignity.

Please join me in support of this endeavor.

President Herbert Hoover

## Letter #4

*January 1932*

*Dear Tessie,*

*I got your letter today. It was so good to hear from you. Sam can't find work like he was doing in the Ford plant, though he has gone to work at a mechanic shop fixing old cars. Glad you got a radio; we had to let ours go back—we couldn't pay for it. Sam is not making what he used to make. We are trying to sell our house. We owe $2,200 for it and can't make the payment. Trouble is, everyone in our block is doing the same thing. There are houses all over Detroit for sale—even new ones that were built because the government said times were good. I hear people are losing their houses all over the country because they can't make the payments.*

*Sam had invested some money in the stock market. The stock we had was selling for $10 a share. Since the stock market crashed, it is now only worth $2 a share. It could have been worse, though. Thank goodness we had not gotten a loan to buy more shares of stock like Sam wanted to do. We wouldn't be able to repay the money. Our bank was a member bank of the Federal Reserve, so we didn't have to worry about it closing. That was more frightening than a stock market crash. At least we could get our money out of our account at the bank when we needed it.*

*Ford will be hiring soon, so maybe Sam can go back to work at the plant. Boy, I wish that I could make what the owners of the big companies are making. Did you see where 5 percent of them made over 33 percent of the income in America? Though so many people can't afford things right now, the things they can buy are getting cheaper and cheaper. If I only had some money to spend! I hope people can afford to buy the new Fords.*

*Yours,*

*Mae*

## Letter #5

February 1933

Dear Mr. Haralson,

Auditors of our bank have found some areas of concern in the bank's portfolios. We have, per your suggestion as our bank president, invested heavily in the stock market. Since Oct. 29, 1929, the value of our investments has declined sharply. Because of this, will we be able to meet our customers' financial needs?

The newspaper this morning reported that the U.S. unemployment has risen to 25 percent. In our city, unemployment is even higher. Businesses to which we have made loans are closing and firing workers. Home mortgage payments are staying the same, yet many of our customers in this time of high unemployment and low prices are unable to repay their loans, due to the loss of income. We have had to foreclose on many home loans and, because of the flood of houses on the market, we find that we're taking possession of worthless properties that nobody can afford to buy.

These factors concern this bank's board of directors. Please let us know what the plans are to make sure that our bank stays solvent and a good citizen of our community.

Sincerely,

Taylor M. Wydown

Chairman, Bank Board of Directors

## Letter #6

April 1933

Dear President Roosevelt,

We are writing to you in response to your letter. The Federal Reserve Board wants to report that all banks that are members of the Federal Reserve System are doing well. They were provided funds through the Fed's discount window to ensure that banks had enough money on hand to meet consumers' demands. As you know, the discount window is a mechanism for the Fed to extend credit or loans to eligible banks to help those banks meet their customers' needs. We quite agree with Andrew Mellon, former Treasury Secretary, that if we leave the stock market to its own mechanisms, it will eventually correct itself.

In defense of Fed actions, here are some relevant facts that you must consider:

- The discount rate (the rate at which the Federal Reserve lends to commercial banks) was decreased.
- The Federal Reserve has been very liberal in its lending to member banks so the member banks could meet their obligations.
- Our economy is tied to the gold standard. Outflow of gold from the banking system could cause the money stock to decrease. The interest rate must rise sharply if we are to stem the flow of gold out of our Treasury, because higher interest rates will continue to attract dollar deposits.

The Federal Reserve is keeping to the dictates of the laws that put our institution into place. Please note that everything we are doing is within the realm of what can be done by the Federal Reserve.

Respectfully yours,

Board of Governors

Federal Reserve System

## Handout 2.4: Assessment Rubric

| Category | 10 Points | 8-9 Points | 5-6-7 Points | 3-4 Points | 1-2 Points |
|---|---|---|---|---|---|
| **Knowledge of content** | Always provides accurate information and demonstrates a thorough understanding of basic and sophisticated concepts. | Consistently provides accurate information and demonstrates a thorough understanding of the basic concepts. | Frequently provides accurate information and demonstrates average understanding of the basic concepts. | Mixes accurate and inaccurate information and demonstrates less than average understanding of the basic concepts. | Provides little accurate information and demonstrates poor understanding of the basic concepts. |
| **Organization and creativity** | Always clearly connects newsletter components to the overall theme.<br>Extremely clear and logical in describing conditions and economic problems. | Consistently connects newsletter components to the overall theme.<br>Convincing in describing conditions and economic problems. | Frequently connects newsletter components to the overall theme and shows originality.<br>Adequately describes conditions. | Occasionally connects newsletter components to the overall theme.<br>Less than adequately describes conditions. | Rarely connects newsletter components to the overall theme.<br>Provides poor descriptions for economic conditions. |
| **Style** | Extremely persuasive in stating views about the causes of the Great Depression.<br>Always uses correct grammar and punctuation.<br>Writes with great confidence. Notes showed great insight from the information in the lesson. | Persuasive in stating views about the causes of the Great Depression.<br>Consistently uses correct grammar and punctuation<br>Writes with confidence.<br>Notes showed good insight from the information in the lesson. | Frequently persuasive in stating views of the Great Depression.<br>Frequently uses correct grammar and punctuation.<br>Writes with some confidence.<br>Notes showed some insight from information in the lesson. | Occasionally persuasive in stating views of the Great Depression.<br>Occasionally uses correct grammar and punctuation.<br>Writes with little confidence.<br>Notes showed little insight from information in the lesson. | Rarely persuasive in stating views about the Great Depression.<br>Rarely uses correct grammar and punctuation.<br>Writes with very little confidence.<br>Did not use information from the lesson. |
| **Analyses** | Conclusions drawn from the information are always logical and insightful.<br>Statements are always supported by relevant data. | Conclusions drawn from the information are most often logical and insightful.<br>Statements are consistently supported by relevant data. | Conclusions drawn from the information are frequently logical and insightful.<br>Statements are frequently supported by relevant data. | Conclusions drawn from the information are occasionally logical and insightful.<br>Statements are occasionally supported by relevant data. | Conclusions drawn from the information lack logic and insight.<br>Statements are rarely supported by relevant data. |

## 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.

- 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

## Time Required

120-180 minutes

## 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

- 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

## 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.)*

- 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 work-force 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.

- 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.)*

## 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.*

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:*

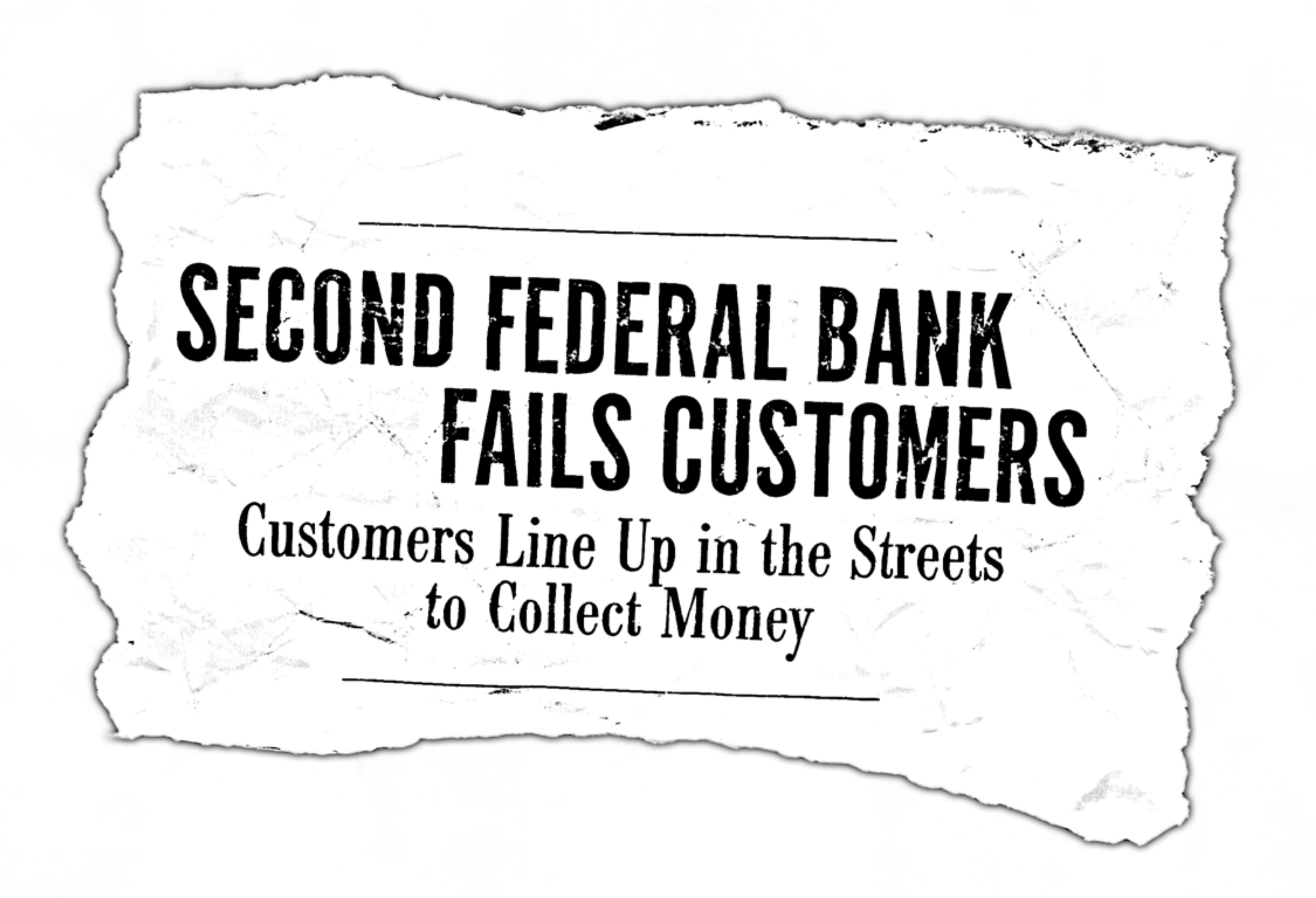
- *It is necessary to have professionals deal with both brush fires and bank panics.*
- *It is important to contain both brush fires and bank panics.*
- *It is better to take action to prevent brush fires and bank panics than to try and stop them.*

## 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 Gopolan | $5,000 |
| Michaela Chepikov | $7,000 |
| Angela Marstall | $6,000 |
| Elaine Gifford | $3,500 |
| Ruth Walls | $10,000 |
| Bella Winston | $5,000 |
| **Total Deposits** | **$44,000** |
| | |
| **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 |
| **Total Loans** | **$37,500** |
| | |
| **RESERVES** | |
| Total Deposits | $44,000 |
| – Total Loans | $37,500 |
| **Reserves** | **$6,500** |

## 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% | $ | % | $ |
| **Total** | **100%** | **$3,000** | **%** | **$2,200** |

* *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

## 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% | $ | % | $ |
| **Total** | **100%** | **$3,600** | **%** | **$2,600** |

* *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% | $ | % | $ |
| **Total** | **100%** | **$3,200** | **%** | **$2,400** |

* *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

## 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% | $ | % | $ |
| **Total** | **100%** | **$2,300** | **%** | **$1,800** |

* *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 X .30 = $900 | % | $ |
| Clothing | 15% | $3,000 X .15 = $450 | % | $ |
| Housing | 30% | $3,000 X .30 = $900 | $900/$2,200 = 41% | $900* |
| Medical care | 4% | $3,000 X .04 = $120 | % | $ |
| Transportation | 10% | $3,000 X .10 = $300 | % | $ |
| Miscellaneous | 6% | $3,000 X .06 = $180 | % | $ |
| Saving | 5% | $3,000 X .05 = $150 | % | $ |
| **Total** | **100%** | **$3,000** | **%** | **$2,200** |

* *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 3.1: 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 X .30 = $1,080 | % | $ |
| Clothing | 15% | $3,600 X .15 = $540 | % | $ |
| Housing | 30% | $3,600 X .30 = $1,080 | $1,080/$2,600 = 42% | $1,080* |
| Medical care | 4% | $3,600 X .04 = $144 | % | $ |
| Transportation | 10% | $3,600 X .10 = $360 | % | $ |
| Miscellaneous | 6% | $3,600 X .06 = $216 | % | $ |
| Saving | 5% | $3,600 X .05 = $180 | % | $ |
| **Total** | **100%** | **$3,600** | **%** | **$2,600** |

* *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 X .25 = $800 | % | $ |
| Clothing | 15% | $3,200 X .15 = $480 | % | $ |
| Housing | 30% | $3,200 X .30 = $960 | $960/$2,400 = 40% | $960* |
| Medical care | 4% | $3,200 X .04 = $128 | % | $ |
| Transportation | 12% | $3,200 X .12 = $384 | % | $ |
| Miscellaneous | 9% | $3,200 X .09 = $288 | % | $ |
| Saving | 5% | $3,200 X .05 = $160 | % | $ |
| **Total** | **100%** | **$3,200** | **%** | **$2,400** |

* *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

## 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 x .03 = $690 | % | $ |
| Clothing | 15% | $2,300 x .15 = $345 | % | $ |
| Housing | 30% | $2,300 x .30 = $690 | $690/$1,800 = 38% | $690* |
| Medical care | 4% | $2,300 x .04 = $92 | % | $ |
| Transportation | 10% | $2,300 x .10 = $230 | % | $ |
| Miscellaneous | 6% | $2,300 x .06 = $138 | % | $ |
| Saving | 5% | $2,300 x .05 =$115 | % | $ |
| **Total** | **100%** | **$2,300** | **%** | **$1,800** |

* *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.

**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

**First Community Banker**
You own the First Community Bank. You accept deposits and make loans. You have $1,000 in reserves.

**Second Federal Banker**
You own the Second Federal Bank. You accept deposits and make loans. You have $700 in reserves.

**Third State Banker**
You own the Third State Bank. You accept deposits and make loans. You have $1,200 in reserves.

**Ralph Smith**
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.

**Andrew Johnston**
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.

**Sarah Anderson**
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.

**Alan Disharoon**
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.

**Marty Walsh**
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.

**John Surial**
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.

**James Fleming**
You are a farmer with an account at Second Federal Bank. You need money to pay for supplies. Withdraw $300 from your account.

**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.

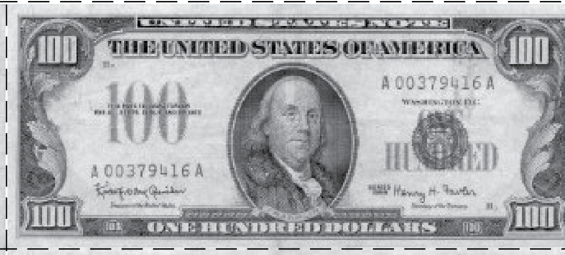
**Sandra Davis**
You give piano lessons in your home. You have been saving money from the lessons at home. You now have $50 to deposit in your account at Third State Bank.

**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.

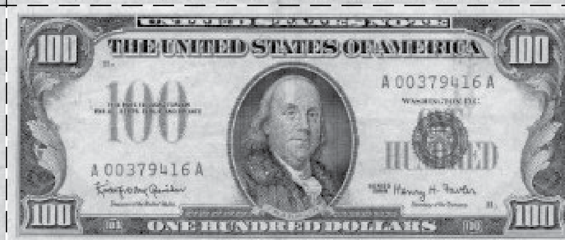
**Marian Taylor**
You work at the library in town. You have an account at Third State Bank. Deposit $50 from this month's earnings in your account.

| | |
|---|---|
| **Albert Smithton**<br>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. | **Harold Hill**<br>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. |
| **Judd Poor**<br>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. | **Roger Williams**<br>You own the local newspaper. You have to pay your paper supplier. Withdraw $300 from your account at Second Federal Bank. |
| **Bill Bailey**<br>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. | **Ed Canter**<br>You work for the railroad loading and unloading freight. You need new work clothes. Withdraw $50 from your account at First Community Bank. |

## Handout 3.5: Currency Cards

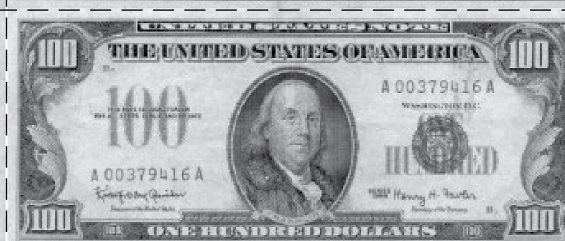





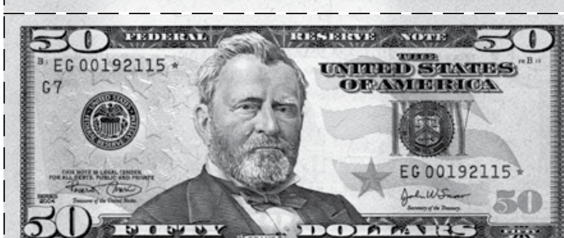


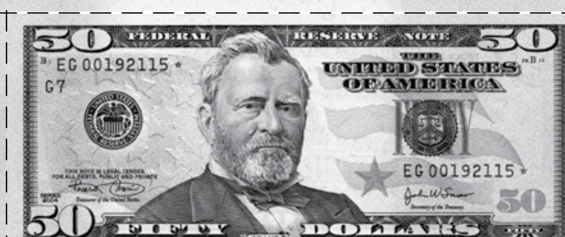








## Handout 3.6: Book Spine Titles

Smoot-Hawley Tariff of 1930—Protectionist Policies

Stock Market Crash of 1929

Bank of the United States Fails

Bank Panics and Suspensions

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.

## Lesson Description

In this lesson, students examine statistical data related to the Great Depression, identify problems and offer solutions. Students reflect on the course of action taken by then-President Franklin Delano Roosevelt (FDR) and focus on New Deal programs. Students classify New Deal programs as relief, reform or recovery and analyze the effects of these programs on the unemployment rate, government spending, Gross Domestic Product (GDP) and the role of government in the economy.

## Concepts

Bank suspensions
Budget deficit
Depression
Fiscal policy
Money supply (stock)
National debt
Real Gross Domestic Product
Unemployment rate

## Objectives

Students will:

- Identify trends in economic data and assess economic conditions.
- Describe the expansion in government spending as a result of the New Deal.
- Describe the increase in the role of government as a result of the New Deal programs.
- Describe the purpose of New Deal programs.
- Analyze the effects of New Deal policies on the U.S. economy.

## Content Standards

### National Standards for History

**Era 8, Grades 9-12**

- **Standard 2:** The New Deal addressed the Great Depression.

### National Standards in Economics

- **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 1, Grade 8: Gross Domestic Product (GDP) is a basic measure of a nation's economic output and income. It is the total market value, measured in dollars, of all final goods and services produced in the economy in one year.

- Benchmark 3, Grade 12: One person's spending is other people's income. Consequently, an initial change in spending (consumption, investment, government or net exports) usually results in a larger change in national levels of income, spending and output.

■ **Standard 19:** Unemployment imposes costs on individuals and nations.

- Benchmark 2, Grade 8: The labor force consists of people ages 16 and over who are employed or actively seeking work.
- Benchmark 1, Grade 12: The unemployment rate is the percentage of the labor force that is willing and able to work, does not currently have a job and is actively looking for employment.

■ **Standard 20**: Federal government budgetary policy and the Federal Reserve System's monetary policy influence the overall levels of employment, output and prices.

- Benchmark 1, Grade 12: Fiscal policies are decisions by the federal government to change spending and tax levels. These decisions are adopted to influence national levels of output, employment and prices.
- Benchmark 2, Grade 12: In the short run, increasing federal spending and/or reducing taxes can promote more employment and output; but, these policies also put upward pressure on the price level and interest rates. Decreased federal spending and/or increased taxes tend to lower price levels and interest rates over the long term, but they reduce employment and output levels in the short run.

### National Council on the Social Studies Strands

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

## Time Required

180 minutes

## Materials

- Visuals 4.1, 4.2, 4.3, 4.4 and 4.5
- Visual 4.5: Answer Key
- A copy of Handouts 4.1 and 4.2 for each student
- A copy of Handout 4.2: Answer Key
- A copy of Handout 4.3 and a pair of scissors for each student or a copy of Handout 4.3, cut apart for each student
- Copies of Handout 4.4, cut apart to make one deck of cards for each group of four students, one deck for the teacher to use in the lesson and one deck for the teacher to use in the assessment
- A copy of Handout 4.5, cut apart for each group of four students

- A copy of Handout 4.6 for each student
- Empty cereal boxes, one per student (provided by the student)
- Butcher paper for wrapping cereal boxes
- A copy of Handout 4.7 or a copy of Handout 4.8 for each student

## Procedures

1. By 1930, business activity had slowed, sales had fallen and unemployment was rising. Many businesses that had borrowed money from banks were unable to repay their loans. Prices were falling, but so were incomes. As income declined, demand for goods and services decreased. Between 1929 and 1933, the dismal facts of bank suspensions, unemployment and financial distress presented a challenge for the United States.

2. Display *Visual 4.1: U.S. Statistical Data* and identify the categories as indicators of the state of the economy from 1929-1933. Distribute a copy of *Handout 4.1: The State of the Economy* to each student and tell the students to read the handout and analyze the data to identify trends in each category. Discuss the following:

    - **Bank suspensions** include all banks closed to the public, because of financial difficulties.
    - What happened to the number of bank suspensions between 1929 and 1933? *(Each year except 1931-1932 shows an increase in the number of bank suspensions.)*
    - Why is the number of bank suspensions important? *(When the banks closed, people lost their money and their confidence in banks. People withdrew their money, causing more banks to close.)*
    - The **unemployment rate** is the percentage of the labor force that is willing and able to work, does not currently have a job and is actively looking for work. The labor force consists of people who are 16 years or older and are employed or actively seeking work.
    - What happened to the unemployment rate during these years? *(The unemployment rate increased each year.)*
    - Per capita personal income is the average income per person.
    - What happened to per capita personal income during these years? *(Per capita personal income decreased each year.)*
    - **Real Gross Domestic Product** (GDP) is the total market value of all final goods and services produced in an economy in a given year, adjusted for inflation.
    - What happened to real GDP each year? *(Each year, real GDP decreased. This means that output of goods and services in the economy was declining each year.)*
    - What conclusion can you draw about the standard of living for families during this time? *(People were unemployed, and average family income was falling. People were able to buy fewer goods and services. The standard of living was declining.)*
    - The economy was experiencing a depression. A **depression** is a period of severely declining economic activity spread across the economy (not limited to particular sectors or regions) normally visible in real GDP (an actual decrease in GDP, not just a slowing of GDP

growth), real income, employment, industrial production, wholesale-retail credit and the loss of the overall confidence in the economy.

