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MA Writing Assignment-1

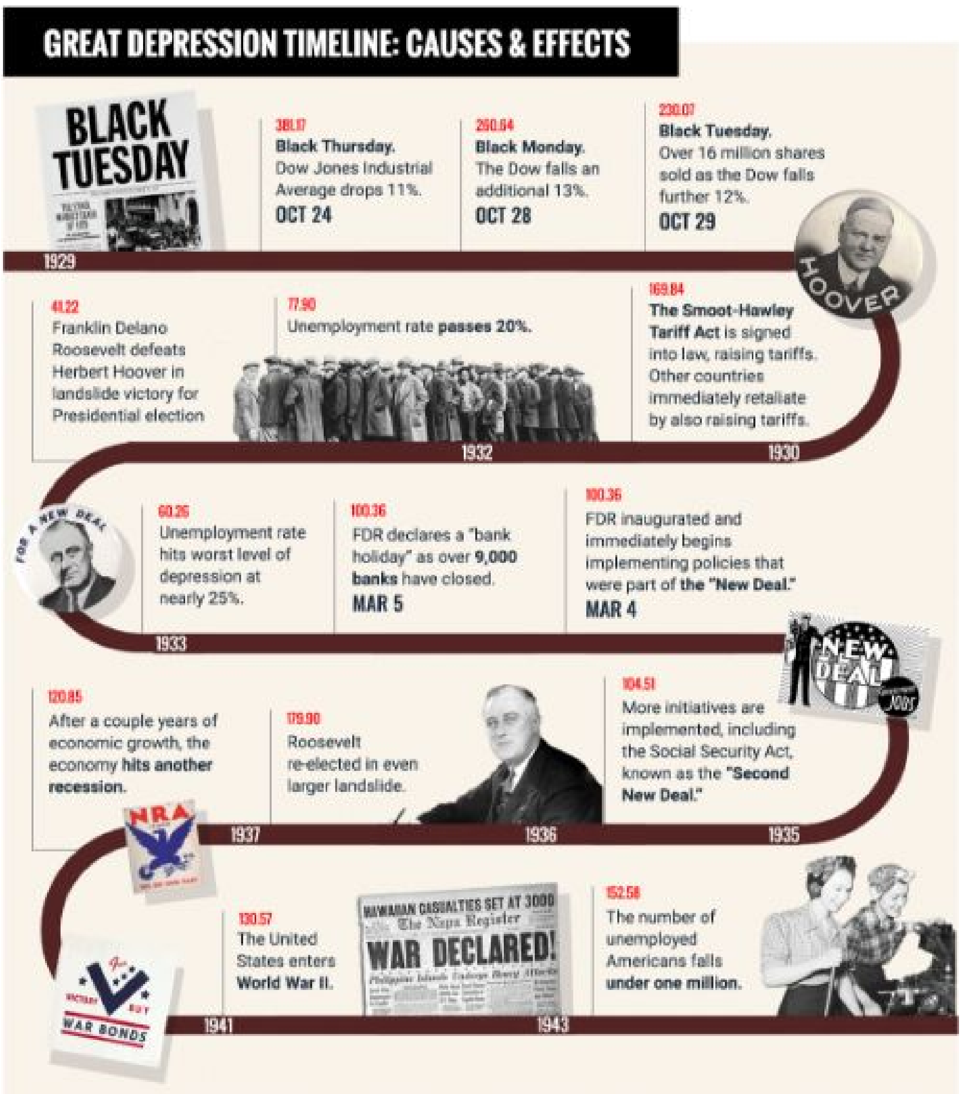
1)

