

Name _____

Date _____

What REALLY Caused the Depression

Period _____

Today you are going to participate in activities to help you better understand causes of the Great Depression. First you will participate in a budget activity in which you will take one of the following roles: 1928 and again in 1933.

- 2 Groups will be Farmers
- 2 Groups will be Construction Workers
- 2 Groups will be Teachers
- 2 Groups will be Railroad Workers

DEPOSITS	
Name	Amount
John Ellis	\$4,500
Shermone Thomas	\$3,000
Yadaf Gopalan	\$5,000
Michaela Chepikov	\$7,000
Angela Marstall	\$6,000
Elaine Gifford	\$3,500
Ruth Walls	\$10,000
Bella Winston	\$5,000
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



TASK: Read the Directions on top of your groups, page and complete the columns on the budget sheet for 1928

Construction Worker

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.

** When you are finished working, you will select a spokesperson from your group tell you're the class your worker's income in 1928, read the worker's budget card, and discuss the family's budget changes****

	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.

Railroad Worker

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.

** When you are finished working, you will select a spokesperson from your group tell you're the class your worker's income in 1928, read the worker's budget card, and discuss the family's budget changes****

		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.

Farmer

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.

** When you are finished working, you will select a spokesperson from your group tell you're the class your worker's income in 1928, read the worker's budget card, and discuss the family's budget changes****

	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.

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.

** When you are finished working, you will select a spokesperson from your group tell you're the class your worker's income in 1928, read the worker's budget card, and discuss the family's budget changes****

	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.

Answer Key

Construction Worker

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

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

Answer Key

Railroad Worker

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

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

Answer Key

Farmer

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

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

Answer Key

Teacher

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

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

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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.

Discussion Questions and answers for teacher

Discuss the following questions.

1. 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.)

2. Raise your hand if your group spent the same dollar amount on food in 1928 as you did in 1933.

(Answers will vary.)

3. What tradeoffs did you make in order to feed yourself and/or your family? (What did you have to give up?)

(Answers will vary.)

4. How would these spending decisions affect the economy?

(Reduce overall spending on goods and services.)

5. Although in your role, you retained your job, one in every four (or 25 percent) of the workforce was unemployed. What effect did this have on spending?

(decreased spending)

6. 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.)

7. 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.)

Teacher:

Explain that what happened to students in their groups was happening to people across the country during the Great Depression.

1. 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.
2. 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.
3. 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.
4. 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

Name_____

Date_____

What REALLY Caused the Depression

Period_____

Review Homework/ 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 the 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 that explains why the money stock fell during the Great Depression?

1. What is a bank failure?

2. What is a bank run?

3. What is a bank panic?

4. How did bank panics contribute to the collapse of the nation's banking system and a reduction in the money stock?

Review homework Questions Key

- 1. 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)
- 2. 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.
- 3. 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.
- 4. 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.
- 5. 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.)
- 6. 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.

In your budget activity, people had lost their savings because banks in the community failed. Now, you will participate in role-playing to help you understand what bank failures and panics are.

WHAT ARE RESERVES?

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

This is a statement of deposits, loans, and reserves for Community Bank

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. Ex- 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.

Now, you will take the role of individuals living during the 1930's. You live in a community that has 3 banks.

- **Bankers come forward and sit behind your sign, you will be open for business in one moment**
- **Others, take action as instructed on your card**

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

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

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

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

You own the local newspaper. You have to pay your paper supplier. Withdraw \$300 from your account at Second Federal Bank.

Bill Bailey

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

You work for the railroad loading and unloading freight. You need new work clothes. Withdraw \$50 from your account at First Community Bank.

1st Community
Banker

2nd Federal
Banker

3rd State Banker

Handout 3.5: Currency Cards



Teacher:

Complete the transactions, then answer the following Questions to students

1. How many of you made deposits in your bank account? (6)
2. How many of you made loan payments to your bank? (4)
3. How many of you were unable to make loan payments? (2)
4. How many of you want to withdraw money from your bank? (12)
5. Did anyone have any problems? (Yes.)
6. Why? (We tried to withdraw our money, and the bank didn't have our money.)
7. With which bank did you have your account? (Second Federal Bank)
8. How did this make you feel? (angry, frustrated)

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.

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.)

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.)

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.

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.

As people remove money from the banking system, the money supply (stock) shrinks. •

1. The shrinking money supply means that people and businesses are able to borrow less from banks. • People buy fewer goods and services.
2. Businesses sell fewer goods and services because people have less to spend. • Prices decline. • Business revenues decline.

3. 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.
4. Workers who are paid less or lose their jobs may buy fewer goods and services and may be unable to repay bank loans.
5. 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.

Discuss the following:

5. What is a bank failure?

(occurs when banks are unable to meet depositors' demands for their money)

6. What is a bank run? (occurs when many depositors attempt to withdraw all of their funds from their bank at the same time)

7. 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)

8. 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.)

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.)

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.

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.

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.

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:

1. 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.
2. 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.
3. 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.

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

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 for a bumpy ride in the economy, stay tuned"

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.

_____ 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.