3. Tell students that when banks failed, depositors lost their money—and people lost confidence in the banking system. As a result, people who still had money in banks rushed to withdraw it. The money supply (stock) declined. **Money supply (stock)** is the amount of currency, coins and checkable deposits people have. People who were unemployed had no income and were unable to purchase goods and services, which resulted in decreased GDP. With so many problems, people began to lose confidence in the economy.

4. Give each student a copy of *Handout 4.2: U.S. Statistical Data Questions* and divide the class into pairs. Allow time for the student pairs to answer the questions.

   After students have completed the activity, allow time for them to share and defend their responses to the 10 questions. Use *Handout 4.2: U.S. Statistical Data Questions—Answer Key* to check student answers. Ask the students the following questions:

   - If you were an American citizen during this period of time, would you be happy with the direction in which the economy was going? *(Answers will vary.)*
   - Would you be ready for a change in leadership? *(Answers will vary.)*
   - Would you vote for a new president? *(Answers will vary.)*

5. Tell the class that Herbert Hoover was the president in 1932, and Franklin Delano Roosevelt (FDR) ran against him with this message: "I pledge you, I pledge myself, to a new deal for the American people." Although at that time FDR did not know everything that his "new deal" would include, he made the pledge that things would be different for the American people.

6. Display *Visual 4.2: FDR's Quote*, and ask a student to read FDR's proposed plan.

7. Ask students if they think FDR was justified in using the words "distress," "employment" and "relief" to address the concerns of the economy. *(Answers will vary.)* According to his words, what role would government play in his plan? *(Government would assume greater responsibility. Government has an obligation to provide relief and recovery—relief in assuring that no citizen should starve, and recovery in providing temporary work.)*

8. Distribute a set of cards from *Handout 4.3: It IS a New Deal Cards* or a copy of Handout 4.3 and a pair of scissors to each student. Display *Visual 4.3: It IS a New Deal Cartoon.* Discuss the programs and tell students to take notes on the appropriate cards for use later.

   - Franklin Delano Roosevelt (FDR) won the election and became the president of the United States on March 4, 1933. In his inaugural address, he said:

     "The only thing we have to fear is fear itself. Our greatest primary task is to put people to work. This is no unsolvable problem if we face it wisely and courageously. It can be accomplished in part by direct recruiting by the government itself, treating the task as we would treat the emergency of war, but at the same time, through this employment, accomplishing greatly needed projects to stimulate and reorganize the use of our natural resources."

- After the inauguration, FDR's first act as president was to deal with the nation's banking crisis. He knew that it was critical to restore public confidence in the nation's banks.
- FDR ordered all banks—including the Federal Reserve banks—to close, and he declared a bank holiday in order to ensure that banks were financially sound.
- On March 9, 1933, FDR called a special session of Congress. The Emergency Banking Act, which authorized the government to inspect the financial health of all banks, was immediately passed. This provided for the reopening of the banks as soon as examiners had found them to be financially secure. Within three days, 5,000 banks had reopened.
- Later, the 1933 Banking Act (Glass-Steagall Banking Act) was passed, giving the Federal Reserve Board tighter control of the investment practices of banks, and the Federal Deposit Insurance Corporation (FDIC) was set up to insure all deposits in banks up to $2,500. This amount was increased in 1934 to $5,000. Currently, the amount is $100,000 per accountholder per institution.
- Roosevelt's policies restored confidence in the banking system, and money poured back into the banks.
- The money stock began to expand. This fueled increased spending and production, as well as rising prices.
- Economic recovery was slow, but at least the bottom had been reached, and the corner turned.

9. Ask students why they think that FDR made the banking crisis his first priority. *(He knew that it was critical that he restore public confidence in the economy and the banking system.)* Continue the discussion of the cards on the visual as follows:
    - In the 1930s, the United States was on the gold standard, meaning that the U.S. government would exchange dollars for gold at a fixed price. Commercial banks and the Federal Reserve banks held portions of their reserves in the form of gold coin and bullion as required by law.
    - An increase in the gold reserves would tend to inflate the money stock, and a decrease in gold reserves would tend to decrease the money stock. After his inauguration, FDR abandoned the gold standard. Because gold was no longer exchanged for dollars, the U.S. gold stock was protected. In addition, going off the gold standard had the effect of devaluing the U.S. dollar relative to other currencies. This encouraged exports and stimulated demand for domestic products relative to foreign ones.
    - FDR also immediately implemented several policies, including an aggressive fiscal expansion that affected the federal government's budget. **Fiscal policies** are the spending and taxing policies used by the federal government to influence the economy. Explain that in a special session of Congress that became known as "the Hundred Days," Roosevelt pushed many programs through that provided the basis for the New Deal. These programs were an effort to decrease unemployment, increase output, and push prices and wages back up.

10. The New Deal programs are sometimes referred to as "alphabet soup." There were two parts of the New Deal—1933-1934 and 1935-1941. The goal of the New Deal was to restore confidence in the economy. It focused on three areas—relief, recovery and reform:
    - relief programs to help immediately
    - recovery programs to help rebuild
    - reform programs to prevent the disaster from reoccurring

11. Divide the class into small groups of four students. Give each group a deck of cards made from *Handout 4.4: New Deal Cards* and a set of label mats from *Handout 4.5: Label Mats.* Instruct students to read the cards and sort them into groups based on what the initial intent for the program was—relief, recovery or reform. If a card describes a program that fits into more than one category, students should place the card in a fourth group, "combination." After groups have their cards sorted, discuss the following:
    - What features were common to the cards you put together in a category? *(Answers will vary.)*
    - Why might some programs fit in more than one category? *(Answers will vary, but students might suggest that a program that employed people to build dams, roads and bridges contributed to recovery and relief.)*

12. Tell students that there are no exact answers. However, relief programs attempted to employ people. Frequently, the projects on which people were employed were visible to the public, such as road improvements, art and so forth. Ask students for examples of programs that satisfy these criteria. *(Answers could include WPA, FERA, The Federal Theatre Project, etc.)*

13. Explain that reform programs for the most part involved legislation that would help prevent such a disaster in the future. Most of the legislation focused on banks, labor and labor unions. Ask students for examples of programs that satisfy these criteria. *(Answers could include Fair Labor Standards Act of 1938, Federal Deposit Insurance Corporation, etc.)*

14. Explain that recovery programs attempted to help particular nonbank sectors of the economy recover. These included the agricultural sector and the housing sector. Ask students for examples of programs that fit these criteria. *(Answers could include Farm Security Administration, Agricultural Adjustment Administration, etc.)*

15. Explain that although cards could be categorized in different ways, based on the previous discussion, students should put the cards numbered 3, 4, 7, 9, 14, 18, 19 and 22 on the mat labeled "reform." Tell students to put cards numbered 13, 17 and 20 on the mat labeled "recovery." Tell students to put cards numbered 2, 5, 6, 8, 10, 11, 12, 15, 21 and 23 on the mat labeled "relief."

16. Ask students which cards remain. (*1 and 16)* Point out that these programs represent a combination—for example, card 16, the Public Works Administration (PWA). The PWA provided relief, but some of the items that were built (bridges, dams and so forth) contributed to recovery.

17. Display *Visual 4.4: U.S. Statistical Data 1929-1938*, and identify the categories as indicators of the state of the economy from 1929-1938. Ask students to analyze the data to identify trends in each category. *(The unemployment rate increased until 1933 and then began to decrease; GDP decreased until 1933 and then began to increase; and federal spending increased from 1929 to 1936, except for slight decreases in 1933 and 1935, and then decreased in 1937 and 1938.)*

18. Explain that the federal government had to borrow large amounts of money to pay for New Deal programs. When federal government expenditures exceed the revenue collected by the government in a year, the government has a **budget deficit**. The government borrows money to cover the amount of expenses not covered by revenue, which creates government debt. **National debt** is the accumulation of deficits.

    - As a result of New Deal spending, the national debt rose from approximately $21 billion in 1933 to almost $43 billion by 1940. The deficit during FDR's first fiscal year was the highest in U.S. history up to that time, outside of war.

19. Distribute a card from handout 4.4 to each student. Tell students with cards numbered 3, 4, 7, 9, 14, 18, 19 and 22 to form the "reform" group. Tell students with cards numbered 2, 5, 6, 8, 10, 11, 12, 15, 21 and 23 to form the "relief" group. Tell students with cards numbers 1, 13, 16, 17 and 20 to form the "recovery/combination" group.

20. Display *Visual 4.5: Effects of New Deal Programs*. Tell groups of students to review the programs in their category (relief, reform, recovery) and decide whether their programs caused an increase, decrease or had mixed effects on each variable listed on the chart—unemployment rate, government spending, GDP, confidence level and role of government. Point out that mixed effects would mean that some of their programs caused an increase in a variable while other programs caused a decrease in the variable.

21 Allow time for groups to work, then ask each group to report its answers. As groups report, circle the appropriate symbol in each column—a ↑ for an increase, a ↓ for a decrease or an **M** for mixed results. Suggested answers are on *Visual 4.4: Effects of the New Deal Programs—Answer Key.* Discuss the following.

    - Looking at the results recorded in the table, what result is common to nearly all programs? *(increased role of government in the economy)*
    - What result was common to most of the programs? *(increased consumer confidence in the economy)*
    - In which of the areas were the program results more mixed? *(the effects on unemployment, the effect on GDP, etc.)*

22. Point out that the National Labor Relations Act (Wagner Act) of July 1935 could have contributed to an increase in unemployment because closed shops eliminate the possibility of employment for nonunion workers and could have a negative effect on production. The National Recovery Act could have reduced employment. The Revenue Act of 1935 (Wealth Tax Act) would have contributed to a decline in GDP growth because it was a disincentive to produce.

## Closure

23. Refer the students to the cards from *Handout 4.3: It IS A New Deal Cards* on which they took notes, and display *Visual 4.3: It IS a New Deal*. Point out that the cards represent important elements of the New Deal. Discuss the following:

    - What are the elements shown on the visual? *(banking holiday and banking legislation, changes in the budget, a plan referred to in the inaugural address, protection of U.S. gold)*
    - Why was the banking holiday and banking legislation important? *(to restore citizens' confidence in the banking system so that people would be willing to put their money in banks again; to reform the system so that people would have some confidence that such bank problems wouldn't occur in the future)*
    - To what budget changes does the cartoonist refer? *(spending on the wide variety of New Deal programs)*
    - What was the impact of the government spending on the budget? *(deficits which contributed to national debt—pushing national debt to the highest levels ever seen up to that time except during times of war)*
    - What was the purpose of the New Deal programs? *(immediate relief for citizens, recovery for growth and reform to prevent such problems in the future)*
    - What was the effect of the New Deal on the role of government in the economy? *(Government took on more responsibility for citizens' well-being and for regulation, which resulted in a larger role for government.)*
    - What was the effect of the New Deal on federal government spending? *(increased government spending to the highest it had been, up to that time, outside of war)*
    - In general, what was the effect of the New Deal programs on citizens' confidence in the banking system and the economy? *(increased levels of confidence)*

24. Point out that some of the New Deal programs had negative impacts on unemployment and GDP, which may have slowed recovery. Indeed, economists do not agree on the effectiveness of the New Deal, but most will agree that the confidence it gave to people helped rebuild the banking system, which was then instrumental to economic recovery.

    Perhaps the conclusion is best stated by Federal Reserve Chairman Ben Bernanke. He has written that President Roosevelt's most important contribution to ending the Great Depression was "his willingness to be aggressive and experiment."

## Assessment

25. Tell students to use an empty cereal box from home. Distribute a piece of butcher paper to each student. Point out that cereal boxes are designed to appeal to consumers through the use of color, pictures, sometimes games and cartoons on the box, and product information. Point out that FDR had to present his New Deal in much the same way. In order to get Congress to increase government spending and expand the fiscal policy, the New Deal programs had to be presented as appealing and worthy of the expense.

- Give each student a card from *Handout 4.4: New Deal Card,* and a copy of *Handout 4.6: New Deal Box*. Instruct students to follow the directions to create New Deal boxes for the New Deal programs on their cards. Tell students to search the internet for cartoons, pictures and historical information in reference to the New Deal. (possible web site: www.nisk.k12.ny.us/fdr)
- Ask each student to write a paragraph that explains his or her New Deal box and a paragraph explaining the effects of the highlighted program on the unemployment rate, gross domestic product, government spending and confidence. Display the completed New Deal boxes along with the paragraphs in the classroom or in the school library.

26. Distribute either a copy of *Handout 4.7: Assessment Editorial Cartoon* or *Handout 4.8: Assessment Editorial Cartoon 2* to each student. Tell students to review their note cards and other information learned from the lesson. Ask them to use the information to answer the following questions about the editorials.
    - To what card(s) does the cartoon refer?
    - In what way does the cartoon reflect confidence in Roosevelt and his programs?

*Answers: Handout 4.7 refers to all aspects of FDR's plan. It implies the changes in banking legislation, as well as budgetary changes he will make. The cartoon shows Congress willingly handing the broom to President Roosevelt, which implies confidence on the part of Congress in Roosevelt's ability to improve the situation. Handout 4.8 refers to banking legislation as well as the federal budget. Roosevelt is holding the nose of Congress to the grindstone in an effort to get his programs passed. It shows the public's confidence in Roosevelt's ability to get the job done.*

## Visual 4.1: U.S. Statistical Data

### U.S. STATISTICAL DATA
### 1929 - 1933

| Year | Number of Bank Suspen-sions | Unemploy-ment Rate | Per Capita Personal Income | Real GDP (in millions of dollars) |
|---|---|---|---|---|
| 1929 | 659 | 3.2% | $698 | $951.7 |
| 1930 | 1352 | 8.9% | $619 | $862.1 |
| 1931 | 2294 | 16.3% | $526 | $788.8 |
| 1932 | 1456 | 24.1% | $399 | $682.9 |
| 1933 | 4004 | 25.2% | $372 | $668.6 |

SOURCES:

- Bank suspensions are from *Banking and Monetary Statistics 1914-1941*, Board of Governors of the Federal Reserve System, Washington, D.C., 1976. For additional data go to http://fraser.stlouisfed.org/publications/bms/.
- Unemployment data from Robert J. Gordon *Macroeconomics* 8th ed., Addison-Wesley, 2000, Table A-1 Time Series Data for the US Economy: 1875-1999.
- Per capita personal income from www.bea.gov/bea/regional/spi/drill.cfm.
- Real GDP from Robert J. Gordon *Macroeconomics* 8th ed., Addison-Wesley, 2000, Table A-1 Time Series Data for the U.S. Economy: 1875-1999.

## Visual 4.2: FDR's Quote

"We have two problems: First, to meet the immediate distress; second, to build up a basis of permanent employment. As to immediate relief, the first principle is that this nation, this national government if you like, owes a positive duty that no citizen shall be permitted to starve. In addition to providing emergency relief, the federal government should and must provide temporary work wherever that is possible."

*Franklin D. Roosevelt*
*October 1932*

## Visual 4.3: It IS a New Deal

It IS a New Deal


Talburt in *The Pittsburgh Press*
Reprinted with permission of Scripps-Howard News Service

## Visual 4.4: U.S. Statistical Data 1929-1938

### U.S. STATISTICAL DATA 1929 - 1938

| Year | Unemployment Rate | Real GDP (in billions of dollars) | Federal Spending (in millions of dollars) |
|---|---|---|---|
| 1929 | 3.2% | $951.7 | $3,127 |
| 1930 | 8.9% | $862.1 | $3,320 |
| 1931 | 16.3% | $788.8 | $3,577 |
| 1932 | 24.1% | $682.9 | $4,659 |
| 1933 | 25.2% | $668.6 | $4,598 |
| 1934 | 22.0% | $719.8 | $6,541 |
| 1935 | 20.3% | $778.2 | $6,412 |
| 1936 | 17.0% | $888.2 | $8,228 |
| 1937 | 14.3% | $932.5 | $7,580 |
| 1938 | 19.1% | $890.8 | $6,840 |

SOURCES:

- Unemployment data from Robert J. Gordon *Macroeconomics* 8th ed., Addison-Wesley, 2000, Table A-1 Time Series Data for the U.S. Economy: 1875-1999.
- Real GDP from Robert J. Gordon *Macroeconomics* 8th ed., Addison-Wesley, 2000, Table A-1 Time Series Data for the US Economy: 1875-1999.
- Federal spending from Robert J. Gordon *Macroeconomics* 8th ed., Addison-Wesley, 2000, Table A-1 Time Series Data for the US Economy: 1875-1999.

## Visual 4.5: Effects of New Deal Program

What result would each program have on these variables?

| Type of Program | Unemploy-ment Rate | Government Spending | GDP | Confidence Level | Role of Government |
|---|---|---|---|---|---|
| **Relief** | ↑ ↓ M | ↑ ↓ M | ↑ ↓ M | ↑ ↓ M | ↑ ↓ M |
| **Reform** | ↑ ↓ M | ↑ ↓ M | ↑ ↓ M | ↑ ↓ M | ↑ ↓ M |
| **Recovery/ Combination** | ↑ ↓ M | ↑ ↓ M | ↑ ↓ M | ↑ ↓ M | ↑ ↓ M |

## Visual 4.5: Effects of New Deal Program—Answer Key

What result would each program have on these variables?

| Type of Program | Unemploy-ment Rate | Government Spending | GDP | Confidence Level | Role of Government |
|---|---|---|---|---|---|
| **Relief** | ↑ ↓ M | ↑ ↓ M | ↑ ↓ M | ↑ ↓ M | ↑ ↓ M |
| **Reform** | ↑ ↓ M | ↑ ↓ M | ↑ ↓ M | ↑ ↓ M | ↑ ↓ M |
| **Recovery/ Combination** | ↑ ↓ M | ↑ ↓ M | ↑ ↓ M | ↑ ↓ M | ↑ ↓ M |

## Handout 4.1: The State of the Economy

**Bank suspensions:** The term bank suspension includes all banks closed to the public, either temporarily or permanently, by supervisory authorities or by the bank's boards of directors because of financial difficulties. Banks that closed under a special holiday declaration and remained closed only during the designated holiday are not counted as suspensions.

From 1929-1933, as many as one-fifth of all banks suspended operations, and around 15 percent of people's life savings had been lost. U.S. citizens were losing faith in banks and were withdrawing their money.

**Unemployment rate:** The unemployment rate is the percentage of the labor force that is willing and able to work, does not currently have a job, and is actively looking for employment. The labor force consists of people ages 16 and over who are employed or actively seeking work. When unemployment exists, an economy's production is less than its potential.

**Per capita personal income**: Per capita personal income is the average annual income per person.

**Real GDP:** Gross Domestic Product is the total market value of all final goods and services produced in an economy in a given year. Real GDP statistics are adjusted for inflation.

**Depression:** Depression is a period of severely declining economic activity spread across the economy (not limited to particular sectors or regions) normally visible in real GDP (an actual decrease in GDP, not just a slowing of GDP growth), real income, employment, industrial production, wholesale-retail credit and the loss of the overall confidence in the economy.

## Handout 4.2: U.S. Statistical Data Questions

### U.S. STATISTICAL DATA 1929 - 1933

| Year | Number of Bank Suspensions | Unemployment Rate | Per Capita Personal Income | Real GDP (in millions of dollars) |
|---|---|---|---|---|
| 1929 | 659 | 3.2% | $698 | $951.7 |
| 1930 | 1352 | 8.9% | $619 | $862.1 |
| 1931 | 2294 | 16.3% | $526 | $788.8 |
| 1932 | 1456 | 24.1% | $399 | $682.9 |
| 1933 | 4004 | 25.2% | $372 | $668.6 |

SOURCES:

- Bank suspensions are from *Banking and Monetary Statistics 1914-1941*, Board of Governors of the Federal Reserve System, Washington, D.C., 1976. For additional data go to http://fraser.stlouisfed.org/publications/bms/.
- Unemployment data from Robert J. Gordon *Macroeconomics* 8th ed., Addison-Wesley, 2000, Table A-1 Time Series Data for the US Economy: 1875-1999.
- Per capita personal income from www.bea.gov/bea/regional/spi/drill.cfm.
- Real GDP from Robert J. Gordon *Macroeconomics* 8th ed., Addison-Wesley, 2000, Table A-1 Time Series Data for the U.S. Economy: 1875-1999.

**Answer the questions below in the space provided:**

1. From what year to what year did bank suspensions increase the most?

2. By how many percentage points did the unemployment rate increase from 1929 to 1933?

3. How much did the per capita income decrease from 1929 to 1933?

4. In terms of dollar amount, how much did GDP decrease between 1929 and 1933?

5. The greatest dollar decrease in GDP occurred between which two years?

6. Which year had the greatest number of bank suspensions?

7. Which year had the highest unemployment rate?

8. Which year had the smallest per capita income?

9. If you were the president and had the means of changing the trends in the categories of the chart but could only change one category at a time, prioritize the categories according to urgency. Explain your prioritized list.

   A.

   B.

   C.

   D.

10. If you were the president and could implement programs that would decrease the unemployment rate, what effects would likely be seen in per capita income? In GDP? Explain your answers.