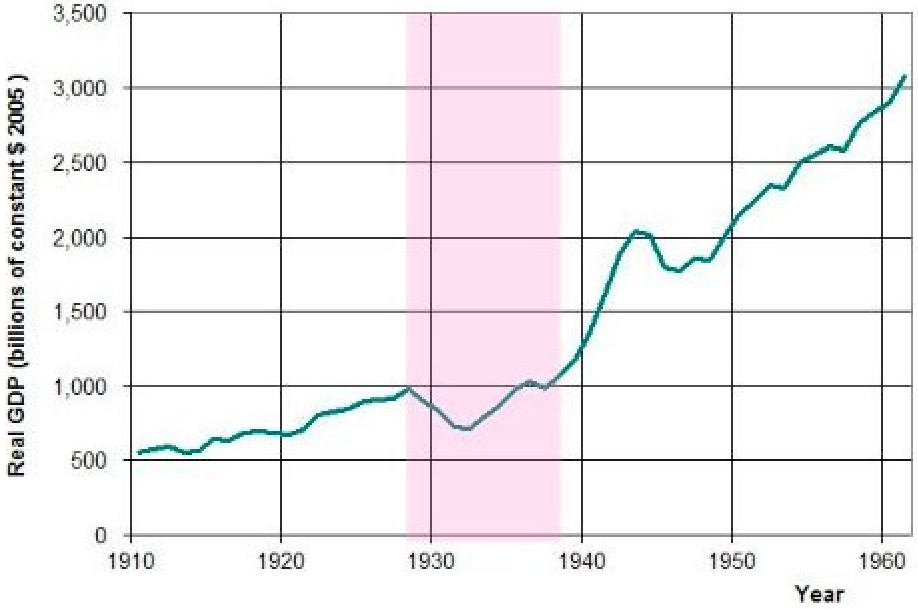
The Great Depression is regarded as a worldwide economic catastrophe that started in 1929 and lasted until the end of 1939. Identified as the Black Tuesday, it is recognised as the longest and the most severe depression ever experienced by the industrialized western world, causing fundamental changes in economic institutions and affecting macroeconomic policies. Although, it was originated in the US, the Great Depression resulted in severe unemployment and acute deflation in almost all countries in the entire globe.
During the Great Depression in 1929, the economic output was about $105 Billion. The economy shrank to about 8.5%, 6.5% in 1931 followed by 12% in 1932. By the end of 1933, US was only able to produce $57 Billion which was about half of what it produced in 1929. The real GDP fell by about 33%. The GDP majorly fall because of deflation in the economy. However, it was accompanied by the stock market crash also known as the Black Thursday. Of course, the stock market crash doesn't happen on its own. There were several economic problems with the economy that many didn't see and others ignored. Also, some economists believe that some decisions by the Federal Reserve played a role in worsening the economy with the chairman playing the primary role. The GDP per capita also reduced as about 7 million people starved to death with simultaneous occurrence of unwanted events.
The Great Depression witnessed a deflation of about 30% between 1930 and 1932. However, stock prices were leading till 1929 and this rise contributed towards large amount of money in the form of wealth. On October 29, share prices fell by $14 Billion on a single day and more than $30 Billion in a week. By the end of 1930, the value of shares were fallen by about 90%. The whole situation was even made worse when natural calamities occured. Between 1930 and 1936, droughts hit the lands of US which turned it into dust bowl. The loss in the agriculture accounted for poverty. The velocity of money also reduced. The resulting decreased demand not only led to lower prices, it established the era of high deflation. Consumer prices declined a quarter by 1933, with commodity farm prices declining even more.
At, the beginning of the Great Depression, unemployment rate was about 3.2%. That was even less than the natural rate of unemployment in the US during that period. By the end of 1930's, the unemployment rate doubled to about 8.7% followed by an increase to about 16% in 1931. By the end of 1933, US witnessed an unemployment rate of about 25% which resulted in 15 Million unemployed people in the country. This was regarded as the peak of the Great Depression period that was ever seen in

