Q4. Describe the Great Depression of 1929.
Ans: The Great Depression was a severe economic crisis that started in the year 1929. It originated in the United States of America with the crash of the stock market and gradually spread to other countries of the world. The main cause behind this crisis was the fall in aggregate demand due to under consumption and over investment. Due to under consumption and over investment the stock of finished goods started piling up, which resulted in the low price level and consequently the low-profit level. The money in the economy was converted into unsold stock of finished goods that lead to an acute fall in employment and hence income level fell drastically. The demand for goods in the economy was so low that the production was lowered leading to the unemployment. In USA, the rate of unemployment increased from 3% to 25%.

The Great depression has its own implications and importance in economics, as it leads to the failure of the classical approach of economics. Those who believed in the market forces of demand and supply, paved the way for the emergence of the Keynesian approach. It was this incident that provided the economists with sufficient evidence to recognize macroeconomics as a separate branch of economics.

The cause and effect relationship of the Great Depression can be summed up in this flow chart
Low demand → over investment → low level of employment → low level of output → low income → low demand.

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