## Handout 4.2: U.S. Statistical Data Questions—Answer Key

### U.S. STATISTICAL DATA
### 1929 - 1933

| Year | Number of Bank Suspensions | Unemployment Rate | Per Capita Personal Income | Real GDP (in millions of dollars) |
|---|---|---|---|---|
| 1929 | 659 | 3.2% | $698 | $951.7 |
| 1930 | 1352 | 8.9% | $619 | $862.1 |
| 1931 | 2294 | 16.3% | $526 | $788.8 |
| 1932 | 1456 | 24.1% | $399 | $682.9 |
| 1933 | 4004 | 25.2% | $372 | $668.6 |

1. From what year to what year did bank suspensions increase the most? *(1932 to 1933)*
2. By how many percentage points did the unemployment rate increase from 1929 to 1933? *(22 percent)*
3. How much did the per capita income decrease from 1929 to 1933. *($326; almost one-half)*
4. In terms of dollar amount, how much did the GDP decrease between 1929 and 1933? *($283.1 million)*
5. The greatest decrease in GDP occurred between which two years? *(between 1931 and 1932; decreased $105.9 million)*
6. Which year had the greatest number of bank suspensions? *(1933)*
7. Which year had the highest unemployment rate? *(1933)*
8. Which year had the smallest per capita income? *(1933)*
9. If you were the president and had the means of changing the trends in the categories of the chart but could only change one category at a time, prioritize the categories according to urgency. Explain your prioritized list.

   *(Answers will vary.)*

10. If you were the president and could implement programs that would decrease the unemployment rate, what effects would likely be seen in per capita income? In GDP? Explain your answers. *(Per capita income would likely increase, and GDP would likely increase. If people who were not working got a job, per capita incomes would rise. These people have income to spend and would put money in circulation. If people wanted to buy more goods and services with their incomes, then businesses would produce more goods and services, so GDP would increase.)*

## Handout 4.3: It IS a New Deal Cards

Directions: Cut out the cards. Take notes on the appropriate card as each topic is discussed. Use the back of each card as needed for additional notes.

A ♦ **Inaugural Address**

A ♠ **Bank Holiday**

A ♥ **Budget Message**

A ♣ **Protection of Gold**

K ♠ **Bank Legislation**

## Handout 4.4: New Deal Cards

**The Agriculture Adjustment Administration (AAA)** of 1933 raised farm prices through subsidies. It paid farmers not to raise certain crops and livestock, hoping that lower production would cause prices to rise. The Supreme Court struck down the tax that funded AAA subsidies to farmers. The Civil Works Administration (CWA) was a public works program funding jobs ranging from ditch digging to highway repairs to teaching. Created in November 1933, it was criticized as "make work" and abandoned in the spring of 1934. It provided a psychological and physical boost to its 4 million workers.
1

**The Civilian Conservation Corps (CCC)** of 1933 put 2.5 million men to work in a variety of conservation projects: planting trees to combat soil erosion and maintain national forests; eliminating stream pollution; creating fish, game and bird sanctuaries; and conserving coal, petroleum, shale, gas, sodium and helium deposits. Workers earned only $1 a day but received free board and job training. From 1934 to 1937, this program funded similar programs for 8,500 women. It taught men and women of America how to live independently, thus increasing self-esteem.
2

**Emergency Banking Act** On March 6, 1933, FDR shut down all the banks in the nation and forced Congress to pass this Act. It gave the government the opportunity to inspect the health of all banks. This re-established citizens' faith in banks. Inspectors found that most banks were healthy, and two-thirds of all banks were allowed to open soon after.
3

**The Fair Labor Standards Act of 1938** banned child labor and set a minimum wage. It also established a normal work week of 40 hours.
4

**The Farm Security Administration (FSA)** was created in 1937 (formerly called the Resettlement Administration in 1935) to aid sharecroppers.
5

**The Federal Art Project (FAP)** of 1935 was a part of the Works Progress Administration (WPA). This cultural program employed 5,300 artists at its height in 1936. Murals, paintings, sculptures and photography were all part of this program.
6

**The Federal Deposit Insurance Corporation (FDIC)** was established by the Glass-Steagall Banking Act of 1933 to insure bank deposits of up to $5,000.
7

**The Federal Emergency Relief Administration (FERA)** of 1933 put money into public works programs, which were government-funded projects to build public facilities and create jobs.
8

**The Federal Housing Administration (FHA)** of 1934 worked to improve housing standards and conditions and to insure mortgages.
9

**The Federal Music Project (FMP)** of 1935 was a part of the Works Progress Administration (WPA). This cultural program employed about 16,000 musicians at its peak.
10

**The Federal Theatre Project (FTP)** of 1935 was a part of the Works Progress Administration (WPA) and employed 12,700 theatre workers at its peak. The Federal Theatre units presented more than 1,000 performances each month before nearly 1 million people. There were 1,200 plays produced in the four years of the project.
11

**The Federal Writers Project (FWP)** of 1935 was a part of the Works Progress Administration (WPA). This cultural program employed about 6,686 writers at its peak in 1936. It produced 3.5 million copies of 800 titles by 1941.
12

**The National Recovery Act (NRA)** of 1933 was known as the "Blue Eagle" from its popular symbol. Accompanied by the slogan "We Do Our Part," the NRA established codes for fair business practices. These codes regulated wages, working conditions, production and prices, and set a minimum wage. The Supreme Court invalidated the NRA in 1935. Some think that it hampered recovery by allowing the formation of cartels, restricting competition and reducing employment.
13

**The National Labor Relations Act** (Wagner Act) of July 1935 legalized collective bargaining and closed shops (workplaces open only to union members). Although it was designed to bring about industrial peace, it led to a wave of strikes, many of which were sit-down strikes. These tactics, although not always successful, proved quite powerful. In 1939, the Supreme Court outlawed the sit-down strike as being too potent a weapon and an obstacle to negotiation.
14

**National Youth Administration (NYA)** created under the Emergency Relief Act of 1935, provided more than 4.5 million jobs for young people. It gave part-time employment to students, established training programs and provided aid to unemployed youth.
15

**The Public Works Administration (PWA)** of 1933 launched projects, such as the Grand Coulee Dam on the Columbia River. It was intended both for industrial recovery and unemployment relief. Eventually more than $4 billion was spent on 34,000 construction projects. One of these projects was San Francisco's Golden Gate Bridge.
16

**The Rural Electrification Administration (REA)** of 1935 offered loans to electric companies and farm cooperatives for building power plants and extending power lines.
17

**The Securities and Exchange Commission (SEC)** of 1934 required full disclosure of information on stocks being sold. The SEC regulated the stock market. Congress also gave the Federal Reserve Board the power to regulate the purchase of stock on margin.
18

**The Social Security Act of 1935** established the administration of a national pension fund for the aged and unemployed, as well as public assistance for dependent mothers, children and disabled people. It was financed by a payroll tax based on employer and employee contributions.
19

**Tennessee Valley Authority (TVA)** The Tennessee Valley Authority was created for the economic development of the Tennessee River watershed. Many jobs were created as a result of 20 dams built to control flooding, generate electricity and increase agricultural production.
20

**The Works Progress Administration (WPA)** was a part of the second phase of the New Deal. From 1935 until 1943, this agency provided work for about 3 million workers at a time. By 1943, it had helped between 8 million and 9 million people. Under the WPA, buildings, roads, airports and schools were constructed. Actors, painters, musicians and writers were employed through the Federal Theatre Project, the Federal Art Project and the Federal Writers Project.
21

**The Revenue Act of 1935** (Wealth Tax Act) raised the tax rate on individual incomes that exceeded $50,000 and also increased rates on the income and profits of corporations.
22

**The Civil Works Administration (CWA)** was a public program funding jobs ranging from ditch digging to highway repairs to teaching. Created in November 1933, it was criticized as "make work" and abandoned in the spring of 1934. It provided a psychological and physical boost to its 4 million workers.
23

## Handout 4.5: Label Mats

| | |
|---|---|
| **RELIEF** | **REFORM** |
| **RECOVERY** | **COMBINATION** |

## Handout 4.6: New Deal Box

**Directions:**

1. Cover an empty cereal box with colored paper.
2. Conduct research to learn about the assigned New Deal program. Suggestions for research sources: www.fdrheritage.org, www.nisk.k12.ny.us/fdr/, www.fdrlibrary.marist.edu/
3. Use the research to create a New Deal box which includes at least the listed criteria.

Front of box:

- Complete name of the New Deal program
- Abbreviation of the New Deal program
- Art relating to the program
- A phrase about the program
- Purpose of the New Deal program

Top of box:

- Dates of program
- Purpose of program (relief, reform, recovery)

Side panel one:

- Following the "Nutrition Facts" format found on a cereal box, create a "Program Effects on the Economy" table that indicates an increase, decrease or no change of at least these five categories: unemployment rate, government spending, GDP, confidence-building and the role of government. Optional categories may include per capita income, specific population groups affected, specific purpose of program or other relevant information.

Example:

| **ABC EFFECTS ON ECONOMY** | |
|---|---|
| Unemployment rate | |
| Government spending | |
| GDP | |
| Confidence building | |
| Role of government | |

- Biographical information about Franklin D. Roosevelt
- Your name as the creator of the New Deal Box near the bottom of the panel

Side panel two:

- Description of the program in paragraph form
- Description of end of program or its current-day status

Back panel:

- The entire back of the box should have a game, word search, puzzle or cartoon about the New Deal program. Suggestions for puzzles and games: http://puzzlemaker.com.

## Handout 4.7: Assessment Editorial Cartoon


Morris in *The Hoboken Observer*, March 4, 1933
Property of *The New Jersey Journal*
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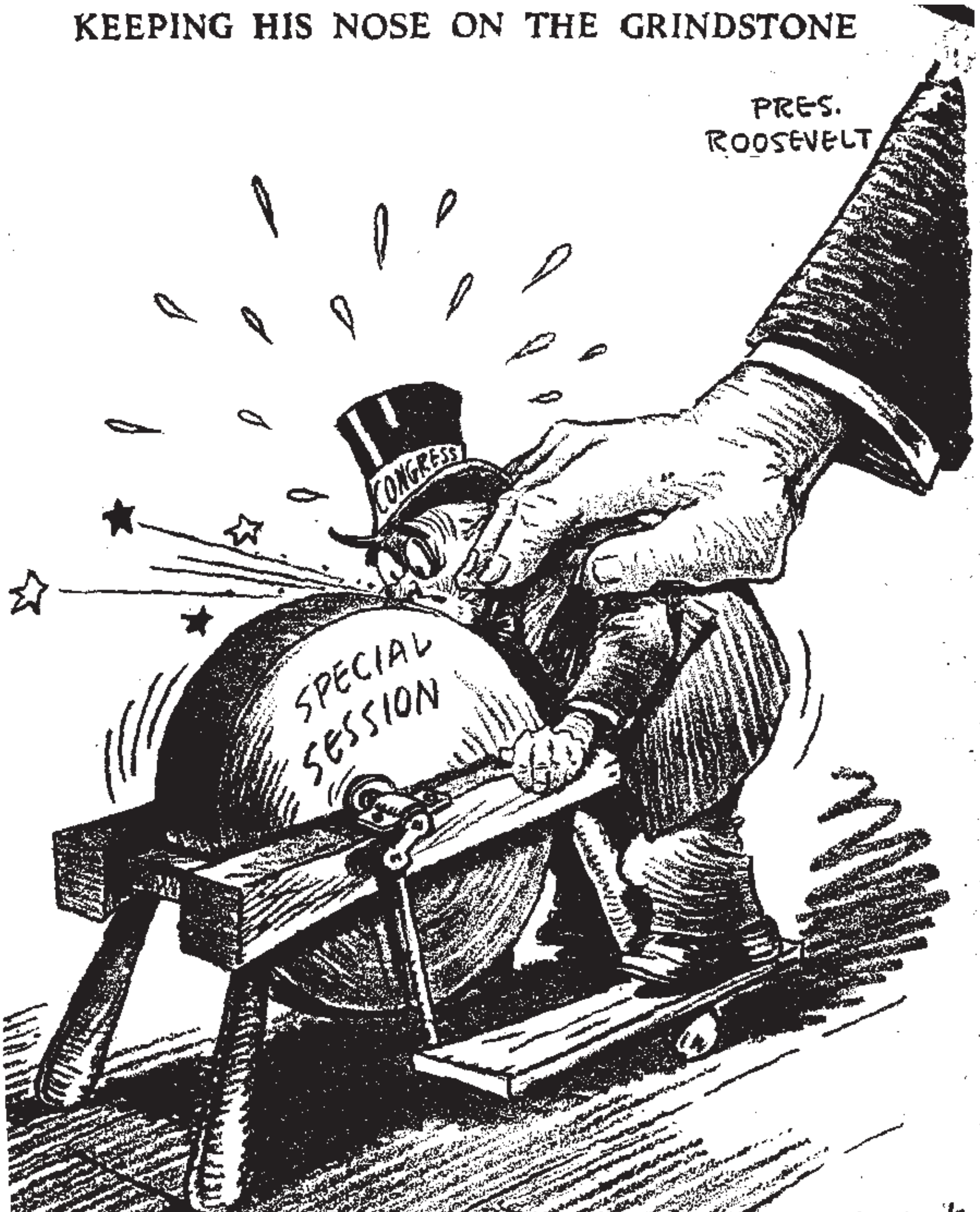
## Handout 4.8: Assessment Editorial Cartoon 2



## Lesson Description

In this lesson, students are given excerpts from Franklin Delano Roosevelt's "fireside chats" and categorize the excerpts according to economic problems. After identifying economic problems and FDR's comments on the problems, students simulate a fireside chat by making a recording for the class. After listening to the recordings, students complete a simple consumer confidence survey concerning their reactions to the recording. To conclude the lesson, students identify and evaluate a current economic problem and apply the strategy of FDR to promote and build confidence in a proposed solution.

## Concepts

Balanced budget
Consumer confidence
Money supply (stock)
Personal income
Real Gross Domestic Product
Unemployment
Unemployment rate

## Objectives

Students will:

- Explain why improved confidence was important to the U.S. recovery from the Great Depression.
- Analyze the effect of direct communication with U.S. citizens in restoring confidence in the economy during the Great Depression.
- Explain the significance of a consumer confidence survey.

## Content Standards

### National Standards for History

**Era 8, Grades 9-12**

- **Standard 2:** The New Deal addressed 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 19:** Unemployment imposes costs on individuals and nations.

- Benchmark 2, Grade 8: The labor force consists of people ages 16 and over who are employed or actively seeking work.
- Benchmark 1, Grade 12: The unemployment rate is the percentage of the labor force that is willing to work, does not currently have a job and is actively looking for employment.

■ **Standard 20:** Federal government budgetary policy and the Federal Reserve System's monetary policy influence the overall levels of employment, output and prices.

- Benchmark 1, Grade 12: Fiscal policies are decisions by the federal government to change spending and tax levels. These decisions are adopted to influence national levels of output, employment and prices.
- Benchmark 2, Grade 12: In the short run, increasing federal spending and/or reducing taxes can promote more employment and output, but these policies also put upward pressure on the price level and interest rates. Decreased federal spending and/or increased taxes tend to lower price levels and interest rates over the long term, but they reduce employment and output levels in the short run.

### National Council for the Social Studies Strands

- ■ Time, continuity and change
- ■ Power, authority and governance
- ■ Production, distribution and consumption
- ■ Science, technology and society
- ■ Civics, ideals and practices

## Time Required

120 minutes

## Materials

- ■ Visual 5.1
- ■ A copy of Handout 5.1, cut apart to make 21 half-sheets and three labels
- ■ A copy of Handouts 5.2 and 5.4 for each student
- ■ A copy of Handout 5.3 for each group
- ■ Three tape recorders and three blank tapes, one for each group
- ■ Masking tape to tape labels from Handout 5.1 on the classroom wall
- ■ A copy of Handout 5.5 for each pair of students

## Procedures

1. Begin the lesson by asking students about television programs and movies they have watched recently and about songs they have listened to on their MP3 players. After a few minutes, ask the class to imagine that they lived in a time before the invention of the television, MP3 players and computers. Allow time for responses to questions:
   - How would your life be different? *(Answers will vary.)*
   - What would be a likely substitute for entertainment, such as MP3 players and television? *(radio, books and newspapers)*
   - What would be a likely substitute for receiving news and information? *(radio and newspapers)*

2. Explain that the radio was invented in the late 1800s, and radio broadcasting began on a large scale in the 1920s. The broadcast of the 1920 presidential election results is generally considered the beginning of professional broadcasting. The golden age of broadcasting began around 1925 and, in 1926, the National Broadcasting Company (NBC) made plans for radios to be in 26 million American homes. Families gathered in the evening to listen to music, comedies and dramas. The radio not only supplied the major source of entertainment, but also connected people with the world through newscasts.

3. Explain that Franklin Delano Roosevelt (FDR) became the president of the United States in 1933 at the most severe point of the Great Depression. The nation was in financial despair. Banks were failing, at least one-fourth of the labor force was unemployed, families were losing their homes and many were going hungry.

4. Explain that Roosevelt promised a “New Deal” to the American people. The goal of the New Deal was to restore confidence in the U.S. economy. In his inaugural address, his words of hope and assurance rang out to the nation: “Let me assert my firm belief that the only thing we have to fear is fear itself . . . this Nation asks for action, and action now. We must act and act quickly.” During his first hundred days, FDR made changes in federal government spending and rushed an unprecedented number of measures through Congress, including an aggressive fiscal expansion focusing on three areas: relief, recovery and reform.

6. FDR’s greatest challenge was to restore confidence in the economy, and the technology to deliver his message was available—the radio was his tool to restore confidence and hope by direct communication with the American people. FDR began a series of evening radio talks immediately after his inauguration. In these “fireside chats,” he appealed to the people with words of encouragement and explanation. Referring to listeners as “my friends,” he explained his strategies and New Deal programs and attempted to make the average citizen part of his team. He became “the man of the hour.”

7. Display Visual *5.1: Man of the Hour* and ask students to draw conclusions from the political cartoon. *(For example, the American flag behind a strong face could represent strong leadership for America.)*

8. Tape each label from *Handout 5.1: Group Work* —"Unemployment," "Banking Crisis" and "Federal Spending"—to a different area or wall of the room. Randomly distribute from Handout 5.1 the 21 half-sheets to individual students (or pairs of students if more than 21 students are in the class). Explain that there are three problems addressed in the handouts. Students should read their half-sheets and go to the area of the classroom where a posted label identifies the topic that their information indicates. Students will form one group per label, and each complete group should include one problem label (posted on the wall), one data chart and a number of excerpts from the fireside chats that address the identified problem. (*Half-sheet numbers 1-7 should be grouped with Unemployment, numbers 9-17 should be grouped with Banking Crisis and numbers 19-23 should be grouped with Federal Spending.)*

9. After the three groups are formed, each student should discuss and explain the information on his or her handout to the group by identifying the information as a data table or an excerpt from a fireside chat, by reading the excerpt aloud, or by summarizing the data and by explaining how the information relates to the problem.

10. Distribute a copy of *Handout 5.2: Key Words and Concepts* to each student. Tell students to discuss ways in which any of the concepts on Handout 5.2 are relevant to their groups' problems, data and fireside chat excerpts. *(For the Federal Spending group, relevant concepts are balanced budget, fiscal policy and national debt; for the Unemployment group, relevant concepts are depression, income, money supply, unemployment, unemployment rate and Gross Domestic Product; and for the Banking Crisis group, the relevant concept is money supply.)* Clarify the terms on the handout with the following discussion. Encourage students to take notes on the handout for use later.

    - **Balanced budget** means that the federal government's expenditures on programs equal the amount of tax revenue collected. President Roosevelt often addressed the fact that the government was spending more than the revenue it was collecting. When the government is spending more than the revenue it collects, it is operating in a "deficit." The government borrows money to pay the deficit and this adds to the government's debt, known as the "national debt."
    - The Great Depression was the worst in U.S. history. The economy was experiencing high unemployment, with 25 percent of the work force unemployed. Real Gross Domestic Product was declining, which means that the output of goods and services was declining. These economic problems were occurring across the United States and across all sectors of the economy—manufacturing, banking and financial services, agriculture, and so on.
    - Roosevelt tempered his concern about the national debt by pointing to increased national income and by pointing to the long-term benefits the economy would experience from the government's investment in infrastructure (roads, bridges, dams) and education (schools).
    - **Personal income** refers to income received by people from all sources. It includes wages and salaries, rental income, profit, transfer payments, and interest income.
    - **Real Gross Domestic Product** (GDP) is the market value of all final goods and services produced in an economy in a given year adjusted for inflation. Real GDP and national income—which are essentially equal—were falling.
    - The **money supply (stock)** is the quantity of money available in an economy. The basic money supply in the United States consists of currency, coins and checking account deposits. The banking crisis forced banks to suspend operations, and many banks failed. This reduced the money supply and the availability of credit.

- **Unemployment** refers to the number of people 16 years of age and older who are without jobs and are actively seeking work.
- The **unemployment rate** is the percentage of the labor force that is willing and able to work, does not have a job and is actively seeking work.

11. Provide each group with one copy of *Handout 5.3: Turn Your Radio On—Questions*, cut apart to make five question strips. Allow each group to distribute the questions in Handout 5.3 based on the number of students in the group. Have each group share its responses with the class.
    - What are the relevant economic concept(s)? *(For the Federal Spending group, relevant concepts are balanced budget, fiscal policy and national debt; for the Unemployment group, relevant concepts are depression, income, money supply, unemployment, unemployment rate and Gross Domestic Product; and for the Banking Crisis group, the relevant concept is money supply.)* Define and explain. Refer to Handout 5.2.
    - What is the economic problem, according to information provided in the chart? (*Unemployment group: rising unemployment rate and declining per capita personal income; Banking Crisis group: increased number of bank suspensions; Federal Spending group: declining GDP and increased government spending)* Define and explain. Refer to Handout 5.2.
    - How did FDR explain the problem, proposed solution and his plan of action to the listeners? *(Answers will vary.)*
    - How did FDR's words offer encouragement and build confidence in the economy? *(Answers will vary.)*
    - How would you have felt if you had been a listener to this radio broadcast? *(Answers will vary.)*

12. Tell the students that each group is responsible for creating its own "fireside chat" based on these questions. Students in each group will make audio tapes of their messages, which should last from two to three minutes. The recorded messages will be played to the class to simulate radio broadcasts. The fireside chat should identify an economic concept or problem that existed during the Great Depression, define or explain that problem/concept to the public, and then propose a solution in a manner that encourages citizens to support that plan and builds confidence in the economy. Group members should consider how hearing the fireside chats would have affected them as listeners.

13. Ask the students what they think **consumer confidence** means. *(Answers will vary.)* Explain that consumer confidence is related to how consumers feel about the economy and is an indication of their spending and saving decisions.