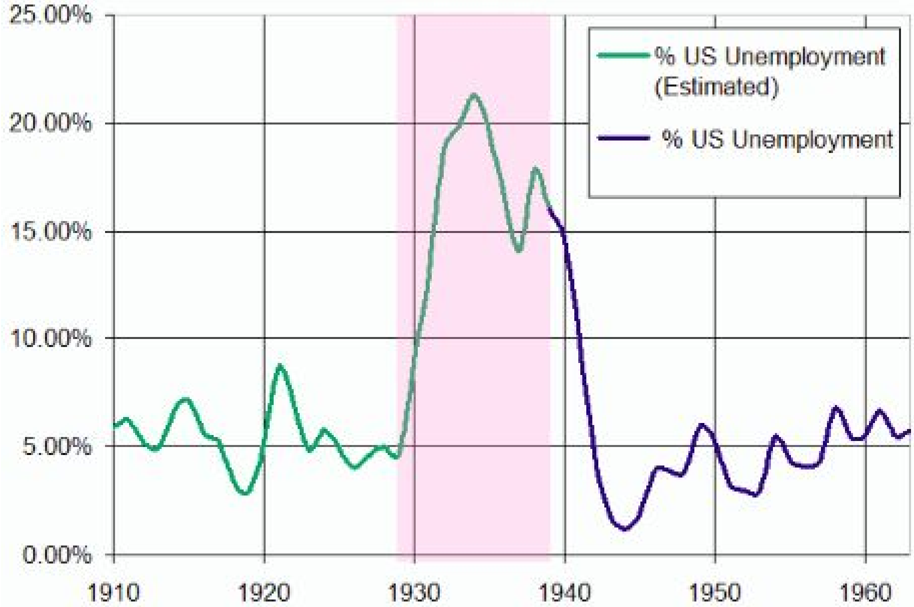
the entire history of the United States. Certain deal programs helped reduce the rate of unemployment from 21.7% to just over 10% in 1941. The Great Depression rapidly increased the level of unemployment which was triggered by the factors that include the worldwide collapse of stock market, drought conditions due to less government expenditures, increase in retail tariffs, deflation in the prices of consumer goods etc. The effects were almost doubled due to over-indebtedness and severe deflation. It worsened with the unavailability of alternate job sources resulting in total dependency on primary sector industries. Due of a rapid increment in unemployment rate, businesses were indulged in random and panic-driven debt liquidation by selling assets in distress.

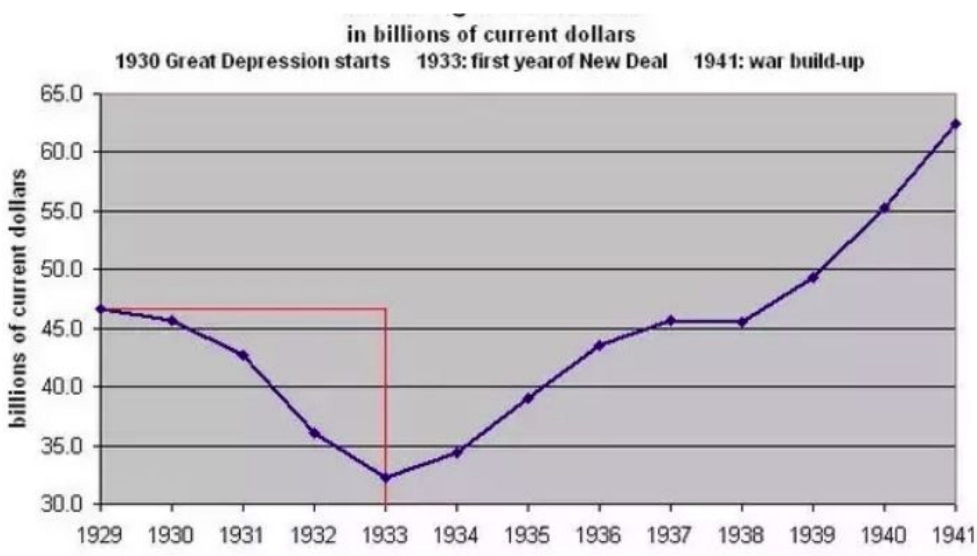
Concluding, The Great Depression began in the US as like another recession however during the late 1929 it became worse. The industrial production of the US declined 47% and the real GDP fell 30%. The wholesale price index witnessed a deflation of 33%. The unemployment rate exceeded 20% to its highest point.

