Chapter 6: Lessons from the Great Depression Chapter Review
Book Title: Microeconomics: Private and Public Choice
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Chapter Review

Key Points

- The Great Depression was a severe economic plunge that resulted in unemployment rates of nearly 25 percent during 1932–1933 and rates of more than 14 percent for an entire decade. It was the longest, most severe period of depressed economic conditions in American history.

- Contrary to a popular view, the Great Depression was not caused by the 1929 stock market crash. We have had similar reductions in stock prices to those of 1929, both before and after the Great Depression, without experiencing prolonged depressed conditions like those of the 1930s.

- There were four major reasons why the Great Depression was long and severe:

  1. Monetary instability: The money supply contracted by 33 percent between 1929 and 1933, and it took another tumble during 1937–1938.

  2. Smoot–Hawley trade bill: This 1930 legislation increased tariffs by more than 50 percent and led to a sharp reduction in world trade.

  3. 1932 tax increase: This huge tax increase reduced demand and undermined the incentive to invest and produce.

  4. Structural policy changes: Persistent major changes, particularly during the Roosevelt years, generated uncertainty and undermined investment and business planning.

- The budget deficits and increases in government spending were relatively small and failed to exert much impact on total demand and the level of economic activity during the 1930s.

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