14. Explain that the extent to which consumers feel confident about the health of the economy—and the future of the economy—may influence their behavior today.
    - If people feel the economy is weak and their jobs are not secure, they are likely to spend less now in order to have savings for a future layoff or job loss.

- The Conference Board, an independent economic research firm, issues a monthly survey that is based on a representative sample of 5,000 U.S. households. This *Consumer Confidence Index (*CCI) gives a measure of consumer optimism about current economic conditions through consumers' spending behavior. Another well-established index that measures consumer confidence is the University of Michigan's Consumer Sentiment Index.
- In considering consumer confidence, economists are seeking to understand and to project how people's attitudes about the health of the economy will influence their spending, saving and borrowing behaviors.

15. Provide each of the three groups with a tape recorder, a blank tape and a separate area away from the rest of the class to prepare its broadcast. Tell each group to use the tape player to make a two- to three-minute recording of its fireside chat.

16. Bring the class together and explain that the class will "turn the radio on" by allowing each group to play its recorded fireside chat. Caution the class to listen carefully to the recordings and to assume the role of a U.S. citizen during the time of the Great Depression.

17. After all recordings have been heard, remind the students that consumer confidence in the economy is an important consideration.

18. Provide each student with *Handout 5.4: Consumer Confidence Survey* and explain that this modified and simplified survey can measure the effectiveness of the fireside-chat recordings based on the limited information provided by the groups. Instruct each student to complete the survey by assuming the role of a U.S. citizen during the Great Depression—considering the problems of the Great Depression—and by registering his/her reaction to the three tapes (combined).

19. Instruct each student to tabulate the results of his/her survey by following the instructions at the bottom of the survey sheet. Discuss with the class the level of consumer confidence based on the survey results. Post the following scores on the board for your discussion:
    - **35-40** = very confident
    - **30-35** = somewhat confident
    - **26-30** = neutral (Tapes did not affect the attitude of the listener.)
    - **20-25** = lack of confidence

## Closure

20. Review the important content of the lesson with the following discussion:

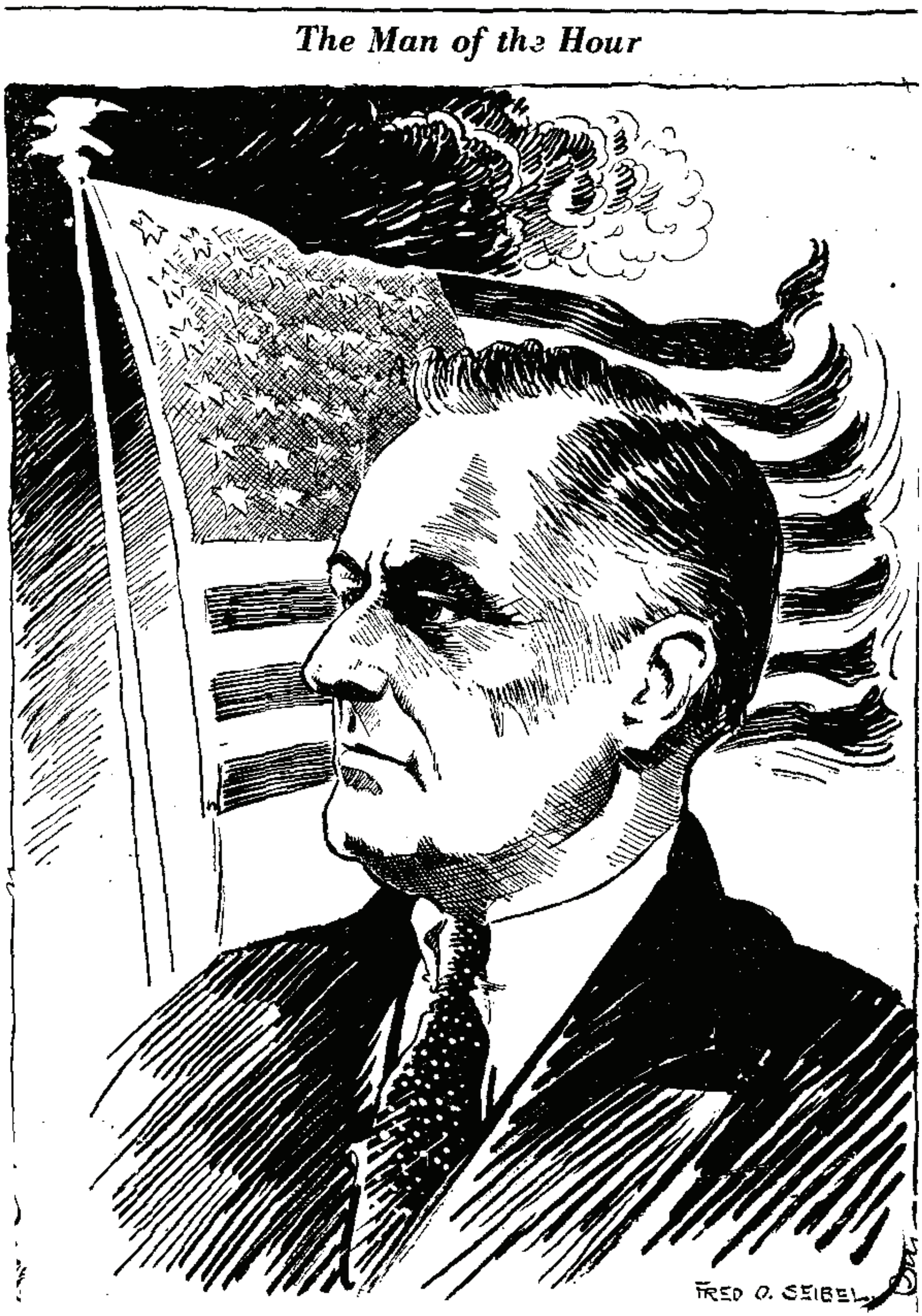
    - How did President Roosevelt's fireside chats contribute to U.S. recovery from the Great Depression? *(by increasing citizens' confidence in the economy)*
    - Why was it important to restore citizens' confidence in the economy? *(It was important to get people back into the banking system—they had to feel confident that their money was safe.)*
    - How would citizens putting their money back in banks affect the money supply? *(The money supply and the amount of credit available would increase, which would stimulate the economy. If people felt confident about their ability to get and keep a job, they were more likely to spend some of their income, which would stimulate the economy.)*
    - How did technology enhance Roosevelt's ability to communicate and improve consumer confidence? *(The development of radio and people's access to radio gave him direct access to citizens.)*
    - What is the significance of a consumer confidence survey? (*A consumer confidence survey provides information about what consumers think the health of the economy is/will be. How healthy consumers think the economy is will influence their spending, saving and borrowing behaviors.)*

## Assessment

21. Ask students to identify some effective ways a politician today might communicate. *(Answers will vary but may include an internet blog, a webcast or a television advertisement.)*

22. Distribute *Handout 5.5: Assessment* to each student. Review the directions with the students.

## Visual 5.1: Man of the Hour




Seibel in the *Richmond Times-Dispatch,* March 14, 1933
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## Handout 5.1: Group Work

1 *"First, we are giving opportunity of employment to one-quarter of a million of the unemployed, especially the young men who have dependents, to go into the forestry and flood prevention work. This is a big task because it means feeding, clothing and caring for nearly twice as many men as we have in the regular army itself. In creating this civilian conservation corps we are killing two birds with one stone. We are clearly enhancing the value of our natural resources and, second, we are relieving an appreciable amount of actual distress. These great groups of men have entered upon their work on a purely voluntary basis, no military training is involved and we are conserving not only our natural resources but our human resources. One of the great values to this work is the fact that it is direct and requires the intervention of very little machinery."*

*— Excerpt from FDR's fireside chat*
*May 7, 1933*

2 *"We are planning to ask the Congress for legislation to enable the government to undertake public works, thus stimulating directly and indirectly the employment of many others in well-considered projects."*

*— Excerpt from FDR's fireside chat*
*May 7, 1933*

3 *"In spite of the fact that unemployment remains a serious problem here as in every other nation, we have come to recognize the possibility and the necessity of certain helpful remedial measures. These measures are of two kinds. The first is to make provisions intended to relieve, to minimize and to prevent future unemployment; the second is to establish the practical means to help those who are unemployed in this present emergency."*

*— Excerpt from FDR's fireside chat*
*April 28, 1935*

4 *"Therefore, let us keep our minds on two or three simple, essential facts in connection with this problem of unemployment. It is true that, while business and industry are definitely better, our relief rolls are still too large. However, for the first time in five years the relief rolls have declined instead of increased during the winter months. They are still declining. The simple fact is that many million more people have private work today than two years ago today or one year ago today, and every day that passes offers more chances to work for those who want to work."*

*— Excerpt from FDR's fireside chat*
*April 28, 1935*

5 *"In these great problems of government, I try not to forget that what really counts at the bottom of it all is that the men and women willing to work can have a decent job—a decent job to take care of themselves and their homes and their children adequately; that the farmer, the factory worker, the storekeeper, the gas station man, the manufacturer, the merchant—big and small—the banker who takes pride in the help that he can give to the building of his community, that all of these can be sure of a reasonable profit and safety for the earnings that they make, not for today nor tomorrow alone, but as far ahead as they can see. I can hear your unspoken wonder as to where we are headed in this troubled world. I cannot expect all of the people to understand all of the people's problems, but it is my job to try to understand all of the problems."*

*— Excerpt from FDR's fireside chat*
*April 14, 1938*

6 *"The program for social security now pending before the Congress is a necessary part of the future unemployment policy of the government. While our present and projected expenditures for work relief are wholly within the reasonable limits of our national credit resources, it is obvious that we cannot continue to create governmental deficits for that purpose year after year. We must begin now to make provision for the future. That is why our social security program is an important part of the complete picture. It proposes, by means of old-age pensions, to help those who have reached the age of retirement to give up their jobs, and thus give to the younger generation greater opportunities for work, and to give to all a feeling of security as they look toward old age."*

*— Excerpt from FDR's fireside chat*
*April 28, 1935*

7

| Year | Unemployment Rate | Per Capita Personal Income |
|---|---|---|
| 1929 | 3.2% | $698 |
| 1930 | 8.9% | $619 |
| 1931 | 16.3% | $526 |
| 1932 | 24.1% | $399 |
| 1933 | 25.2% | $372 |

SOURCES:
Unemployment data from Gordon, Robert J. "Table A-1, Time Series Data for the U.S. Economy: 1875-1999." *Macroeconomics*, 8th ed., Addison-Wesley, 2000.
Per capita personal income from www.bea.gov/bea/regional/spi/.

8

# UNEMPLOYMENT

9 *"I want to talk for a few minutes with the people of the United States about banking—with the comparatively few who understand the mechanics of banking but, more particularly, with the overwhelming majority who use banks for the making of deposits and the drawing of checks. I want to tell you what has been done in the last few days, why it was done and what the next steps are going to be. I recognize that the many proclamations from state capitols and from Washington, the legislation, the Treasury regulations, etc., couched for the most part in banking and legal terms, should be explained for the benefit of the average citizen. I owe this in particular because of the fortitude and good temper with which everybody has accepted the inconvenience and hardships of the banking holiday. I know that when you understand what we in Washington have been about, I shall continue to have your cooperation as fully as I have had your sympathy and help during the past week."*

*— Excerpt from FDR's fireside chat*
*March 12, 1933*

10 *"The second step was the legislation promptly and patriotically passed by the Congress confirming my proclamation and broadening my powers, so that it became possible in view of the requirement of time to extend the holiday and lift the ban of that holiday gradually. This law also gave authority to develop a program of rehabilitation of our banking facilities. I want to tell our citizens in every part of the nation that the national Congress—Republicans and Democrats alike—showed by this action a devotion to public welfare and a realization of the emergency and the necessity for speed that is difficult to match in our history."*

*— Excerpt from FDR's fireside chat*
*March 12, 1933*

**11** *"First of all, let me state the simple fact that when you deposit money in a bank, the bank does not put the money into a safe deposit vault. It invests your money in many different forms of credit bonds, commercial paper, mortgages and many other kinds of loans. In other words, the bank puts your money to work to keep the wheels of industry and of agriculture turning around. A comparatively small part of the money you put into the bank is kept in currency—an amount which in normal times is wholly sufficient to cover the cash needs of the average citizen. In other words, the total amount of all the currency in the country is only a small fraction of the total deposits in all of the banks.*

*"What, then, happened during the last few days of February and the first few days of March? Because of undermined confidence on the part of the public, there was a general rush by a large portion of our population to turn bank deposits into currency or gold—a rush so great that the soundest banks could not get enough currency to meet the demand. The reason for this was that on the spur of the moment, it was, of course, impossible to sell perfectly sound assets of a bank and convert them into cash, except at panic prices far below their real value.*

*"By the afternoon of March 3, scarcely a bank in the country was open to do business. Proclamations temporarily closing them in whole or in part had been issued by the governors in almost all the states."*

*— Excerpt from FDR's fireside chat*
*March 12, 1933*

**12** *"The third stage has been the series of regulations permitting the banks to continue their functions to take care of the distribution of food and household necessities and the payment of payrolls. This bank holiday, while resulting in many cases in great inconvenience, is affording us the opportunity to supply the currency necessary to meet the situation. No sound bank is a dollar worse off than it was when it closed its doors last Monday. Neither is any bank which may turn out not to be in a position for immediate opening. The new law allows the 12 Federal Reserve banks to issue additional currency on good assets, and thus the banks which reopen will be able to meet every legitimate call. The new currency is being sent out by the Bureau of Engraving and Printing in large volume to every part of the country. … As a result, we start tomorrow, Monday, with the opening of banks in the 12 Federal Reserve bank cities—those banks which on first examination by the Treasury have already been found to be all right. This will be followed on Tuesday by the resumption of all their functions by banks already found to be sound in cities where there are recognized clearing houses—that means about 250 cities of the United States."*

*— Excerpt from FDR's fireside chat*
*March 12, 1933*

13 *"On Wednesday and succeeding days, banks in smaller places all through the country will resume business—subject, of course, to the government's physical ability to complete its survey. It is necessary that the reopening of banks be extended over a period in order to permit the banks to make applications for necessary loans, to obtain currency needed to meet their requirements and to enable the government to make common-sense checkups. Let me make it clear to you that if your bank does not open the first day, you are by no means justified in believing that it will not open. A bank that opens on one of the subsequent days is in exactly the same status as the bank that opens tomorrow."*

*— Excerpt from FDR's fireside chat*
*March 12, 1933*

14 *"It is possible that when the banks resume, a very few people who have not recovered from their fear may again begin withdrawals. Let me make it clear that the banks will take care of all needs—and it is my belief that hoarding during the past week has become an exceedingly unfashionable pastime. It needs no prophet to tell you that when the people find that they can get their money—that they can get it when they want it for all legitimate purposes—the phantom of fear will soon be laid. People will again be glad to have their money where it will be safely taken care of and where they can use it conveniently at any time. I can assure you that it is safer to keep your money in a reopened bank than under the mattress.*

*"The success of our whole great national program depends, of course, upon the cooperation of the public—on its intelligent support and use of a reliable system."*

*— Excerpt from FDR's fireside chat*
*March 12, 1933*

15 *"I do not promise you that every bank will be reopened or that individual losses will not be suffered, but there will be no losses that possibly could be avoided, and there would have been more and greater losses had we continued to drift. I can even promise you salvation for some at least of the sorely pressed banks. We shall be engaged not merely in reopening sound banks but in the creation of sound banks through reorganization. It has been wonderful to me to catch the note of confidence from all over the country. I can never be sufficiently grateful to the people for the loyal support they have given me in their acceptance of the judgment that has dictated our course, even though all of our processes may not have seemed clear to them.*

*"After all, there is an element in the readjustment of our financial system more important than currency, more important than gold, and that is the confidence of the people. Confidence and courage are the essentials of success in carrying out our plan. You people must have faith; you must not be stampeded by rumors or guesses. Let us unite in banishing fear. We have provided the machinery to restore our financial system; it is up to you to support and make it work.*

*It is your problem no less than it is mine. Together, we cannot fail."*

*— Excerpt from FDR's fireside chat*
*March 12, 1933*

16

| Year | Number of Bank Suspensions |
|---|---|
| 1929 | 659 |
| 1930 | 1352 |
| 1931 | 2294 |
| 1932 | 1456 |
| 1933 | 4004 |

SOURCE: Bank suspensions are from U.S. Bureau of the Census, *Historical Statistics of the United States*, U.S. Government Printing Office, Washington, D.C., 1960

17 *"The Government Bank Deposit Insurance on all accounts up to $2,500 goes into effect on Jan. 1. We are now engaged in seeing to it that on or before that date the banking capital structure will be built up by the government, to the point that the banks will be in sound condition when the insurance goes into effect."*

*— Excerpt from FDR's fireside chat*
*October 22, 1933*

18

# BANKING CRISIS

19

| Year | Total GDP (in billions of dollars) | Federal Spending (in billions of dollars) |
|---|---|---|
| 1929 | $103.6 | $3.13 |
| 1930 | $91.2 | $3.32 |
| 1931 | $76.5 | $3.58 |
| 1932 | $58.7 | $4.66 |
| 1933 | $56.4 | $4.60 |
| 1934 | $66.0 | $6.54 |
| 1935 | $73.3 | $6.41 |
| 1936 | $83.8 | $8.20 |
| 1937 | $91.9 | $7.58 |
| 1938 | $86.1 | $6.54 |

SOURCES: Federal Spending from Gordon, Robert J. "Table A-1, Time Series Data for the U.S. Economy: 1875-1999." *Macroeconomics*, 8th ed., Addison-Wesley, 2000.
GDP from U.S. Department of Commerce, Bureau of Economic Analysis.

20

# FEDERAL SPENDING

21 *"If you think back to the experiences of the early years of this administration, you will remember the doubts and fears expressed about the rising expenses of government. But to the surprise of the doubters, as we proceeded to carry on the program which included public works and work relief, the country grew richer instead of poorer. It is worthwhile to remember that the annual national people's income was $30 billion more last year, in 1937, than it was in 1932. It is true that the national debt increased $16 billion, but remember that in that increase must be included several billion dollars worth of assets which eventually will reduce that debt, and that many billion dollars of permanent public improvements—schools, roads, bridges, tunnels, public buildings, parks and a host of other things—meet your eye in every one of the 3,100 counties in the United States."*

*— Excerpt from FDR's fireside chat*
*April 14, 1938*

22 *"No doubt you will be told that the government spending program of the past five years did not cause the increase in our national income. They will tell you that business revived because of private spending and investment. That is true in part, for the government spent only a small part of the total. But that government spending acted as a trigger, a trigger to set off private activity. That is why the total addition to our national production and national income has been so much greater than the contribution of the government itself.*

*"In pursuance of that thought, I said to the Congress today: 'I want to make it clear that we do not believe that we can get an adequate rise in national income merely by investing, and lending or spending public funds. It is essential in our economy that private funds must be put to work, and all of us recognize that such funds are entitled to a fair profit.'*

*"As national income rises, let us not forget that government expenditures will go down, and government tax receipts will go up."*

*— Excerpt from FDR's fireside chat*
*April 14, 1938*

23 *"You may get all kinds of impressions in regard to the total cost of this new program, or in regard to the amount that will be added to the net national debt. It is a big program. Last autumn, in a sincere effort to bring government expenditures and government income into closer balance, the budget I worked out called for sharp decreases in government spending during the coming year. But in the light of present conditions, conditions of today, those estimates turned out to have been far too low. This new program adds $2,062,000,000 to direct Treasury expenditures and another $950 million to government loans—the latter sum, because they are loans, will come back to the Treasury in the future.*

*"The net effect on the debt of the government is this: Between now and July 1, 1939—15 months away—the Treasury will have to raise less than a billion and a half dollars of new money. Such an addition to the net debt of the United States need not give concern to any citizen, for it will return to the people of the United States many times over in increased buying power and, eventually, in much greater government tax receipts because of the increase in the citizen income."*

*— Excerpt from FDR's fireside chat*
*April 14, 1938*

24 *"What I said to the Congress today in the close of my message I repeat to you now. Let us unanimously recognize the fact that the federal debt, whether it be $25 billion or $40 billion, can only be paid if the nation obtains a vastly increased citizen income. I repeat that if this citizen income can be raised to $80 billion a year, the national government and the overwhelming majority of state and local governments will be definitely 'out of the red.' The higher the national income goes, the faster will we be able to reduce the total of federal and state and local debts. Viewed from every angle, today's purchasing power—the citizens' income of today—is not at this time sufficient to drive the economic system of America at higher speed. Responsibility of government requires us at this time to supplement the normal processes and in so supplementing them to make sure that the addition is adequate. We must start again on a long, steady, upward incline in national income."*

*— Excerpt from FDR's fireside chat*
*April 14, 1938*

## Handout 5.2: Key Words and Concepts

A **balanced budget** occurs when government revenues equal expenditures.

**Depression** is a very severe recession; a period of severely declining economic activity spread across the economy (not limited to particular sectors or regions) normally visible in a decline in real GDP, real income, employment, industrial production, wholesale-retail credit and the loss of the overall confidence in the economy.

**Fiscal policy** refers to spending and taxing policies used by the federal government to influence the economy.

**Real Gross Domestic Product (GDP)** is a way to measure the total output of an economy and refers to the total market value, expressed in dollars, of all final goods and services produced in an economy in a given year adjusted for inflation.

**National debt** refers to the total amount of outstanding government securities held by the public; it encompasses the financial obligations of a national government resulting from deficit spending, also called "public debt."

**Personal income** refers to income received by people from all sources. It includes wages and salaries, rental income, profit, transfer payments, and interest income.

**Money supply** is the quantity of money available in an economy; the basic money supply in the United States consists of currency, coins and checking account deposits.

**Unemployment rate** is the percentage of the labor force that is willing and able to work, does not currently have a job and is actively looking for employment.

## Handout 5.3: Turn Your Radio On—Questions

Directions: Cut this page apart on the dotted lines to make five question strips. Distribute questions to members of your group. Use information from your group's cards and from *Handout 5.2: Key Words and Concepts* to answer your question.