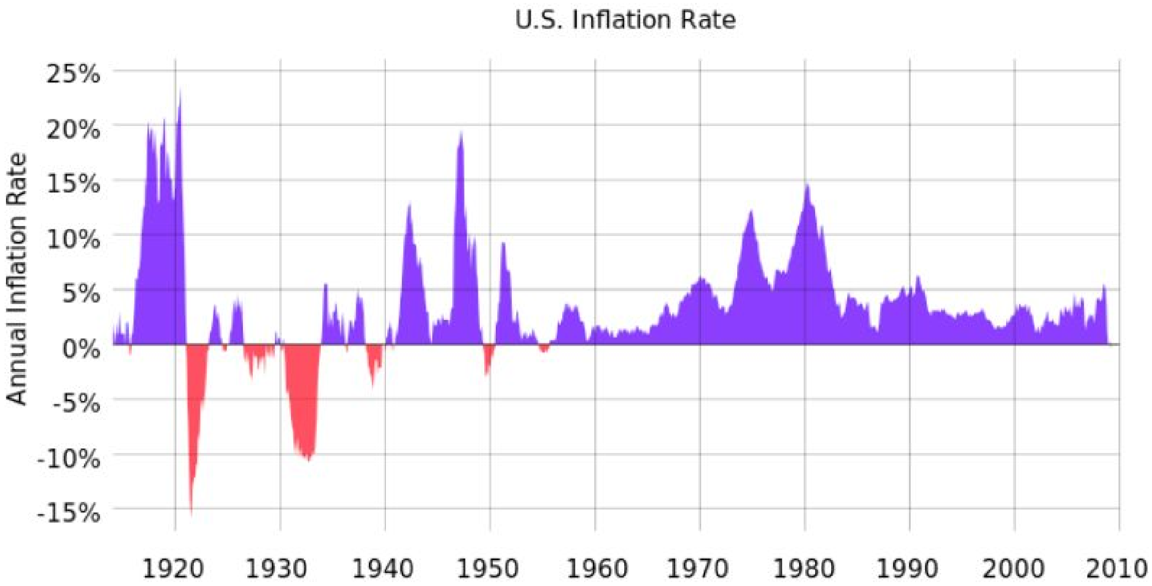
Graphs :-




Real GDP (billions of constant $ 2005)
3,500
3,000
2,500
2,000
1,500
1,000
500
0
1910
1920
1930
1940
1950
1960
Year


25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
1910
1920
1930
1940
1950
1960
% US Unemployment (Estimated)
% US Unemployment


in billions of current dollars
1930 Great Depression starts
1933: first year of New Deal
1941: war build-up
billions of current dollars
65.0
60.0
55.0
50.0
45.0
40.0
35.0
30.0
1929
1930
1931
1932
1933
1934
1935
1936
1937
1938
1939
1940
1941



2)

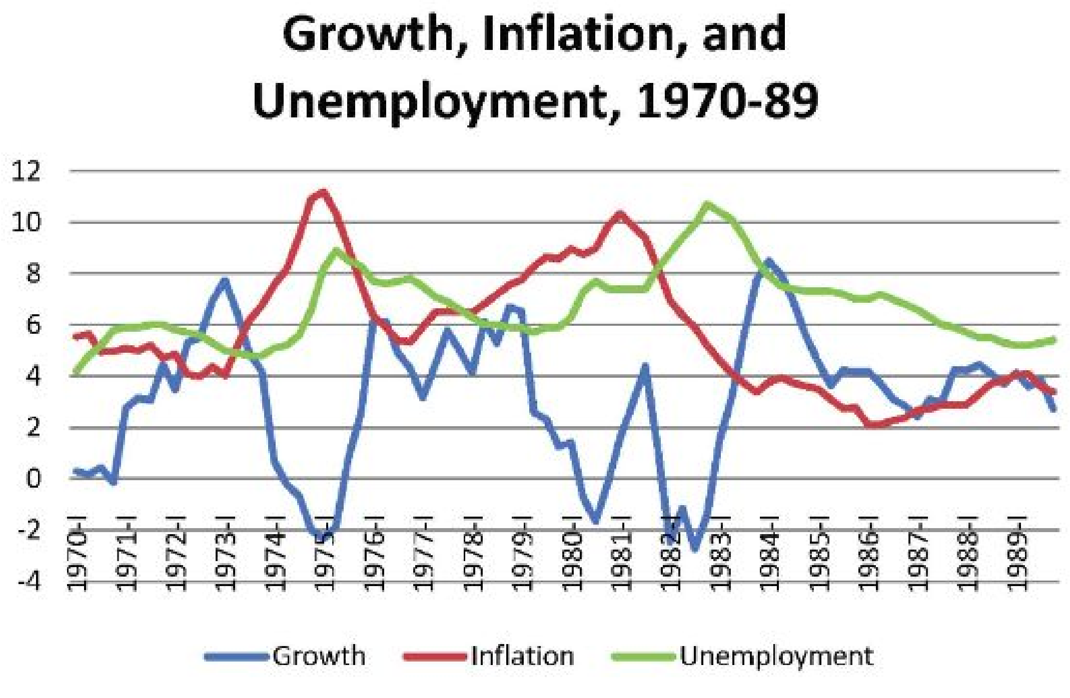
Stagflation is a combination of stagnant economic growth followed by high unemployment and inflation rate. It is regarded as an unnatural situation as inflation is not probable to occur in a weak economy. In 1970's, various Keynesian economists had to reconsider their beliefs as US entered into the period of stagflation. This crisis was primarily caused when oil-rich nations in the Middle East declared an embargo against the US in retaliation for its support of Israel.

