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Abstract

As the United States exited The Great War, and headed into the 1920's, everything seemed to be looking up. Cars were becoming commonplace, new technologies started emerging, and the standard of living across the country was on the rise. But, the biggest, most notable point during the period known by historians as the roaring 20's, was the stock market.

The stock market, in short, was a place to buy and sell paper, called shares, that represented part of a company. And during this time, a huge amount of shares were traded daily. Prices and the perceived value of companies stocks were constantly and consistently on the rise.

That is until one dreary October, where the illusion and fantasy of the invincible money making machine, came crashing down.

Research Objectives

What this paper intends to do is the following:

1. Identify how the stock market bubble happened
2. The aftermath of the bubble bursting

Literature Review

“...they were also display an inordinate desire to get rich quickly with a minimum of physical effort” - John Kenneth Galbratih, The Great Crash 1929

“From that date, according to all the evidence, the situation got completely out of Control” - Lionel Robbins

Research Findings

As jobs in the automobile industry came into existence, other industries such as petroleum, tire manufacturing, road construction, and steel making opened up more jobs by proxy. The demand for vehicles was so great that “By 1921 Americans were driving 10.5 million registered vehicles; 8 years later the number had jumped to more than 26 million – 1 automobile for every 5 men, women, and children in the country.” (The Reader's Digest Association, 1975).

With the increase in jobs, another phenomenon happened. People began to buy things not with cash, but with credit. “The widespread use of credit and lay away buying plans meant that it was acceptable to go into debt to maintain what came to be seen as the American standard of living...” (John Green, The Roaring 20's: Crash Course US History #32).

On this credit, people also started to buy stocks (also known as on margin). It didn't seem to matter what the company was, or what it did, so long as it existed and had stocks to sell. And so the market grew.

People wanted to believe in the fantasy that one could become rich in such a simple matter of buying and selling, that very few looked at the market skeptically. Those that did, were often criticized heavily by those casting the magic spell on the people. “For the Federal Reserve Board to deny investors the means of recognizing economies which are now proved, skill which is now learned, and inventions which are almost unbelievable seems to justify doubt weather it is adequately interpreting the times.” (Seth Axley).

As the years went on, it seemed like the market was in fact a solid and sound thing. In the year of 1929, between June and August, General Electric went from 268 points to 391, Steel from 165 to 258, and American Tel and Tel started at 209 and ended at 303. The number of stocks exchanged nearly every day was between 4 and 5 million.

But like all good things, they must come to an end. On October 24th, 1929, 12,894,650 shares were traded on a market with far more sellers than buyers. The prices of stocks tanked, in the morning, but, a meeting was had by bankers and trust holders. They pooled together money and started to buy stocks at the values that the market opened. And it worked, people's fears were soothed, and the market went back to normal. The prices continued like they had on Friday and Saturday, but this was not to last.

On Monday, October 28th, 9.25 million shares were traded, but nearly every company, if not all of them, lost massive amounts of points. General Electric went down by 48, Tel and Tel, 34, Steel, 18. This time, the bankers did not intervene, and thus there was no recovery. The market had started it's death spiral, and while there would be upticks, it was an obvious downward trend. The bubble had burst.

After the bubble burst, the economy, while shaky, didn't fall quite yet. It still took a year or two before the economy finally fell into the Great Depression, although the stock market crash didn't help. Lots of rich people lost money because of the bubble, but the Great Depression itself was, if one were to put a blame on it, caused by the banks failing and the Federal Reserve.

Conclusion and Suggestions for Further Research

To lose your grounds in reality, to speculate wildly on the stock market, and spending too much of your money on credit, is what caused many rich people to lose a lot of money. Nothing good lasts forever, and one should always be skeptical of the market, and not to invest everything they own into it.

Suggestions for further research: How did this crash differ from the 2008 financial crisis?

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