**What is the economic concept? Define and explain.**

**What is the economic problem, according to information provided in the chart? Define and explain.**

**How did FDR explain the problem, proposed solution and his plan of action to the listeners?**

**How did FDR's words offer encouragement and build confidence in the economy?**

**How would you have felt if you had been a listener to this radio broadcast?**

## Handout 5.4: Consumer Confidence Survey

Directions: Assume the role of an American citizen during the Great Depression. Answer the survey questions based on the *fireside chats* developed by student groups.

**1. Financially, how do you think you and your family will be in a year from now?**

◯ much better ◯ somewhat better ◯ same ◯ worse

**2. At the present time, how are business conditions compared with a year ago?**

◯ much better ◯ somewhat better ◯ same ◯ worse

**3. A year from now, what economic expectations do you have for the country as a whole?**

◯ much better ◯ somewhat better ◯ same ◯ worse

**4. During the next year, what expectations do you have for unemployment?**

◯ clearly improve ◯ improve somewhat ◯ same ◯ go down

**5. During the next year or two, what expectations do you have for your family income?**

◯ clearly improve ◯ improve somewhat ◯ same ◯ go down

**6. During the next year, what expectations do you have for your family income compared with the past year?**

◯ clearly improve ◯ improve somewhat ◯ same ◯ go down

**7. How would you rate the job that the government is doing in fighting unemployment?**

◯ good job ◯ fair job ◯ same ◯ poor job

**8. During the last few months, have you heard of any favorable changes in the economy?**

◯ yes, definitely ◯ same ◯ few ◯ absolutely not

**9. During the next year, what expectations do you have for the number of bank reopenings?**

◯ many ◯ few ◯ same ◯ go down

**10. How do you feel about the decisions that have resulted in increased government spending?**

◯ strongly agree ◯ agree ◯ same ◯ disagree

Tabulate the results of your survey by assigning four points for each question for which you checked the first choice, three points for the second choice, two points for the third choice and one point for the fourth choice. Write your total score for all 10 questions in the blank below.

**Total:**________________

## Handout 5.5: Assessment

With the intention of building citizens' confidence, write in the space provided below a one-paragraph blog describing an economic problem or concern that exists today and suggest a response (solution) to this problem. Exchange papers with another student in class and ask him/her to answer the three questions below and sign his/her name at the bottom of the page.

Author: ______________________________________________

Blog:

**Read the blog above and answer these questions.**

1. What is the dominant economic problem or concern that your blog addressed? Define and explain.

2. What strategy did this blog use to offer encouragement and build confidence in the economy?

3. How do you as the reader feel about the economy after reading this blog?

   - ◯ More confident?
   - ◯ Neutral?
   - ◯ Less confident?

Signed ______________________________________________________________________

## Lesson Description

In this lesson, students learn about the role and functions of the Federal Reserve System. They participate in an activity to learn how the purchase or sale of U.S. Treasury securities affects the supply of money and credit in the economy. Finally, they discuss what the Fed learned about implementing monetary policy as a result of the Great Depression.

## Concepts

Deflation
Federal Reserve System
Inflation
Monetary policy
Money supply (stock)
Open market operations
Price stability

## Objectives

Students will:

- Explain the functions of the Federal Reserve.
- Define monetary policy.
- Explain that the Fed conducts monetary policy by buying and selling Treasury securities.
- Identify what the Fed learned about responding to financial crises such as the Great Depression.

## 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 11:** Money makes it easier to trade, borrow, save, invest and compare the value of goods and services.
    - 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 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.
  - Benchmark 3, Grade 8: Inflation reduces the value of money.
  - Benchmark 7, Grade 12: The costs of inflation are different for different groups of people. Unexpected inflation hurts savers and people on fixed incomes; it helps people who have borrowed money at a fixed rate of interest.
- **Standard 20:** Federal government budgetary policy and the Federal Reserve System's monetary policy influence the overall levels of employment, output and prices.
  - Benchmark 8, Grades 9-12: Monetary policies are decisions by the Federal Reserve System that lead to changes in the supply of money and the availability of credit. Changes in the money supply can influence overall levels of spending, employment and prices in the economy by inducing changes in interest rates charged for credit and by affecting the levels of personal and business investment spending.
  - Benchmark 9, Grades 9-12: The major monetary policy tool that the Federal Reserve System uses is open market purchases or sales of government securities. Other policy tools used by the Federal Reserve System include increasing or decreasing the discount rate charged on loans it makes to commercial banks and raising or lowering reserve requirements for commercial banks.

### National Council for the Social Studies Strands

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

## Time Required

120 minutes

## Materials

- Visuals 6.1, 6.2, 6.3, 6.4, 6.5 and 6.6
- A copy of Handouts 6.1, 6.5, 6.6, 6.7 and 6.8 (optional) for each student
- A copy of Visual 6.2 for each student
- A copy of Handout 6.2 for each group of students
- Seven copies of Handout 6.3, cut apart
- A copy of Handout 6.4, cut apart
- A copy of Handout 6.5: Answer Key

- A pair of scissors for each group of students
- A piece of 8 1/2" x 11" paper for each group of students
- Masking tape
- 35-40 uniform pencils or other small, uniform items (fun-sized candy bars or other small wrapped candy)
- Calculator
- Overhead pen
- An 8.5-by-11-inch construction-paper sign with "Federal Reserve Bank" written on it

## Procedures

1. Discuss the following:
   - How many of you are able to ride a bike? In-line skate? Water ski? Snow ski? *(Answers will vary.)*
   - Do you remember falling when you learned to do these things? *(Yes)*
   - Why did you fall? *(Answers will vary.)*
   - Did you learn anything that helped you keep from falling later? *(Answers will vary. But students should point out things they learned about balance and movement that kept them from falling.)*

2 Display *Visual 6.1: Headline*. Explain that many people ask this question about the Great Depression. Although people cannot be certain, they hope that an economic downturn as severe as the Great Depression will not happen again. Just as individuals learn from various experiences, people hope that those responsible for monetary policy and the economy learned from the Great Depression. Point out that the Federal Reserve System is responsible for monetary policy (i.e., managing our nation's money supply, formerly known as money stock), and the Fed learned a great deal about implementing monetary policy from the Great Depression experience and from events since then.

3. Explain that in today's lesson, students will learn about the Federal Reserve System, the lessons policymakers have learned from the Great Depression and the role of the Federal Reserve in stabilizing the economy to prevent such an event from occurring again. Then students will participate in a simulation to demonstrate what monetary policy is and how the Fed uses monetary policy to stabilize prices, promote sustainable economic growth and prevent future depressions such as the Great Depression.

4. Explain that the Federal Reserve and its chairman are often in the news. However, there are many people who do not understand what the Federal Reserve System is and what it does. Distribute a copy of *Handout 6.1: The Federal Reserve and Its Role in the Economy* to each student and divide the students into small groups. Display *Visual 6.2: Questions about the Federal Reserve* and distribute a copy of Visual 6.2 *to* each student. Tell each group to answer the questions based on the reading. Students should be prepared for a class discussion.

5. Allow time for groups to work, then discuss the following questions. Tell the students they should take notes as the questions on the visual are discussed.

   - What is the **Federal Reserve System,** and when was it established? *(The Federal Reserve is the central bank of the United States. It was established in 1913.)*
   - What are three functions of the Fed? *(The Fed is responsible for monetary policy, managing the payments system, and banking supervision and regulation.)*
   - What is monetary policy? *(Monetary policy involves actions the Fed takes to affect the supply of money and credit in the economy.)*
   - If the Fed was established in 1913, why didn't it do something to stop the Great Depression? *(The Fed was a young institution, and it was using the economic understandings of the time to stabilize the economy in order to achieve goals such as stable prices and sustainable growth.)*
   - What was the predominant economic thinking in the 1920s that influenced the Fed and other economists' thinking during the Great Depression? *(Economic understandings included the following: The U.S. government should have a balanced budget. A balanced budget would prevent the government from using fiscal policy to stimulate the economy. The economic understanding also emphasized the need to avoid inflation, and there wasn't much concern about deflation. The gold standard was also stressed as important to the monetary system.)*
   - What does "laissez-faire" mean? *("Laissez-faire" means that the market economy should stabilize itself over time without the involvement of government fiscal policy and, by extension, monetary policy.)*

6. Point out that by studying the Great Depression, the Fed learned that price stability—not just a lack of inflation—is critical to the health of the economy. **Price stability** means the absence of inflation and the absence of deflation. **Inflation** is a rise in the average price level over time. **Deflation** is a decrease in the average price level over time. Discuss the following:

   - If you were planning to buy the latest MP3 player, and the price of MP3 players had increased by $10 each day that you looked at an advertisement or visited the store, what might you do? *(Answers will vary, but students are likely to say that they would buy the MP3 player now to avoid paying more tomorrow.)*
   - If the prices for most goods and services were rising every month, how would people respond? *(Buy goods and services today rather than waiting.)*
   - If you were planning to buy a new car, and the price of the car fell by $500 each day that you looked at an advertisement or visited the car dealer, what might you do? *(Answers will vary, but students are likely to say that they would put off buying the car today in order to wait for the price to fall even more.)*
   - If the prices for most goods and services were falling every month, how would people respond? *(postpone buying goods and services in hopes of buying at a lower price in the future)*

7. Explain that an increase or decrease in the price of one good does not mean that the economy is experiencing inflation or deflation. The examples, however, do illustrate the response that people have to inflation and deflation.

8. Divide the students into groups. Distribute a copy of *Handout 6.2: Inflation/Deflation Card Sort*, a pair of scissors, a roll of cellophane tape and a piece of paper to each group. Tell the students to cut cards apart and to organize the statements into two columns—one labeled "deflation" and the other "inflation." Students should organize the statements so that the statements they associate with inflation are in the inflation column and the statements that they associate with deflation are in the deflation column. Once students have their columns organized, they should tape the columns to the paper. Display *Visual 6.3: Inflation/Deflation Card Sort—Answer Key*. Allow student groups to check their charts.

Discuss the following.

- When average price level is rising, why would people buy now instead of waiting to buy in the future? *(They expect prices to be even higher in the future, so they buy now while the price is lower.)*
- How does this response perpetuate the problem of inflation? *("Buying now" increases demand and bids up prices—much like bidders at an auction.)*
- What happens if people's wages don't rise at the same rate (as fast) as prices rise? *(People can't buy as many goods and services as they could in the past.)*
- Why do businesses and households have difficulty planning for future expenditures during inflationary periods? *(Because they are uncertain about future prices, they don't know how much they will need for future purchases; so, they try to purchase now when the price is lower.)*
- How does inflation rob the purchasing power of people's savings? *(If people save money and prices rise, the money they have saved won't buy as much in the future.)*
- When the average price level is falling, why do people postpone purchases? *(They expect prices to fall in the future. They think that if they wait, the good or service will cost even less than it does today.)*
- How does this response perpetuate the problem? *(Because people are waiting to buy, fewer goods and services are sold today. Inventories accumulate and prices fall more as businesses try to reduce prices to sell their goods.)*
- Why do business revenues fall during deflationary periods? *(Businesses are selling fewer goods and services because people are waiting to purchase—and when people do purchase, the goods are at lower prices. Selling less and selling at lower prices cause business revenues to fall.)*
- Why do businesses lay off workers? *(When their revenues fall, businesses can't afford to hire as many workers at the same wage, or they must lower wages.)*
- If fewer people are employed and/or those who are employed earn less, what happens to people's incomes and the amount of goods and services they buy? *(Their incomes fall, and they buy fewer goods and services.)*
- What happens to prices as a result? *(Prices fall even more.)*

9. Explain that maintaining stable prices—no inflation or no deflation—is best for the economy. Tell the students that they are going to participate in a simulation to demonstrate how the Fed is able to affect the supply of money and credit in the U.S. economy in order to stabilize prices. Different students in the class will have different roles in the simulation.

   - Select one student to serve as the treasurer. Give the treasurer the currency from *Handout 6.3: Currency* and *Visual 6.4: Classroom Money Supply*, a calculator and an overhead pen. *(Note: A $100 note is the largest denomination of currency printed today.)*
   - Select seven or eight students and have the treasurer give each of them five $1,000 bills from Handout 6.3.
   - Select eight to 10 students and give each of them one, two or three pencils of the same kind or give them another uniform item. (Small pieces of the same candy may be substituted.) (*If using candy, tell the students that they may not eat the candy—yet!)*
   - Select five or six students and give each of them a card from *Handout 6.4: Bank Accounts* representing $5,000 in a checking account at a bank.
   - Retain one Bank Account card for use in Procedure 21.

10. Tell the students that they represent individuals and organizations in the economy. Tape the construction-paper sign on your desk and explain that the Federal Reserve has a portfolio. A "portfolio" is a list or collection of financial assets that an individual or company holds. In this case, the pencils represent assets—things of value that were purchased from pencil producers. Show the students the portfolio of pencils (candy bars or other uniform items) that were purchased from pencil producers—a bag or bowl of pencils. Ask the students why pencils (candy) would be something students buy. *(They need pencils for class, sometimes it is important to have more than one pencil, they could resell pencils later.)*

11. Explain that the **money supply** is the amount of money available in an economy. The basic money supply in the United States is the amount of currency, coins and checking account deposits. There is currently a supply of money in the classroom economy, represented by the cash students have in their hands and the checkable deposits they have in banks. Have the treasurer display Visual 6.4 and stand by the visual ready to record information. Discuss the following:

   - Raise your hand if you have cash.
   - How much does each of you have? *($5,000)*

12. Have the treasurer calculate how much cash people have by multiplying the number of hands raised by $5,000. Tell the treasurer to record the amount of cash students in the classroom have on the visual in the first row of the first column.

13. Ask the students to raise their hands if they have checking account deposits of $5,000. Tell the treasurer to calculate how much money people have in checking accounts (checkable deposits) by multiplying the number of hands raised by $5,000. Tell the treasurer to record the amount in the second row of the first column on the visual.

14. Explain that the money supply in the classroom is the sum of the cash and the checking account deposits. Tell the treasurer to write that total in the third row of the first column.

15. Tell the students that the Federal Reserve, the central bank of the United States, has been charged with enacting monetary policy to help stabilize the economy. The term **monetary policy** refers to what the Federal Reserve does to influence the amount of money and credit in the U.S. economy. What happens to money and credit affects interest rates (the price of credit) and, ultimately, the performance of the U.S. economy.

16. After studying the economy, the decision-makers at the Federal Reserve have decided to sell some valuable assets from the Fed's portfolio (pencils and candy). Explain that these pencils are valuable and that people in the classroom economy like to own these valuable assets. Ask the students who are interested in buying pencils to raise their hands. From among this group, ask if any are willing and able to pay $5,000 for a pencil. Sell as many pencils at this price as possible. Lower the price by $1,000 at a time as needed until you are able to sell a total of five pencils. Tell the treasurer to accept cash and make change or accept checking account balances—marking through $5,000 on the card and writing the new account balance.

17. Repeat steps 11-13 as follows.
    - Raise your hand if you have cash. How much cash does each of you have? *(Answers will vary.)*
    - Add the amount of cash each student has, and have the treasurer record the total in the first row of the second column on the visual.
    - Raise your hand if you have a checking account deposit.
    - Add the amount of deposit each student has, and have the treasurer record the totals in the second row of the second column on the visual.

18. Remind students that the money supply in the classroom society is the sum of the cash and checking account deposits. Tell the treasurer to write that total in the third row of the second column on Visual 6.4. Ask the class what happened to the money supply as a result of the Federal Reserve selling its pencils. *(The money supply decreased.)*

19. Distribute a copy of *Handout 6.5: The Flow of Things* to each student. Ask students to work with a partner to answer the questions. Use *Handout 6.5: The Flow of Things—Answer Key* to discuss the answers.

20. Tell students to turn the handout over and use it to take notes. Display *Visual 6.5: Reversing the Flow* and discuss the questions as follows. If the Federal Reserve were to buy (rather than sell) pencils from the class, the money supply would increase because the Fed would pay the people who sell pencils by placing money in the sellers' checking accounts at banks.

21. Demonstrate by choosing a student who has more than one pencil. Pay that student for a pencil by giving him or her a $5,000 checkable deposit card. Display Visual 6.4 again for a moment and show the students that the $5,000 checkable deposit would be added to the money supply—increasing the money supply. Display Visual 6.5 again, and continue discussing the questions as follows:

    - Because people sold pencils in exchange for money, they would have more to spend and would be able to buy more goods and services.
    - As people purchase more goods and services, businesses are encouraged to produce more goods and services.
    - To produce more goods and services, producers will need more natural resources, human resources and capital resources.
    - If producers need more workers, (human resources) then they will employ more workers. As a result, the unemployment rate will likely fall, wages will likely rise and people will be able to buy more goods and services.

22. Point out that the Federal Reserve System does not keep a portfolio of pencils. However, it does keep a portfolio of Treasury securities—U.S. government treasury bills and bonds. Explain that these are valuable assets that people and organizations like to have because these assets pay interest to those who own them.

23. Explain that the Federal Reserve System is able to sell Treasury securities from its portfolio that are eventually purchased (through securities dealers) by individuals, banks, pension funds, corporations and other organizations. Conversely, the Fed can also buy Treasury securities from the portfolios of securities dealers.

24. Point out that the effects of these sales or purchases by the Fed ripple through the economy, as discussed above and on Handout 6.5.

25. Explain that when the Federal Reserve buys or sells Treasury securities, it is implementing monetary policy—changing the money supply and the amount of credit in the economy to promote stable prices and economic growth. The process of selling and buying Treasury securities is called **open market operations**.

26. Explain that if the economy is experiencing inflation, the Fed would engage in contractionary monetary policy by selling securities from its portfolio—contracting the money supply much like what happened when the Fed sold pencils in the classroom. If the economy is experiencing deflation, the Fed would engage in expansionary monetary policy—buying securities for its portfolio and expanding the money supply.

27. Explain that "expansionary monetary policy" refers to the Fed buying securities in order to increase the growth of the money supply and the amount of credit available. "Contractionary monetary policy" refers to the Fed selling securities in order to decrease the growth of the money supply and the amount of credit available.

28. Remind students that when the Fed sold pencils, it took money from people's accounts; when it bought pencils, it put money into people's accounts in banks. The money people have in their bank accounts is the money that banks lend to other people and businesses. So, if the Fed sells pencils, there is less money in people's accounts, and banks can lend less. Therefore, there is less credit available. If the Fed buys pencils, there is more money in people's accounts and banks can lend more. Explain that when the Fed changes the amount of money in the economy, it affects how much money banks have to lend—that is, how much credit is available.

29. Explain that when banks make loans, they create money. If Mary has $5,000 in her checking account at the bank, her bank can lend part of that money—say, $4,500—to John so he can buy a car. The $5,000 is still recorded as a deposit in Mary's account, but in addition John has $4,500 in his account. Has the money supply increased? *(Yes.)* The money supply increased when the bank made the loan because the total amount of money in checking accounts increased from $5,000 to $9,500.

30. Explain that it is the Fed's job to try to keep the right amount of money and credit available in the economy to keep prices stable (avoid inflation or deflation) and to maintain economic growth.

31. Distribute a copy of *Handout 6.6: Great Depression Statistics* to each student. Explain that these statements describe events that took place during the Great Depression. Divide the students into pairs and tell them to use the information from the front and back of Handout 6.5 to answer the question at the bottom of Handout 6.6. Tell students to be prepared to share their answers with the class.

32. Ask students to raise their hands if they think the Fed should have taken expansionary action. Ask students to raise their hands if they think the Fed should have engaged in contractionary actions. Ask individual students to offer support for their answers. Explain that the Fed should have taken expansionary action—buying Treasury securities—because, if more money were available, banks could make loans, enabling businesses and people to borrow. Businesses could use the borrowed funds to employ workers. People with jobs have income, which increases their demand for goods and services. If necessary, review the content from Handout 6.5.

33. Explain that the Fed did undertake some expansionary actions during the Great Depression. However, given the magnitude of events that contributed to the economic downturn during the 1930s, in retrospect, economic historians think that the Fed's policies were not expansionary enough. Economic historians and Federal Reserve economists have reviewed the events of the Great Depression and analyzed the Fed's responses. And those responsible for monetary policy in the Federal Reserve System have had the opportunity to learn from these analyses.

34. Remind students that this lesson began with the idea that people learn from experiences they have and mistakes they make, and what they learn may prevent them from making the same mistakes in the future. Display Visual 6.6 and remind students that the Federal Reserve—the organization responsible for monetary policy—learned a lot about implementing monetary policy as a result of the Great Depression. By studying the Great Depression and the actions of the Federal Reserve and other institutions, economists have come to understand:

- the importance of money, credit, and a safe and sound financial system in maintaining a stable economy;
- that ensuring a strong economy requires sound economic policies to make certain that fluctuations in prices, production and employment do not grow into major economic events; and
- that price stability is the key goal for monetary policy because fluctuations in the price level—either deflation or inflation—can cause financial instability and hinder economic growth.

35. Point out that since the Great Depression, the Federal Reserve System has learned how to more effectively stabilize the economy. Although the Fed's record is not perfect, generally its monetary policy has resulted in moderating economic conditions so that the United States has not experienced another economic event as catastrophic as the Great Depression.

*NOTE: If you want additional resources for teaching about the Federal Reserve, including a free DVD, visit our* In Plain English site *at www.stlouisfed.org/publications/pleng/.*

## Closure

36. To review the key points, distribute a copy of Handout 6.7 and tell students to work with a partner and use class notes to answer the questions.