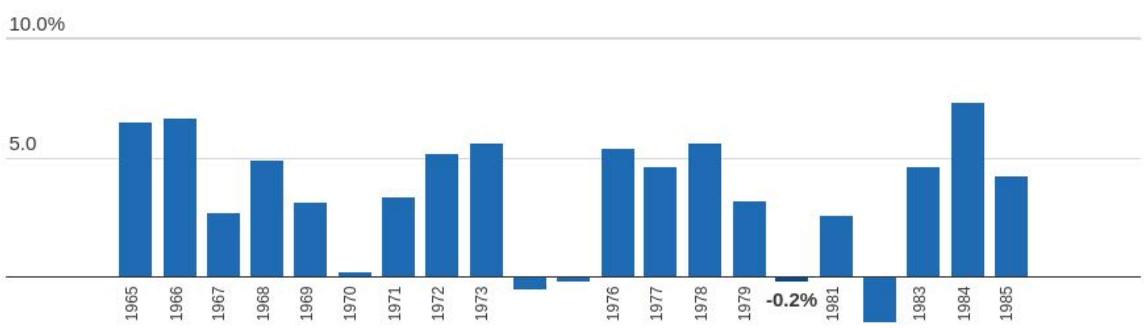
The Stagflation in the 1970's decreased the overall GDP of the US. Since, stagflation mainly occurs due to supply shocks, the overall economy of the country reduces. A good example of this would be if all the workers went on a strike due to stagnant wages in a inflated economy, then production becomes zero. This affects the GDP of the entire country which eventually decrements. The peek in the prices of oil was regarded as the main reason for the GDP decline at that time. It contributed to high inflation, stagnation and high rate of unemployment which resulted in lesser GDP. GDP per capita also reduced due to high increase in the prices of commodities.

The Stagflation in 1970's increased the price levels of oil and gasoline. According to some beliefs, the high levels of inflation were the result of an oil supply shock which also drove the prices of everything else higher. The term cost push inflation was then coined. The real kicker for skyrocketed prices was the OPEC oil embargo of 1973, which increased the shortage of oil and gas resulting in oil prices breaking the record. In 1970, inflation was about 5.5% and by 1974 only four years after it raised to 12.2% followed by 13.3% by the end of 1979. Since households and firms sensed that the Federal Reserve wasn't giving attention to the inflation they probably realized that it cause future inflation and adjusted their expectations. Oil price shocks often result in inflation and a reduce in economic growth through their effect on the

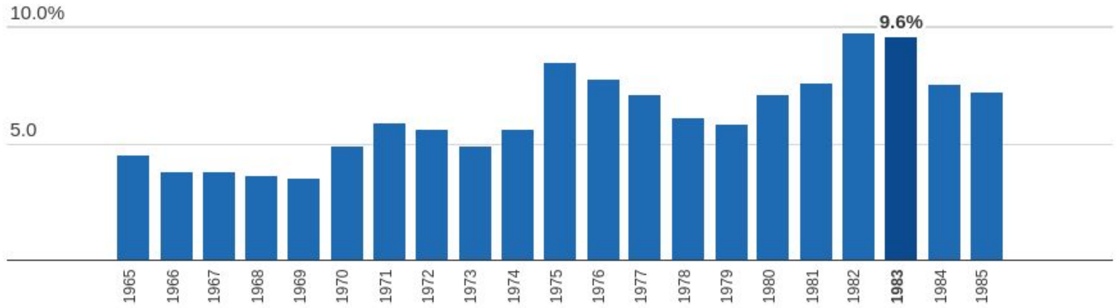
supply and demand of goods other than oil. Also, the prices even go higher due to large imports for which the money can't be spend on the consumption of other goods.
The Stagflation in 1970s majorly increased the unemployment rate in the US due to stagnant business activity and persistent inflation rate. It raised the demand and this increase in demand eventually raised the prices of goods and services. This resulted in the demand for higher wages in order to balance the inflated prices as the average purchasing power of an American reduced significantly. Although, according to Phillips Curve charts, unemployment has an inverse relationship with inflation but this situation increased the rate of unemployment as prices increased. At that time, it was identified as the wage-price spiral. Workers noting the rise in prices expected their wages to eventually increase. For a while, employers were willing to raise wages of workers until the inflation began to rise faster than wages. However, the trouble signs for this crisis emerged in the late 1960's since unemployment rose by 33% from 1968 to 1970.

Graphs :-

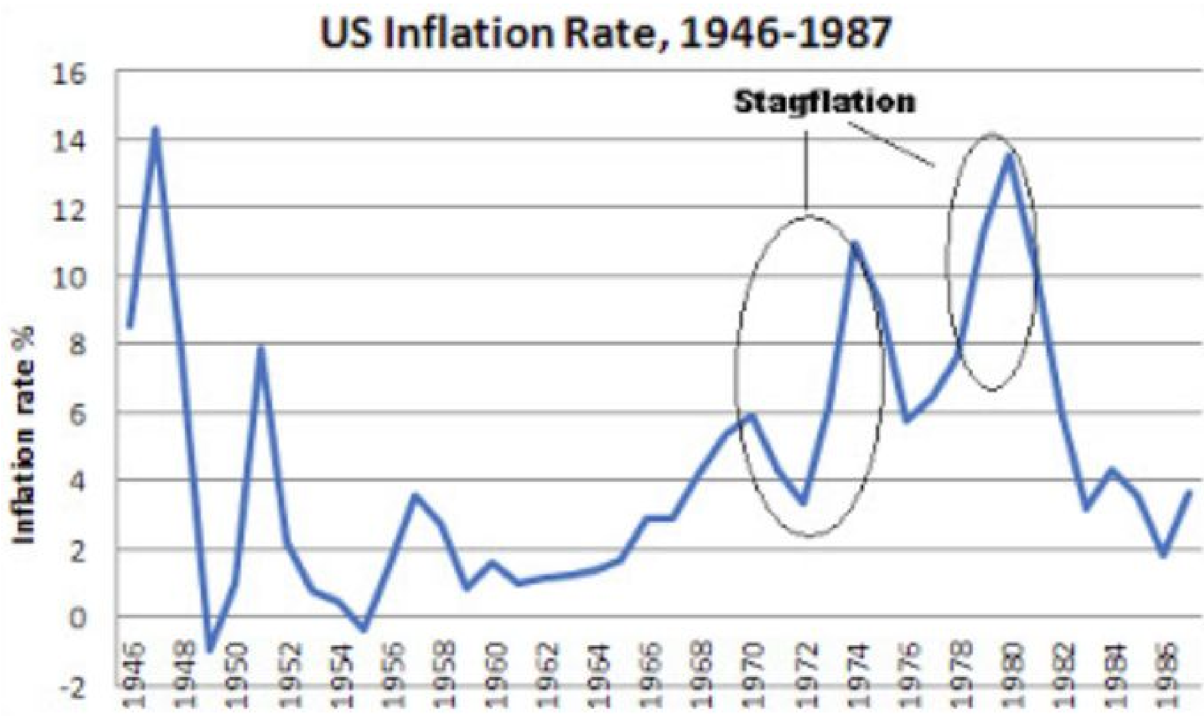




(GDP Graph)



(Unemployment Graph)



3)

The Financial Crisis of 2008 also identified as the US Meltdown or the Great Recession was characterized by contracted liquidity in the global credit and housing market which was triggered by the failure of mortgage companies, government institutions and investment banks which invested heavily in subprime loans. Granting loans for consumable goods didn't generate income for the borrows and hence, they weren't able to payback which led the banks to collapse. It was majorly the failure of investment banks and wall street firms for having the greed of making too much profit.

The crisis caused the economy to contract in three quarters. In the first quarter, the economy contracted to about 2.7% and the real GDP was $14.89 Trillion. During the second quarter, the real GDP increased to about $14.96 Trillion. The third quarter made the economy to contract by about 1.9%. However, the game changed in the fourth quarter when the economy contracted 8.2% which crashed the stock markets for a while. The primary cause of GDP fall was Credit Crunch which led the banks fall due to shortage of liquidity. Also, Fiscal austerity was responsible for the initial fall in the GDP. However, India wasn't affected much during the Great Recession. Since, India has a low dependence on global flows w.r.t capital and trade since only 20% of it constitute the GDP. The leverage ratios of banks in the US were high as 33:1 whereas in India it was under control. All, this saved India during the Great Recession and the GDP still grew by 6.7% in 2008-09 without affecting anything much. The GDP per capita also drastically reduced in the US during the final quarter however the case was opposite in India.