**Answers:**

1. *The Fed is the nation's central bank. It was established in 1913.*
2. *The Fed writes regulations and supervises banks, the Fed manages the payments system and the Fed conducts monetary policy.*
3. *Monetary policy refers to actions by the Fed that involve the use of open market operations to affect the amount of money and credit in the economy.*
4. *The Fed conducts monetary policy to stabilize prices.*
5. *Inflation is a rise in the average price level.*
6. *Deflation is a decline in the average price level.*
7. *The Fed conducts monetary policy by buying and selling U.S.Treasury securities.*
8. *When the Fed buys securities, the amount of money and credit in the economy increases.*
9. *Buying securities is expansionary.*
10. *The Fed would sell securities to reduce the amount of money and credit in the economy.*
11. *Selling securities is contractionary monetary policy.*
12. *The Fed should use sound economic policies to make certain that changes in prices, production and employment do not grow into major economic problems.*
13. *Price stability—the absence of inflation or deflation—is the key goal of monetary policy.*

## Assessment

37. Ask students to use notes taken during class to write a newspaper headline and an article explaining to the readers:

- what the Federal Reserve System is,
- when it was established,
- what the three functions of the Fed are,
- what monetary policy is,
- how the Fed conducts monetary policy, and
- what the key goal of monetary policy is.
- Answers should include the following: *The Federal Reserve System is the central bank of the United States. It acts as the bankers' bank—the bank for the federal government—and it manages the money supply of the United States. Monetary policy involves decisions the Fed makes that affect how much money and credit are available in the U.S. economy. The Fed conducts monetary policy by buying and selling U.S. Treasury securities. The key goal of monetary policy is price stability—the absence of inflation or deflation.*

38. **Challenge:** Distribute a copy of *Handout 6.8: Assessment* to each student. Tell students to read the article and answer the questions on the handout.

**Answers:**

*1. Liquidity is the ability of a bank or business to pay its debts or to convert its assets into cash with little loss of value.*

*2. The Fed took the following steps to provide liquidity following 9/11:*

- *The Fed used open market operations to inject money and credit into the banking system by buying Treasury securities in record amounts.*
- *The Fed loaned money directly to banks through its discount window. By Sept. 12, 2001, it had loaned a record $46 billion.*
- *The Fed urged banks to restructure loans of their customers who had temporary liquidity problems—i.e., temporary problems making loan payments due to the 9/11 crisis and its aftermath.*
- *The Fed extended check float by crediting receiving banks but delaying debiting the paying banks.*
- *The Fed established agreements with foreign central banks so that they had sufficient dollars to meet their banks' demand for dollars.*
- *The Federal Open Market Committee (FOMC) reduced the federal funds target rate by 0.5 percent (to 3.0 percent), which decreased the interest rate that banks have to pay to borrow from each other to cover short-term needs for liquidity.*

*3. The Fed responded quickly and used a variety of tactics to increase significantly the amount of liquidity in the U.S. economy. These actions helped ensure the smooth functioning of the payments and financial system.*

## Visual 6.1: Headline

## Visual 6.2: Questions about the Federal Reserve

1. **What is the Federal Reserve System, and when was the Federal Reserve System established?**

2. **What are three functions of the Fed?**

3. **What is monetary policy?**

4. **If the Fed was established in 1913, why didn't it do something to stop the Great Depression?**

5. **What were economic understandings in the 1920s that influenced the Fed and other economists' thinking during the Great Depression?**

6. **What did "laissez-faire" mean?**

## Visual 6.3: Inflation/Deflation Card Sort—Answer Key

| Inflation | Deflation |
|---|---|
| People buy today rather than wait. | People wait to buy until tomorrow. |
| "Buying now" increases demand and pushes prices up. | Demand for goods and services continues to decline, as do prices. |
| People continue to buy rather than wait, as prices continue to rise. | People postpone purchases, fewer goods and services are sold, and inventories accumulate. |
| If wages don't rise at the same rate as prices, people can't buy as many goods and services as they could in the past. | Businesses do not earn as much revenue and may have to lay off workers, which contributes to higher unemployment. |
| It robs the purchasing power of people's savings. | People have less income to spend and, therefore, purchase less. |
| People and businesses have difficulty planning for the future. | People and businesses have difficulty planning for the future. |

## Visual 6.4: Classroom Money Supply

| Money Supply in the Classroom Economy | | |
|---|---|---|
| | Round 1 | Round 2 |
| Cash in Students' Hands | $ | $ |
| Deposits in Students' Checking Accounts | $ | $ |
| **Total** | $ | $ |

## Visual 6.5: Reversing the Flow

1. What would happen to the money supply if the Federal Reserve were to buy pencils from the class, rather than sell pencils to the class?

2. As a result, would people be able to buy more or fewer goods and services?

3. If people buy more goods and services, would producers be encouraged to produce more or fewer goods and services?

4. To produce more goods and services, will producers need more or fewer natural resources—things found in or on the earth; human resources—people working in the economy; and capital resources—things produced by people and used to produce other goods and services?

5. If producers need more workers, what may happen to unemployment rates, wages and people's ability to purchase goods and services?

## Visual 6.6: What the Federal Reserve System Learned

**As a result of the experience of the Great Depression and an analysis of its events, the Federal Reserve System learned:**

- **the importance of money, credit, and a safe and sound financial system in maintaining a stable economy;**

- **that ensuring a strong economy requires sound economic policies to make certain that fluctuations in prices, output and employment do not grow into major economic catastrophes; and**

- **that price stability is the key goal for monetary policy because fluctuations in the price level—either deflation or inflation—can cause financial instability and hinder economic growth.**

## Handout 6.1: The Federal Reserve and Its Role in the Economy

The Federal Reserve System was established in 1913. It is the central bank of the United States. The Federal Reserve conducts monetary policy. Monetary policy involves decisions the Fed makes to affect our nation's supply of money and credit in order to achieve goals for the economy, such as full employment, stable prices and moderate long-term interest rates. The Fed writes regulations and supervises banks to ensure that the banking system is safe, sound and able to respond to a financial crisis. The Fed manages the payments system; that is, the Fed offers financial services to banks and the U.S. government to foster competition, innovation and efficiency in the marketplace.

Although the Federal Reserve System was in place during the Great Depression and did conduct monetary policy, it was not able to achieve its goals of full employment and stable prices. Therefore, economists at the Fed—as well as university professors of economics and business economists—have analyzed the Fed's response to the Great Depression and continue to examine and debate this topic.

As we talk about the Fed during the Great Depression, one thing to keep in mind is that the Fed was created by Congress in 1913. When the stock market crash occurred in 1929, the Fed was 16 years old—a teenage institution. And, like teenagers, the Fed lacked experience. Institutions, like people, change over time—in part because of the lessons they learn. Thus, the Fed's role in stabilizing the economy, the Fed's operating procedures and its understanding of monetary policy have evolved from 1913 to the present.

Think of the Fed as a medical doctor performing surgery on the economy. Do surgeons know more today that enables them to perform complicated surgeries than they did in 1913? Imagine a medical doctor in 1929 doing open-heart surgery. You'd have to use your imagination, because open-heart surgeries and heart transplants were not done in 1929. Similarly, the way in which the Fed conducts monetary policy today is much more effective than in 1929.

Economic understanding in the 1920s included a belief in a balanced budget for the U.S. government that limited fiscal policy. Fiscal policy is government spending and taxing to influence the economy. A balanced budget would prevent the government from adding excess spending to stimulate a sluggish economy.

Economic understanding at that time also included a belief that inflation was bad for the economy, which had the effect of focusing the actions of the Federal Reserve on preventing inflation. Inflation was understood to include asset prices, as well as prices of goods and services, but concerns about deflation were taken much less seriously. Economic understanding of the day stressed the benefits of a monetary system based on the gold standard.

In addition, a *laissez-faire* mentality existed which meant that the government and fiscal policy and, by extension, monetary policy were not proactive in stabilizing the economy because it was generally believed that the market economy should stabilize itself over time.

## Handout 6.2: Inflation/Deflation Card Sort

| Inflation | Deflation |
|---|---|
| People wait to buy until tomorrow. | "Buying now" increases demand and pushes prices up. |
| People buy today rather than wait. | It robs the purchasing power of people's savings. |
| People and businesses have difficulty planning for the future. | People and businesses have difficulty planning for the future. |
| If wages don't rise at the same rate as prices, people can't buy as many goods and services as they could in the past. | People postpone purchases, fewer goods and services are sold, and inventories accumulate. |
| Businesses do not earn as much revenue and may have to lay off workers, which contributes to higher unemployment | People have less income to spend and, therefore, purchase less. |
| Demand for goods and services continues to decline, as do prices. | People continue to buy rather than wait as prices continue to rise. |

## Handout 6.3: Currency

## Handout 6.4: Bank Accounts

| | |
|---|---|
| You have $5,000 in a checking account. | You have $5,000 in a checking account. |
| You have $5,000 in a checking account. | You have $5,000 in a checking account. |
| You have $5,000 in a checking account. | You have $5,000 in a checking account. |
| You have $5,000 in a checking account. | You have $5,000 in a checking account. |
| You have $5,000 in a checking account. | You have $5,000 in a checking account. |

## Handout 6.5: The Flow of Things

**For each statement, circle the correct answer:**

1. If people in the society have less money in their checking accounts and less cash in their pockets, what happens to the amount of goods and services they purchase?

   Increases or Decreases

2. If people buy fewer goods and services, would it encourage producers to produce more or fewer goods and services?

   More or Fewer

3. If producers produce fewer goods and services, what will happen to their needs for natural, human and capital resources?

   Increase or Decrease

4. If producers need fewer workers, what may happen to unemployment rates and people's ability to purchase goods and services?

   Unemployment rates: Increase or Decrease

   Wages: Increase or Decrease

   People will buy: More or Fewer goods and services

## Handout 6.5: The Flow of Things—Answer Key

1. If people in the society have less money in their checking accounts and less cash in their pockets, what happens to the amount of goods and services they purchase?

   (Increases or ***Decreases***)

2. If people buy fewer goods and services, would it encourage producers to produce more or fewer goods and services?

   (More or ***Fewer***)

3. If producers produce fewer goods and services, what will happen to their need for natural, human and capital resources?

   (Increase or ***Decrease***. ***Producers would use fewer total resources, including natural resources, capital resources—such as tools and equipment—and human resources —workers—if they decrease their output.***)

4. If producers need fewer workers, what may happen to unemployment rates and people's ability to purchase goods and services?

   (Unemployment rates may: ***Increase*** or Decrease)

   (Wages may: Increase or ***Decrease***)

   (People will buy: More or ***Fewer*** goods and services)

## Handout 6.6: Great Depression Statistics

**During the Great Depression:**

- The amount of goods and services produced in the United States fell by one-third.
- The unemployment rate rose to 25 percent of the labor force.
- The stock market lost 80 percent of its value.
- Some 7,000 banks closed temporarily or failed.
- The economy experienced deflation—i.e., generally falling prices.

Using the information above and from Handout 6.5, answer the following question:

What kind of policy should the Fed pursue—contractionary or expansionary?  Why?

## Handout 6.7: Review

Working with a partner and using your notes from class, answer the following questions. Use the back of the page if needed.

1. What is the Federal Reserve, and when was it established?

2. What are three roles of the Federal Reserve?

3. What is monetary policy?

4. Why does the Fed conduct monetary policy?

5. What is inflation?

6. What is deflation?

7. How does the Fed conduct monetary policy?

8. What happens to the amount of money and credit in the economy if the Fed buys securities?

9. Is this expansionary or contractionary monetary policy?

10. What open market operation would the Fed use to reduce the amount of money and credit in the economy?

11. Is this expansionary or contractionary monetary policy?

12. What did the economists who studied the Great Depression—and, as a result, the Federal Reserve System—learn about stabilizing the economy?

13. What is widely accepted as the key goal of monetary policy?

## Handout 6.8: Assessment

**Directions: Read the article about the actions of the Federal Reserve following the 9/11/2001 crisis. Answer the questions that follow.**

The Sept. 11 terrorist attack on the World Trade Center and the Pentagon posed an immediate threat to the entire economy by disrupting the payments and financial system. The most immediate economic effect of the attacks was a temporary inability to clear checks, caused by the suspension of flights. In addition, the New York Stock Exchange and other financial markets closed for a week. The attack increased businesses' and people's demand for liquidity. "Liquidity" is the ability of a bank, business or individual to meet current financial obligations (repay loans) or the ease with which an asset can be quickly and readily converted to cash with little loss of value. Many people, perhaps in fear of further attacks, withdrew money from their banks.

The Federal Reserve's response to the immediate effects of the attacks was to provide liquidity—the ability to make payments—to firms and individuals. It was particularly important to provide liquidity to financial firms that constantly buy and sell assets, because these firms must make payments with either funds from recently sold assets or money borrowed from banks. During crises, banks avoid making such loans. An interruption in bank lending to financial firms could potentially have started a chain reaction of bankruptcies that would have brought the financial system to a halt. This would have disrupted the whole economy. **To avoid such a disaster, the Fed provided emergency liquidity in five ways:**

1. **The Fed uses open market operations to control liquidity.** Every day, the trading desk at the Federal Reserve Bank of New York enters the market to buy or sell Treasury securities. If the Fed buys Treasury securities, money is put into the banking system, increasing liquidity. If the Fed sells Treasury securities, money is taken out of the banking system, decreasing liquidity. In the days after Sept. 11, the Fed increased liquidity by buying Treasury securities in record amounts. On Wednesday, Sept. 12, the Fed injected $38 billion, and on Thursday, the Fed injected $70 billion into the economy.
2. **The Federal Reserve lent money directly to banks through the discount window.** The "discount window" is an expression used to describe the Federal Reserve's ability to extend credit or loans directly to eligible depository institutions, typically overnight. On a normal business day in 2001, these loans totaled about $54 million. By Sept. 12, the Fed lent a record $46 billion.
3. **As a regulator, the Federal Reserve—along with the Comptroller of the Currency—urged banks to restructure loans for borrowers with temporary liquidity problems.** To assist such restructuring, the Fed stood ready with additional funds.
4. **Because transportation problems prevented checks from being cleared in a timely manner, the Federal Reserve extended almost $23 billion in check float.** "Float" describes the amount of money that has been credited to check depositors but has not yet been debited from the check writer. For example, if Miguel writes a check to Shauna for $25 and Shauna deposits the check, then—for a brief period of time—the money is credited to Shauna's account before it is debited from Miguel's account.

   When check clearing is delayed, funds in the process of collection appear in the accounts of the institution that received the checks for deposit (Shauna's bank) and the institutions upon which the checks were written (Miguel's bank). Float inflates, for a brief period of time, the amount of money in the banking system.

5. **The Fed took steps to boost liquidity for foreign banks with offices or subsidiaries in the United States.** To enable foreign central banks to provide these resources in U.S. dollars, the Fed quickly established "swap lines" with the European Central Bank, the Bank of England and the Bank of Canada. Swap lines are like lines of credit. They allow foreign central banks to temporarily exchange currency.

In addition, the Federal Open Market Committee—the monetary policymaking body of the Fed— reduced the federal funds rate target by 0.5 percent to 3.0 percent on Monday, Sept. 17. The federal funds rate is the interest rate that banks pay when they borrow money from one another. This action was an effort to boost confidence prior to the reopening of the New York Stock Exchange later that morning.

As in previous periods of financial stress (e.g., the stock market crash of 1987, the Russian default of 1998 and the Y2K scare), the Federal Reserve's actions helped ensure the smooth functioning of the payments and financial systems, thereby minimizing the economic repercussions of the tragedy.

Directions: Use information from the article above to answer the following questions:

1. What is liquidity?

2. What steps did the Federal Reserve System take to provide liquidity in the financial system following 9/11?

3. What does the Fed's reaction to 9/11 suggest about how the Fed has learned to respond to economic and financial crises?

SOURCES:

Neely, Christopher J. "September 11, 2001." Cover Page. *Monetary Trends*. Federal Reserve Bank of St. Louis, November 2001.

Neely, Christopher J. "The Federal Reserve's Response to the September 11 Attacks." *The Regional Economist*. Federal Reserve Bank of St. Louis, January 2002.

Federal Reserve Bank of San Francisco. *Open & Operating: The Federal Reserve Responds to September 11*.

## Glossary of Terms

**Balanced budget** – Government revenues equal expenditures on an annual basis. *(Lesson 5)*

**Bank failure** – When a bank's liabilities (mainly deposits) exceed the value of its assets. *(Lesson 3)*

**Bank panic** – When a bank run begins at one bank and spreads to others, causing people to lose confidence in banks. *(Lesson 3)*

**Bank reserves** – The sum of cash that banks hold in their vaults and the deposits they maintain with Federal Reserve banks. *(Lesson 3)*

**Bank run** – When many depositors rush to the bank to withdraw their money at the same time. *(Lesson 3)*

**Bank suspensions** – Comprises all banks closed to the public, either temporarily or permanently, by supervisory authorities or by the banks' boards of directors because of financial difficulties. Banks that close under a special holiday declaration and remained closed only during the designated holiday are not counted as suspensions. *(Lesson 4)*

**Banks** – Businesses that accept deposits and make loans. *(Lesson 2)*

**Budget deficit** – When government expenditures exceed revenues. *(Lesson 4)*

**Budget surplus** – When government revenues exceed expenditures. *(Lesson 4)*

**Consumer confidence** – The relationship between how consumers feel about the economy and their spending and saving decisions. *(Lesson 5)*

**Consumer Price Index (CPI)** – A measure of the prices paid by urban consumers for a market basket of consumer goods and services. *(Lesson 1)*

**Deflation** – A general downward movement of prices for goods and services in an economy. *(Lessons 1, 3 and 6)*

**Depression** – A very severe recession; a period of severely declining economic activity spread across the economy (not limited to particular sectors or regions) normally visible in a decline in real GDP, real income, employment, industrial production, wholesale-retail credit and the loss of overall confidence in the economy. *(Lessons 1, 3 and 4)*

**Federal Reserve System** – The central bank of the United States. *(Lesson 6)*

**Fiscal policy** – The spending and taxing policies used by the federal government to influence the economy. *(Lesson 4)*

**Fractional reserve banking system** – A banking system in which the amount of reserves that banks hold is less than the value of their customers' deposits. *(Lesson 3)*

**Gross Domestic Product (GDP)** – The market value of all final goods and services produced within an economy during a year. *(Lessons 1 and 5)*

**Income** – Earnings received as interest, rent, profit and wages or salaries. *(Lesson 3)*

**Inflation** – A general, sustained upward movement of prices for goods and services in an economy. *(Lessons 1 and 6)*

**Liquidity** – The quality that makes an asset easily convertible into cash with relatively little loss of value in the conversion process. *(Lesson 6)*

**Monetary policy** – Central bank actions involving the use of interest rate or money supply tools to achieve such goals as maximum employment, stable prices and moderate long-term interest rates. *(Lesson 6)*

**Money supply (stock)** – The quantity of money available in an economy. The basic money supply in the United States consists of currency, coins and checking account (i.e., demand) deposits. *(Lessons 2, 3, 4, 5 and 6)*

**National debt** – The total amount of outstanding government securities held by the public; the financial obligations of a national government resulting from deficit spending, also called public debt. *(Lessons 4 and 5)*

**National income** – The amount earned by resource suppliers for their contributions to the GDP. It can be calculated by adding the sum of the total of employee compensation (wages and salaries), rental income, interest income and profit. *(Lesson 5)*

**Nominal Gross Domestic Product (GDP)** – The market value of all final goods and services produced within an economy during a year, expressed in terms of the prices existing at the time the output is produced. *(Lessons 1 and 5)*

**Open market operations** – A tool the Federal Reserve uses to implement monetary policy. Open market operations involve the selling or buying of Treasury securities on the open market. *(Lesson 6)*

**Per capita personal income** – The average annual income per person. *(Lesson 5)*

**Personal income** – Income received by people from all sources, including wages and salaries, rental income, profit, transfer payments and interest income. *(Lesson 5)*

**Portfolio** – A list or collection of financial assets that an individual or company holds. *(Lesson 3)*

**Price stability** – The absence of inflation and the absence of deflation. *(Lesson 6)*

**Real Gross Domestic Product (GDP)** – The market value of all final goods and services produced within an economy during a year valued at constant prices (i.e., adjusted for inflation or deflation). *(Lessons 1, 4 and 5)*

**Smoot-Hawley tariff** – A tax on imported goods. The Smoot-Hawley Tariff Act of June 1930 raised U.S. tariffs to historically high levels. *(Lessons 2 and 3)*

**Unemployment** – The number of people 16 years of age and older who are without jobs and actively seeking work. *(Lesson 5)*

**Unemployment rate** – The percentage of the labor force that is willing and able to work, does not currently have a job and is actively looking for employment. *(Lessons 1, 3, 4 and 5)*

# Pre- and Post-Test for The Great Depression Curriculum

1. Deflation occurs when:
    a. there is a sustained increase in the price of gasoline.
    b. there is a sustained decrease in the price of gasoline.
    c. there is a sustained increase in the overall price of goods and services.
    d. there is a sustained decrease in the overall price of goods and services.
    e. a and c only

2. Inflation occurs when:
    a. there is a sustained increase in the price of gasoline.
    b. there is a sustained decrease in the price of gasoline.
    c. there is a sustained increase in the overall price of goods and services.
    d. there is a sustained decrease in the overall price of goods and services.
    e. a and c only

3. From 1929 to 1933:
    a. the unemployment rate was increasing.
    b. the economy was experiencing inflation.
    c. Gross Domestic Product (GDP) was decreasing.
    d. the Consumer Price Index (CPI) was increasing.
    e. a and c only

4. How did the stock market crash, the closing of the Ford Model T plant and the collapse of the farming industry contribute to the economic collapse known as the Great Depression?
    a. These increased unemployment and output.
    b. These increased unemployment and prices.
    c. These destroyed jobs, wealth and people's confidence in the economy.
    d. a and b only
    e. a and c only

5. Some suggest that the Smoot-Hawley tariff and protectionist trade policies were the cause of the Great Depression. Which of the following statements is true?
    a. A tariff is a tax on an imported good.
    b. Tariffs lead to a decrease in international trade.
    c. Tariffs lower the price of imported goods relative to the price of domestic goods.
    d. a and b only
    e. a and c only

6. Which of the following statements is true?
   a. A shrinking money stock causes deflation.
   b. A shrinking money stock may lead to a lower unemployment rate.
   c. A shrinking money stock means that people and businesses borrow more from banks.
   d. a and c only
   e. b and c only

7. How did bank panics contribute to the collapse of the nation's banking system during the Great Depression?
   a They caused the money stock to decrease.
   b. They caused additional bank failures and lack of confidence in the banking system.
   c. They caused businesses to borrow greater amounts of money than they otherwise would have borrowed.
   d. a and b only
   e. b and c only

8. Which of the following were included in President Roosevelt's plans to address the economic problems of the Great Depression?
   a. Impose a bank holiday.
   b. Pass banking legislation.
   c. Decrease government spending in order to balance the budget.
   d. a and b only
   e. b and c only

9. What was the impact of government spending during President Roosevelt's administration?
   a. Deficits contributed to national debt.
   b. The federal government increased its role in the U.S. economy.
   c. A decrease in government spending helped balance the federal budget.
   d. a and b only
   e. b and c only

10. The purpose of New Deal programs was to provide:
    a. immediate relief for citizens.
    b. tax increases to recover additional government spending.
    c. reform to prevent such economic problems from occurring in the future.
    d. all of the above
    e. a and c only

11. Technology that assisted President Roosevelt in conveying messages that restored citizens' confidence in the U.S. economy included:
    a. radio.
    b. computers.
    c. television.
    d. MP3 players.
    e. Internet blogs.

12. What is the Federal Reserve System?
    a. the nation's central bank
    b. the U.S. Department of Banking
    c. U.S. Department of the Treasury, Banking Division
    d. the legal requirement that interest must be paid on loans.
    e. the only national bank in the United States, located in Washington, D.C.

13. Which of the following is a function of the Federal Reserve?
    a. makes monetary policy
    b. prints currency and mints coin
    c. regulates and supervises banks
    d. all of the above
    e. a and c only

14. Which of the following statements regarding deflation is true?
    a. It causes people to postpone purchases.
    b. It robs the purchasing power of people's savings.
    c. It causes a decline in prices and demand for goods and services.
    d. a and b only
    e. a and c only

15. By studying the Great Depression, economists have come to understand:
    a. the importance of money, credit, and a safe and sound financial system.
    b. the need to maintain a balanced budget regardless of economic conditions.
    c. the importance of the government's responsibility to set prices for goods and services during periods of inflation or deflation.
    d. a and b only
    e. b and c only

16. Monetary policy refers to:
    a. spending and taxation decisions of the federal government to influence the economy.
    b. actions of the Federal Reserve to influence the amount of money and credit in the economy.
    c. actions of the Bureau of Engraving and Printing and the Mint to print currency and mint coins.
    d. a and b only
    e. b and c only

17. The unemployment rate represents:
    a. the percentage of the labor force that is unemployed or works only part-time.
    b. the number of people 18 years of age or older who are eligible to work, but don't have jobs.
    c. the number of people out of every 100 who are eligible for unemployment compensation.
    d. the percentage of the labor force that is 16 years of age or older, does not currently have a job and is actively looking for employment.
    e. a and c only

18. Real gross domestic product is:
    a. the market value of all final goods and services produced within a country in a year.
    b. the market value of all intermediate goods and services produced within a country in a year.
    c. the market value of all final goods and services produced within a country in a year, adjusted for inflation.
    d. the market value of all final goods and services produced within a country in a year, adjusted for exports.
    e. the market value of all intermediate goods and services produced within a country in a year, adjusted for inflation.

19. A bank panic occurs when:
    a. a bank's assets exceed the value of its liabilities.
    b. many depositors rush to the bank to withdraw their money at the same time.
    c. depositors recognize that they do not have as much money in their accounts as they anticipated.
    d. a and c only
    e. b and c only

20. The Federal Reserve System was:
    a. established in 1913 as the nation's central bank.
    b. established in 1939 to prevent future depressions.
    c. not responsible for monetary policy during the Great Depression.
    d. a and c only
    e. b and c only

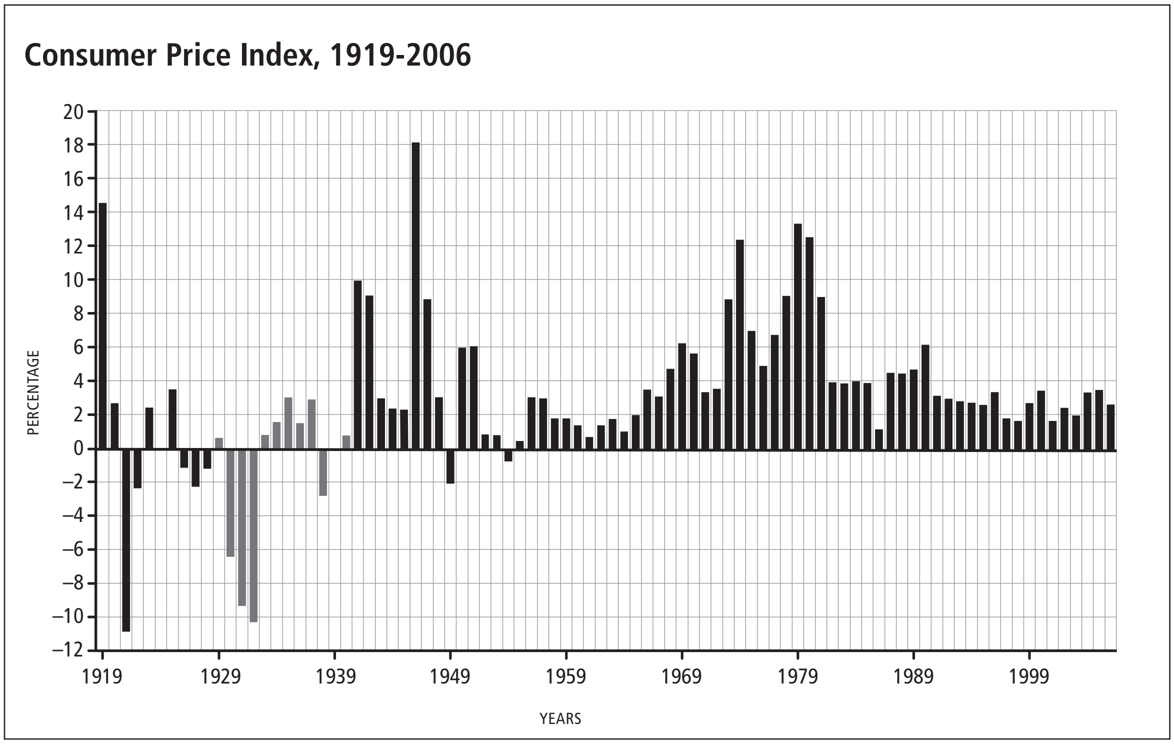
21. With both deflation and inflation:
    a. people buy today rather than wait.
    b. people wait to buy until tomorrow.
    c. people and businesses have reduced purchasing power.
    d. people and businesses have difficulty planning for the future.
    e. a and c only

22. A depression is a:
    a. mild recession.
    b. sustained decline in the overall price level of goods and services in the economy.
    c. sustained increase in the overall price level of goods and services in the economy.
    d. measure of the market value of all final goods and services produced in an economy during a year.
    e. severe period of declining real output across sectors of the economy and regions of the country.

23. The money supply is the amount:
    a. of gold in Fort Knox.
    b. the federal government has to spend each year.
    c. of currency printed each year by the Bureau of Engraving and Printing.
    d. of currency, coins and checking account deposits available in an economy.
    e. a and d only

24. The national debt is the:
    a. annual deficit.
    b. amount loaned to banks by the Federal Reserve System.
    c. difference between the amount of goods exported and the amount imported.
    d. the financial obligations of the federal government resulting from deficit spending.
    e. the sum of all money owed by individuals and businesses in the United States to other countries.

Refer to the graph below to answer questions 25 and 26.



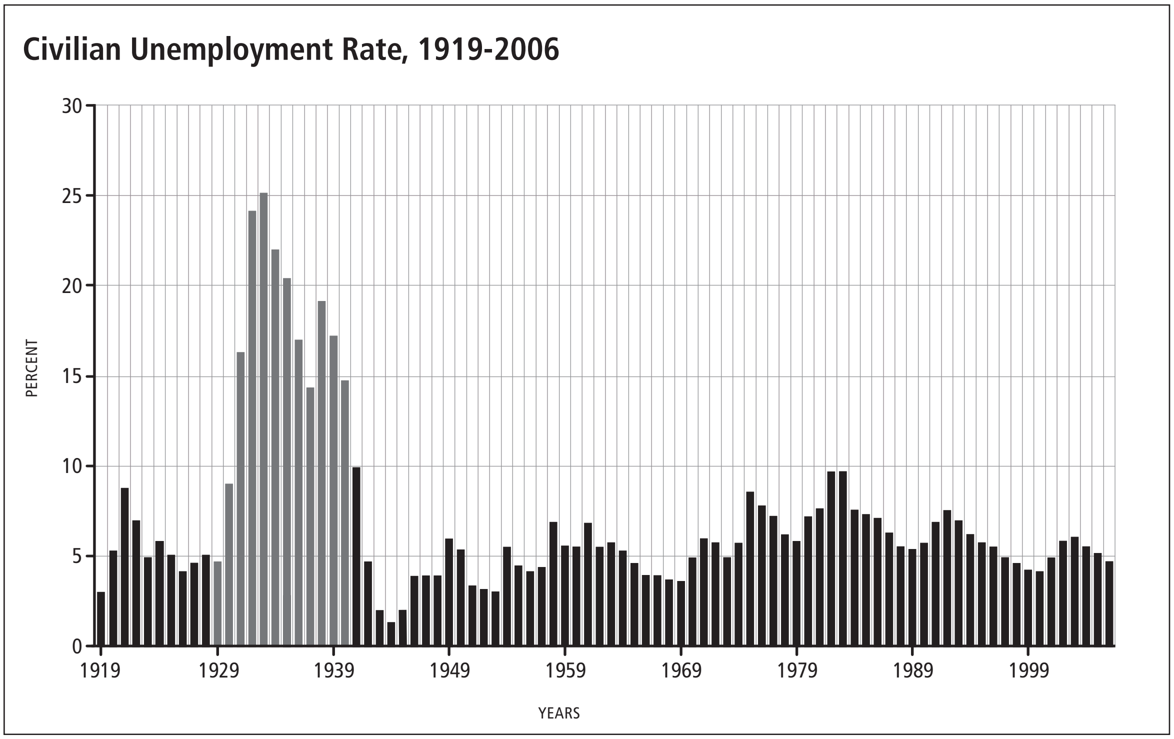

25. During which year did the economy experience the worst inflation?

   a. 1921
   b. 1932
   c. 1942
   d. 1946
   e. 1949

26. During which year did the economy experience the worst deflation?

   a. 1921
   b. 1932
   c. 1942
   d. 1946
   e. 1979

Refer to the graph below to answer question 27.




27. During which year did the economy experience the highest rate of unemployment?

    a. 1929

    b. 1930

    c. 1931

    d. 1932

    e. 1933

Refer to the table below to answer questions 28-30.

## U.S. STATISTICAL DATA 1929 - 1933

| Year | Number of Bank Suspensions | Unemployment Rate | Per Capita Personal Income | Real GDP (in millions of dollars) |
|---|---|---|---|---|
| 1929 | 659 | 3.2% | $698 | $951.7 |
| 1930 | 1352 | 8.9% | $619 | $862.1 |
| 1931 | 2294 | 16.3% | $526 | $788.8 |
| 1932 | 1456 | 24.1% | $399 | $682.9 |
| 1933 | 4004 | 25.2% | $372 | $668.6 |

28. In which year from 1929 to 1933 were bank suspensions the greatest?
    - a. 1929
    - b. 1930
    - c. 1931
    - d. 1932
    - e. 1933

29. How much did per capita income decrease from 1929 to 1933?
    - a. $1,071
    - b. $326
    - c. $125
    - d. $79
    - e. $27

30. Between which two years was there the greatest decrease in real GDP?
    - a. between 1929 and 1930
    - b. between 1930 and 1931
    - c. between 1931 and 1932
    - d. between 1932 and 1933
    - e. between 1933 and 1934

31. Open market operations are:
    a. conducted by the Federal Reserve to manage the money supply.
    b. tariffs enacted by the U.S. government to discourage imports.
    c. interest rate policies of banks to make a profit on loans.
    d. Congressional policies to promote employment.
    e. implemented by national banks in order to make loans.

32. What body makes monetary policy decisions for the United States?
    a. the United States Congress
    b. the Federal Reserve System
    c. the judicial branch of the government
    d. the executive branch of the government
    e. the President's Council of Economic Advisers

33. The purpose of Roosevelt's New Deal legislation was:
    a. to provide relief programs to help immediately.
    b. to provide recovery programs to help rebuild.
    c. to provide reform programs to prevent the disaster from reoccurring.
    d. all of the above
    e. a and c only

## Pre- and Post-Test for The Great Depression Curriculum—Answer Key

1. Deflation occurs when:

   a. there is a sustained increase in the price of gasoline.

   b. there is a sustained decrease in the price of gasoline.

   c. there is a sustained increase in the overall price of goods and services.

   **d. there is a sustained decrease in the overall price of goods and services.**

   e. a and c only

2. Inflation occurs when:

   a. there is a sustained increase in the price of gasoline.

   b. there is a sustained decrease in the price of gasoline.

   **c. there is a sustained increase in the overall price of goods and services.**

   d. there is a sustained decrease in the overall price of goods and services.

   e. a and c only

3. From 1929 to 1933:

   a. the unemployment rate was increasing.

   b. the economy was experiencing inflation.

   c. Gross Domestic Product (GDP) was decreasing.

   d. the Consumer Price Index (CPI) was increasing.

   **e. a and c only**

4. How did the stock market crash, the closing of the Ford Model T plant and the collapse of the farming industry contribute to the economic collapse known as the Great Depression?

   a. These increased unemployment and output.

   b. These increased unemployment and prices.

   **c. These destroyed jobs, wealth and people's confidence in the economy.**

   d. a and b only

   e. a and c only

5. Some suggest that the Smoot-Hawley tariff and protectionist trade policies were the cause of the Great Depression. Which of the following statements is true?

   a. A tariff is a tax on an imported good.

   b. Tariffs lead to a decrease in international trade.

   c. Tariffs lower the price of imported goods relative to the price of domestic goods.

   **d. a and b only**

   e. a and c only

6. Which of the following statements is true?
    - **a. A shrinking money stock causes deflation.**
    - b. A shrinking money stock may lead to a lower unemployment rate.
    - c. A shrinking money stock means that people and businesses borrow more from banks.
    - d. a and c only
    - e. b and c only

7. How did bank panics contribute to the collapse of the nation's banking system during the Great Depression?
    - a They caused the money stock to decrease.
    - b. They caused additional bank failures and lack of confidence in the banking system.
    - c. They caused businesses to borrow greater amounts of money than they otherwise would have borrowed.
    - **d. a and b only**
    - e. b and c only

8. Which of the following were included in President Roosevelt's plans to address the economic problems of the Great Depression?
    - a. Impose a bank holiday.
    - b. Pass banking legislation.
    - c. Decrease government spending in order to balance the budget.
    - **d. a and b only**
    - e. b and c only

9. What was the impact of government spending during President Roosevelt's administration?
    - a. Deficits contributed to national debt.
    - b. The federal government increased its role in the U.S. economy.
    - c. A decrease in government spending helped balance the federal budget.
    - **d. a and b only**
    - e. b and c only

10. The purpose of New Deal programs was to provide:
    - a. immediate relief for citizens.
    - b. tax increases to recover additional government spending.
    - c. reform to prevent such economic problems from occurring in the future.
    - d. all of the above
    - **e. a and c only**

11. Technology that assisted President Roosevelt in conveying messages that restored citizens' confidence in the U.S. economy included:

    **a. radio.**

    b. computers.

    c. television.

    d. MP3 players.

    e. Internet blogs.

12. What is the Federal Reserve System?

    **a. the nation's central bank**

    b. the U.S. Department of Banking

    c. U.S. Department of the Treasury, Banking Division

    d. the legal requirement that interest must be paid on loans.

    e. the only national bank in the United States, located in Washington, D.C.

13. Which of the following is a function of the Federal Reserve?

    a. makes monetary policy

    b. prints currency and mints coin

    c. regulates and supervises banks

    d. all of the above

    **e. a and c only**

14. Which of the following statements regarding deflation is true?

    a. It causes people to postpone purchases.

    b. It robs the purchasing power of people's savings.

    c. It causes a decline in prices and demand for goods and services.

    d. a and b only

    **e. a and c only**

15. By studying the Great Depression, economists have come to understand:

    **a. the importance of money, credit, and a safe and sound financial system.**

    b. the need to maintain a balanced budget regardless of economic conditions.

    c. the importance of the government's responsibility to set prices for goods and services during periods of inflation or deflation.

    d. a and b only

    e. b and c only

16. Monetary policy refers to:

    a. spending and taxation decisions of the federal government to influence the economy.

    **b. actions of the Federal Reserve to influence the amount of money and credit in the economy.**

    c. actions of the Bureau of Engraving and Printing and the Mint to print currency and mint coins.

    d. a and b only

    e. b and c only

17. The unemployment rate represents:

    a. the percentage of the labor force that is unemployed or works only part-time.

    b. the number of people 18 years of age or older who are eligible to work, but don't have jobs.

    c. the number of people out of every 100 who are eligible for unemployment compensation.

    **d. the percentage of the labor force that is 16 years of age or older, does not currently have a job and is actively looking for employment.**

    e. a and c only

18. Real gross domestic product is:

    a. the market value of all final goods and services produced within a country in a year.

    b. the market value of all intermediate goods and services produced within a country in a year.

    **c. the market value of all final goods and services produced within a country in a year, adjusted for inflation.**

    d. the market value of all final goods and services produced within a country in a year, adjusted for exports.

    e. the market value of all intermediate goods and services produced within a country in a year, adjusted for inflation.

19. A bank panic occurs when:

    a. a bank's assets exceed the value of its liabilities.

    **b. many depositors rush to the bank to withdraw their money at the same time.**

    c. depositors recognize that they do not have as much money in their accounts as they anticipated.

    d. a and c only

    e. b and c only

20. The Federal Reserve System was:
    - **a. established in 1913 as the nation's central bank.**
    - b. established in 1939 to prevent future depressions.
    - c. not responsible for monetary policy during the Great Depression.
    - d. a and c only
    - e. b and c only

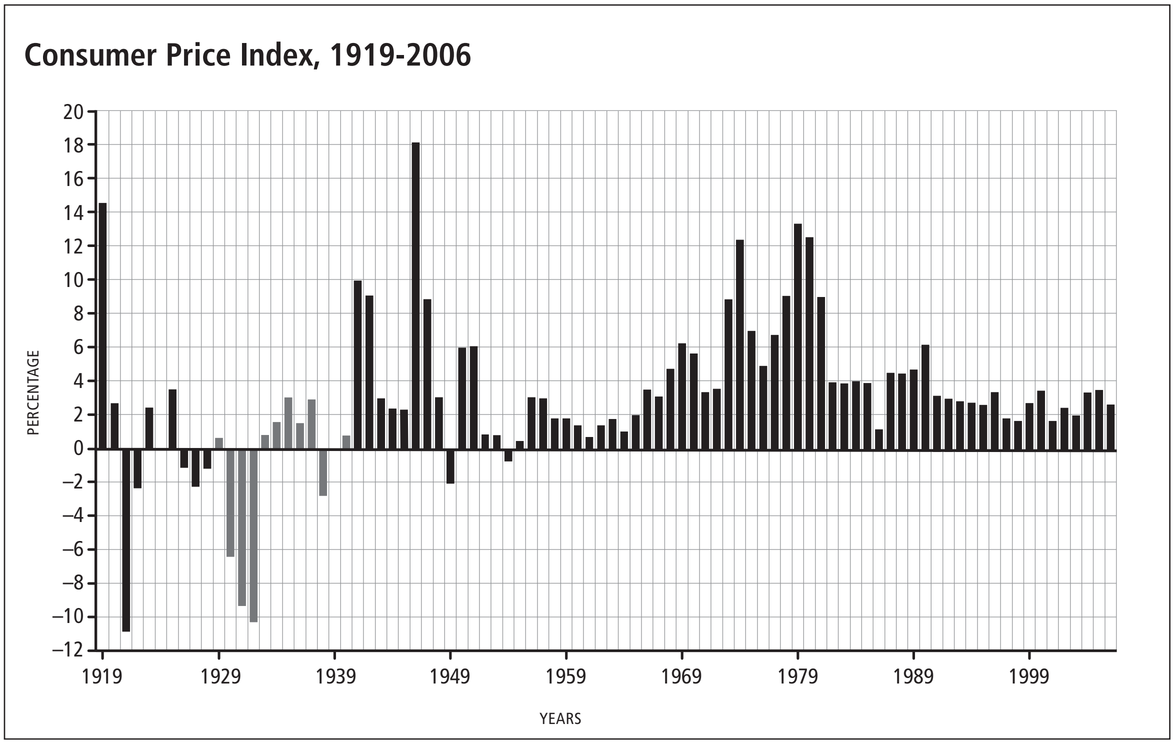
21. With both deflation and inflation:
    - a. people buy today rather than wait.
    - b. people wait to buy until tomorrow.
    - c. people and businesses have reduced purchasing power.
    - **d. people and businesses have difficulty planning for the future.**
    - e. a and c only

22. A depression is a:
    - a. mild recession.
    - b. sustained decline in the overall price level of goods and services in the economy.
    - c. sustained increase in the overall price level of goods and services in the economy.
    - d. measure of the market value of all final goods and services produced in an economy during a year.
    - **e. severe period of declining real output across sectors of the economy and regions of the country.**

23. The money supply is the amount:
    - a. of gold in Fort Knox.
    - b. the federal government has to spend each year.
    - c. of currency printed each year by the Bureau of Engraving and Printing.
    - **d. of currency, coins and checking account deposits available in an economy.**
    - e. a and d only

24. The national debt is the:
    - a. annual deficit.
    - b. amount loaned to banks by the Federal Reserve System.
    - c. difference between the amount of goods exported and the amount imported.
    - **d. the financial obligations of the federal government resulting from deficit spending.**
    - e. the sum of all money owed by individuals and businesses in the United States to other countries.

Refer to the graph below to answer questions 25 and 26.




25. During which year did the economy experience the worst inflation?

   a. 1921

   b. 1932

   c. 1942

   **d. 1946**

   e. 1949

26. During which year did the economy experience the worst deflation?

   **a. 1921**

   b. 1932

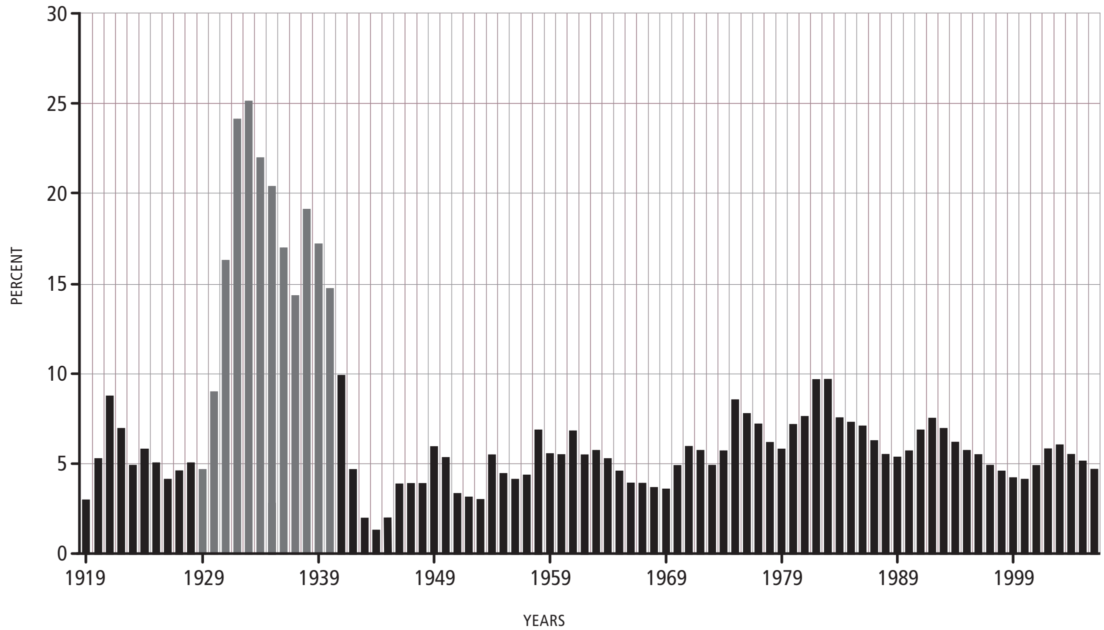
   c. 1942

   d. 1946

   e. 1979

Refer to the graph below to answer question 27.

**Civilian Unemployment Rate, 1919-2006**




27. During which year did the economy experience the highest rate of unemployment?

    a. 1929

    b. 1930

    c. 1931

    d. 1932

    **e. 1933**

Refer to the table below to answer questions 28-30.

## U.S. STATISTICAL DATA
## 1929 - 1933

| Year | Number of Bank Suspensions | Unemployment Rate | Per Capita Personal Income | Real GDP (in millions of dollars) |
|---|---|---|---|---|
| 1929 | 659 | 3.2% | $698 | $951.7 |
| 1930 | 1352 | 8.9% | $619 | $862.1 |
| 1931 | 2294 | 16.3% | $526 | $788.8 |
| 1932 | 1456 | 24.1% | $399 | $682.9 |
| 1933 | 4004 | 25.2% | $372 | $668.6 |

28. In which year from 1929 to 1933 were bank suspensions the greatest?

    a. 1929

    b. 1930

    c. 1931

    d. 1932

    **e. 1933**

29. How much did per capita income decrease from 1929 to 1933?

    a. $1071

    **b. $326**

    c. $125

    d. $79

    e. $27

30. Between which two years was there the greatest decrease in real GDP?

    a. between 1929 and 1930

    b. between 1930 and 1931

    **c. between 1931 and 1932**

    d. between 1932 and 1933

    e. between 1933 and 1934

31. Open market operations are:

    **a. conducted by the Federal Reserve to manage the money supply.**

    b. tariffs enacted by the U.S. government to discourage imports.

    c. interest rate policies of banks to make a profit on loans.

    d. Congressional policies to promote employment.

    e. implemented by national banks in order to make loans.

32. What body makes monetary policy decisions for the United States?

    a. the United States Congress

    **b. the Federal Reserve System**

    c. the judicial branch of the government

    d. the executive branch of the government

    e. the President's Council of Economic Advisers

33. The purpose of Roosevelt's New Deal legislation was:

    a. to provide relief programs to help immediately.

    b. to provide recovery programs to help rebuild.

    c. to provide reform programs to prevent the disaster from reoccurring.

    **d. all of the above**

    e. a and c only

## Teacher information

Teacher name (optional): ______________________________

School: ______________________________

City: ______________________ State: __________ Zip: ______________

Number of pages faxed: __________

**Please complete** the information below; answer questions pertaining only to the lessons that you taught in the classroom. Fax only the evaluation pages for the lessons that you taught.

Subject area(s) in which the lessons were taught: ______________________________

Grade level(s) of students: ______________________________

To how many students (total) did you teach some or this entire curriculum? ____________________

How did you learn about this curriculum?

◯ viewed a copy on the St. Louis Fed web site

◯ attended a workshop

◯ borrowed a colleague's copy

◯ read about it in a newsletter and ordered the CD

◯ received a copy at a conference exhibit

◯ other: ______________________________

My students were able to read and understand the essay, *The Great Depression: An Overview*.

◯ yes ◯ no

I gave my students the multiple choice test included in the curriculum. ◯ yes ◯ no

I will share my students' test results with the Federal Reserve Bank of St. Louis. ◯ yes ◯ no

If yes, you may contact me: Name: ______________________________

Phone number: ____________________ E-mail address: ____________________

Thank you for using the Great Depression curriculum. Please take a few minutes to provide feedback about the curriculum. Please answer the questions only for the lessons you taught. Please use these forms to **fax** your evaluation.

Fax to: Mary Suiter
Federal Reserve Bank of St. Louis
Fax Number: 314-444-8503
Phone Number: 314-444-4662

# Lesson 1: Measuring the Great Depression

◯ I taught the entire lesson.

I taught the following sections of the lesson:

◯ Vocabulary (procedures 1-5)
◯ Inflation/Deflation (procedures 6-13)
◯ GDP (procedures 14-17)
◯ Unemployment (procedures 18-24)
◯ Closure

Evaluate each statement below using the scale provided.

| | 5 strongly agree | 4 agree | 3 neutral | 2 disagree | 1 strongly disagree |
|---|---|---|---|---|---|
| I would use this lesson or the same sections of the lesson again. | | | | | |
| I would recommend this lesson to colleagues. | | | | | |
| My students met the objectives of the lesson. | | | | | |
| My students were engaged in the activities and discussion. | | | | | |

How could we improve this lesson?________________________________________

Please identify content that was difficult for students. ______________________________

What was the most surprising/interesting aspect of this lesson? ________________________

Thank you for using the Great Depression curriculum. Please take a few minutes to provide feedback about the curriculum. Please answer the questions only for the lessons you taught. Please use these forms to **fax** your evaluation.

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# Lesson 2: What People Say

◯ I taught the entire lesson.

I taught the following sections of the lesson:

◯ Introduction (procedures 1-5) ◯ Letters in Time (procedures 6-9)

◯ Closure

Evaluate each statement below using the scale provided.

| | 5<br>strongly<br>agree | 4<br>agree | 3<br>neutral | 2<br>disagree | 1<br>strongly<br>disagree |
|---|---|---|---|---|---|
| I would use this lesson or the same sections of the lesson again. | | | | | |
| I would recommend this lesson to colleagues. | | | | | |
| My students met the objectives of the lesson. | | | | | |
| My students were engaged in the activities and discussion. | | | | | |

How could we improve this lesson?________________________________________

____________________________________________________________

____________________________________________________________

____________________________________________________________

Please identify content that was difficult for students. ________________________________

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What was the most surprising/interesting aspect of this lesson? __________________________

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____________________________________________________________

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Phone Number: 314-444-4662

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

◯ I taught the entire lesson.

I taught the following sections of the lesson:

◯ Budget role play (procedures 1-8)
◯ Bank simulation (procedures 9-25)
◯ Overview questions (procedures 26-27)
◯ Closure

Evaluate each statement below using the scale provided.

| | 5<br>strongly<br>agree | 4<br>agree | 3<br>neutral | 2<br>disagree | 1<br>strongly<br>disagree |
|---|---|---|---|---|---|
| I would use this lesson or the same sections of the lesson again. | | | | | |
| I would recommend this lesson to colleagues. | | | | | |
| My students met the objectives of the lesson. | | | | | |
| My students were engaged in the activities and discussion. | | | | | |

How could we improve this lesson?____________________________

Please identify content that was difficult for students. ____________________

What was the most surprising/interesting aspect of this lesson? ________________

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Phone Number: 314-444-4662

## Lesson 4: Dealing with the Great Depression

◯ I taught the entire lesson.

I taught the following sections of the lesson:

◯ Introduction (procedures 1-7) ◯ It IS a New Deal cards (procedures 8-10)

◯ New Deal cards (procedures 11-18) ◯ Effects of the New Deal (procedures 19-22)

◯ Closure

Evaluate each statement below using the scale provided.

| | 5<br>strongly<br>agree | 4<br>agree | 3<br>neutral | 2<br>disagree | 1<br>strongly<br>disagree |
|---|---|---|---|---|---|
| I would use this lesson or the same sections of the lesson again. | | | | | |
| I would recommend this lesson to colleagues. | | | | | |
| My students met the objectives of the lesson. | | | | | |
| My students were engaged in the activities and discussion. | | | | | |

How could we improve this lesson?________________________________________

________________________________________________________

________________________________________________________

________________________________________________________

Please identify content that was difficult for students. ______________________________

________________________________________________________

________________________________________________________

________________________________________________________

What was the most surprising/interesting aspect of this lesson? __________________________

________________________________________________________

________________________________________________________

________________________________________________________

Thank you for using the Great Depression curriculum. Please take a few minutes to provide feedback about the curriculum. Please answer the questions only for the lessons you taught. Please use these forms to **fax** your evaluation.

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# Lesson 5: Turn Your Radio On

◯ I taught the entire lesson.

I taught the following sections of the lesson:

◯ Introduction (procedures 1-5)
◯ Fireside chat group work (procedures 6-9, 11-12)
◯ Vocabulary (procedure 10)
◯ Consumer confidence activity (procedures 13-19)
◯ Closure

Evaluate each statement below using the scale provided.

| | 5 strongly agree | 4 agree | 3 neutral | 2 disagree | 1 strongly disagree |
|---|---|---|---|---|---|
| I would use this lesson or the same sections of the lesson again. | | | | | |
| I would recommend this lesson to colleagues. | | | | | |
| My students met the objectives of the lesson. | | | | | |
| My students were engaged in the activities and discussion. | | | | | |

How could we improve this lesson?________________________________________

Please identify content that was difficult for students. ________________________________

What was the most surprising/interesting aspect of this lesson? __________________________

Thank you for using the Great Depression curriculum. Please take a few minutes to provide feedback about the curriculum. Please answer the questions only for the lessons you taught. Please use these forms to **fax** your evaluation.

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## Lesson 6: Could It Happen Again?

◯ I taught the entire lesson.

I taught the following sections of the lesson:

◯ Introduction (procedures 1-5)
◯ Inflation/deflation activity (procedures 6-8)
◯ Monetary policy (procedures 9-30)
◯ Great Depression (procedures 31-35)
◯ Closure

Evaluate each statement below using the scale provided.

| | 5 strongly agree | 4 agree | 3 neutral | 2 disagree | 1 strongly disagree |
|---|---|---|---|---|---|
| I would use this lesson or the same sections of the lesson again. | | | | | |
| I would recommend this lesson to colleagues. | | | | | |
| My students met the objectives of the lesson. | | | | | |
| My students were engaged in the activities and discussion. | | | | | |

How could we improve this lesson?______________________________

______________________________

______________________________

______________________________

Please identify content that was difficult for students. ______________________________

______________________________

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What was the most surprising/interesting aspect of this lesson? ______________________________

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# Resources for the Great Depression Curriculum Unit

## Still Images

**Photographs:**

- **About.com: 20th Century History**
  Photographs of the Great Depression.
  http://history1900s.about.com/library/photos/blyindexdepression.htm

- **Franklin Delano Roosevelt Library Photos**
  Copyright-free photos; for an example, see www.fdrlibrary.marist.edu/images/photodb/27-0639a.gif.
  www.fdrlibrary.marist.edu/photos.html

- **Library of Congress: "America from the Great Depression to World War II: Photographs from the FSA – OWI, 1935-1945"**
  These are the famous photographs that you know—Dorothea Lange, etc. See example:
  http://memory.loc.gov/pnp/fsa/8b29000/8b29500/8b29516v.jpg
  http://memory.loc.gov/ammem/fsowhome.html

- **Library of Congress: "Voices from the Dust Bowl"**
  Audio and photographs from the Library of Congress.
  http://memory.loc.gov/ammem/afctshtml/tshome.html

- **New Deal Network Photo Gallery**
  Excellent photos of everything from bread lines to soup kitchens to bank runs. To use, we must ask permission, but it appears that they have a generous educational policy.
  http://newdeal.feri.org/library/browse_projects.cfm?SubCatID=1004&CatID=2

- **Picturing the Century: The Great Depression and the New Deal**
  Online photos from a small collection at the National Archives and Records Administration.
  www.archives.gov/exhibits/picturing_the_century/galleries/greatdep.html

**Posters:**

- **Works Progress Administration Posters at the Library of Congress**
  http://memory.loc.gov/ammem/wpaposters/wpahome.html

**Timelines:**

- **About.com: America in the 1930s Timeline**
  Includes a timeline for each year from 1929 to 1940.
  http://americanhistory.about.com/gi/dynamic/offsite.htm?zi=1/XJ/Ya&sdn=americanhistory&cdn=education&tm=64&gps=79_10_1276_887&f=00&tt=14&bt=0&bts=0&zu=http%3A//xroadsvirginia.edu/%7E1930s/home_1.html

- **"Riding the Rails" Series: Great Depression Timeline**
  From the Public Broadcasting Service series' web site.
  www.pbs.org/wgbh/amex/rails/timeline/index.html

**Letters and memories:**

- **Turning Points in Wisconsin History: "The Crash on Wall Street"**
  Memories of Great Depression days. From the Wisconsin Historical Society Digital Collection.
  http://content.wisconsinhistory.org/u?/tp,12507

- **U.S. Department of Agriculture History Collection**
  Draft of a memo on unemployment, with a chart, to Secretary of Agriculture Henry A. Wallace, from his Economic Adviser, Mordecai Ezekiel (May 9, 1933).
  www.nal.usda.gov/speccollcollect/history/ezmemthu.htm

**Cartoons:**

- **FDR Cartoon Archive**
  Political cartoons from the presidency of Franklin Delano Roosevelt.
  www.nisk.k12.ny.us/fdr/FDRcartoons.html

## Moving Images

**Movies and Newsreels:**

- **"Brother, Can You Spare a Billion? The Story of Jesse H. Jones"**
  Videos with historians describing the influence of Jesse H. Jones, who served as chairman of the Reconstruction Finance Corp. during the Great Depression.
  www.pbs.org/jessejones/jesse_video.htm

- **Getty Images**
  Also has film available for a fee.
  http://editorial.gettyimages.com/Corporate/CountrySelection.aspx?RedirectUrl=%2fFootage%2fFootageHome.aspx

- **Library of Congress: "Prosperity and Thrift: The Coolidge Era and the Consumer Economy: 1921-1929"**
  A wide variety of sources exploring American prosperity during the presidency of Calvin Coolidge and the transition to a mass-consumer economy.
  http://memory.loc.gov/ammem/coolhtml/coolhome.html

- **Universal Newsreels: "Roosevelt Inaugurated"**
  A newsreel documenting FDR's inauguration.
  www.archive.org/details/1933-03-05_Extra_Special_Roosevelt_Inaugurated

- **Universal Newsreels: "President Speaks to the Nation"**
  Fireside chat No. 2; video has sound, poor image of FDR.
  www.archive.org/details/1933-05-08_President_Speaks_To_The_Nation

- **Universal Newsreels: "President Roosevelt's Emergency Bank Bill Passed by Congress"**
  An unfortunately silent film about FDR's introduction of the bank bill.
  www.archive.org/details/1933-03-09_President_Roosevelts_Emergency_Bank_Bill

- **Universal Newsreels: "President Visits Foresters"**
  FDR visits the Civilian Conservation Corps. in 1933.
  www.archive.org/details/1933-08-14_President_Visits_Foresters

- **Universal Newsreels: "President Outlines Recovery Progress"**
  Fireside chat No. 4; FDR details recovery; video has sound.
  www.archive.org/details/1933-10-23_President_Outlines_Recovery_Progress

- **Universal Newsreels: "Highlights in the News"**
  News highlights from 1933; for example, a Kansas City businessman gives away coats to men, who line up around the block.
  www.archive.org/details/1933-11-06_Highlights_In_the_News

- **Universal Newsreels: "City Gold Rush Starts"**
  An apparent gold rush at a farm outside of Cincinnati gives a view of the Depression.
  www.archive.org/details/1933-11-06_City_Gold_Rush_Starts
- **Universal Newsreels: "Farmers Arm to Break Picket Line"**
  In November 1933, farmers in Iowa strike over prices.
  www.archive.org/details/1933-11-06_Farmers_Arm_To_Break_Picket_Line
- **Universal Newsreels: "General Strike" newsreels 1 and 2**
  Newsreel footage of the general strike in San Francisco.
  www.archive.org/details/ssfGNSTRIK1 and www.archive.org/details/ssfGSTKBEG1
- **Universal Newsreels: "President Reports to Nation"**
  Fireside chat No. 5; progress made.
  www.archive.org/details/1934-06-27_President_Reports_To_Nation
- **Universal Newsreels: "Better Housing News Flashes"**
  Footage from 1935, focusing on the Federal Housing Administration/National Housing Act.
  www.archive.org/details/BetterHo1935
- **Universal Newsreels: "FDR Sees Fear Vanishing"**
  Fireside chat No. 7; FDR tells nation that fear is vanishing.
  www.archive.org/details/1935-04-29_FDR_Sees_Fear_Vanishing
- **Universal Newsreels: "FDR Buys First Baby Bond"**
  FDR buys $25 bond.
  www.archive.org/details/1935-03-04_FDR_Buys_First_Baby_Bond
- **Universal Newsreels: "Roosevelt Landslide"**
  FDR wins in a landslide.
  www.archive.org/details/1936-11-07_Roosevelt_Landslide
- **Universal Newsreels: "Work Pays America" newsreels 1 and 2**
  A film about the Work Pays America (WPA) program.
  www.archive.org/details/WorkPays1937 and
  www.archive.org/details/WorkPays1937_2
- **Universal Newsreels: "Money Stream Flow from Treasury"**
  Money stream flowing from the Treasury (and through the Federal Reserve System).
  Unfortunately, the footage is silent.
  www.archive.org/details/1933-03-20_Money_Stream_Flow_From_Treasury

## Sound

### Music

- **"Hobo Bill's Last Ride"**
  Music by Jimmie Rodgers.
  www.archive.org/details/JimmieRodgers
- **Library of Congress: "Voices from the Dust Bowl"**
  Audio and photographs from the Library of Congress.
  http://memory.loc.gov/ammem/afctshtml/tshome.html
- **"Riding the Rails" Series: Music**
  Hobo songs from the PBS series, "Riding the Rails."
  www.pbs.org/wgbh/amex/rails/sfeature/chord.html

- **This Land is Your Land: Rural Music and the Depression**
  How country music evolved from the traditional rural music of the Depression.
  http://xroads.virginia.edu/%7E1930s/RADIO/c_w/cw-front.html

**Radio/News Broadcasts**

- **FDR Library: Fireside Chats**
  Transcripts of the fireside chats from FDR.
  www.fdrlibrary.marist.edu/firesi90.html

- **FDR Library: Fireside Chats**
  Actual audio of a few fireside chats.
  www.fdrlibrary.marist.edu/audio.html

- **Internet Archive: FDR Fireside Chats**
  More fireside chats.
  www.archive.org/details/fdrfiresidechat

- **University of Virginia: Complete Audio Recordings of FDR Speeches**
  More speeches from FDR, and in a better format.
  www.millercenter.virginia.edu/index.php/scripps/digitalarchive/speechDetail/24

- **University of Virginia: FDR Presidential Recordings**
  Audio of FDR, beginning in 1940. A limited collection, but growing.
  www.millercenter.virginia.edu/index.php/scripps/digitalarchive/presidentialrecordings/roosevelt/index

**Oral Histories**

- More memories on life during the Great Depression, this from the New Deal site.
  http://newdealferi.org/sevier/interviews/index.htm

- This oral gallery includes numerous interviews conducted by Studs Terkel for his book on the Great Depression, *Hard Times.*
  www.studsterkel.org/htimes.php

## Web Sites

- **The New Deal Network**
  Includes a document library and a photo gallery, as well as a "Classroom" section that includes lesson plans, web projects and bibliographical materials on the Great Depression; a moderated discussion forum for teachers and historians; an arts section, and more.
  http://newdeal.feri.org/default.cfm

- **America in the 1930s**
  Great site with links to films, music, radio programs, photos, art and more. Unfortunately, it is not clear if they have copyright permission for these items, and some of the links don't work.
  http://xroads.virginia.edu/~1930s/front.html

- **The FDR American Heritage Center Museum**
  Web site for the museum, which is located in Massachusetts. Includes a New Deal timeline, background, and links to transcripts and visuals of historic documents.
  www.fdrheritage.org/new_home.htm

- **The FDR Memorial – Official Site**
  Official site with text of all the inscriptions.
  www.nps.gov/fdrm/memorial/memorial.htm#

- **The FDR Memorial – University of San Diego History Department Site**
  Links to photos and information about the Washington, D.C., memorial.
  http://history.sandiego.edu/gen/WW2Timeline/fdr-memorial.html

## Documents

- **New Deal Network Document Library – Economic Policy**
  Included in the links is an open letter to President Roosevelt from John Maynard Keynes.
  http://newdeal.feri.org/texts/browse.cfm?MainCatID=39
- **New Deal Network Document Library – Economic Conditions**
  Includes links to letters detailing the economic conditions of the time period.
  http://newdeal.feri.org/texts/browse.cfm?MainCatID=229

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## Non-Fiction Books

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