The Financial Crisis had a negative impact on the prices of oil and the gas sector. The decline in these prices resulted in falling revenues for the oil and gas companies. Oil prices fell from a high of $147 in mid 2008 to a low of $33 in Feb 2009. At the same time, the prices of the gas fell from $14 to $4. The main reason for this were diminishing demand rates. Also, the housing prices introduced further complications and diminishing values since homes worth was much less than the mortgage value. The value of dollar decreased which had worldwide consequences. However, India's trade collapsed and gainied severe contraction in October 2008. This is due to the fact that an increase in the income elasticity of world trade. Majorly, the Financial Crisis affected the oil prices due to OPEC and other policies.

The unemployment rate peaked to its maximum at 10.2% in October 2009 in the US. It started to rise steadily from its low at about 4.4% in March 2007. In August 2008, the rate was 6.2% and by the end it was about 7.2%. Around 2.6 Million jobs in total were lost during the crisis. This crisis witnessed a new natural rate of unemployment as all were long-term unemployed thereby resulting in high structural unemployment. The causes of a peak in structural employment affected particularly the low-skilled people since they weren't able to find jobs without moving or entering into a new industry. The Financial Crisis caused a reduction in demand in the OECD countries which affected the Indian Gems / Jewellery Industry, handloom and tourism sectors. Around 50,000 Indian artisans employed in the jewellery industry lost their due to this global economic meltdown. This was followed by a loss of 3000 Crores in the handloom industry thereby creating widespread unemployment in the sector. As far, the tourism industry goes, various foreign tourists flowing from Europe and USA decreased as they majorly visit India for its jewellery and cloth industry.

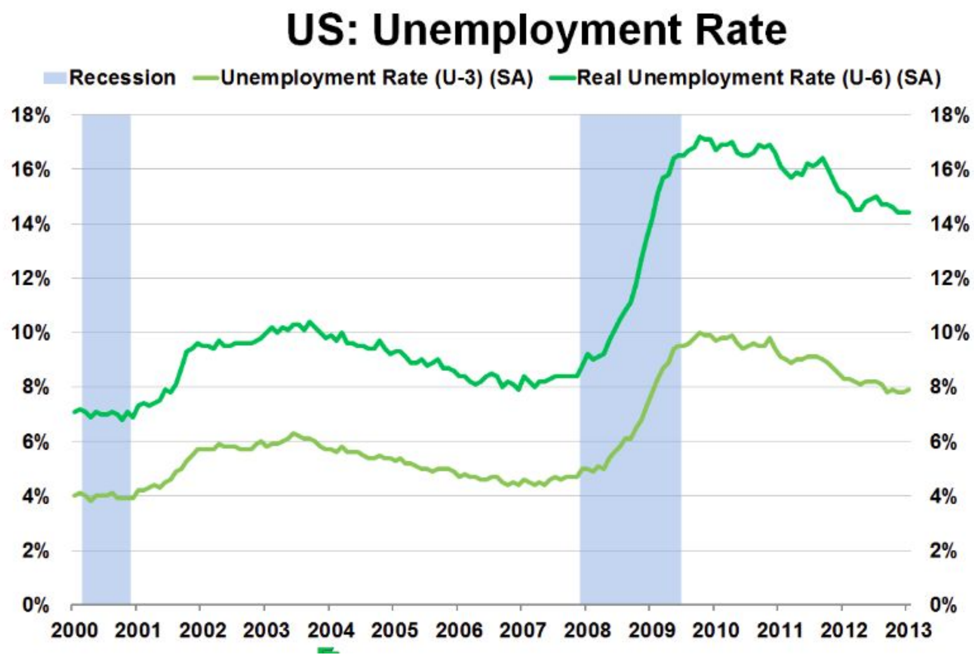
Apart from the above terms, for the first time India's exports turned to be negative. It contracted to about 15%. The Indian Stock Market also crashed and so Sensex by 13% in just two trading sessions. This made people believe that saving money is better option than applying in stock market due to the inconsistency. Also, IT companies witnessed a drop in growth of about 15% and also 30% in the BPO

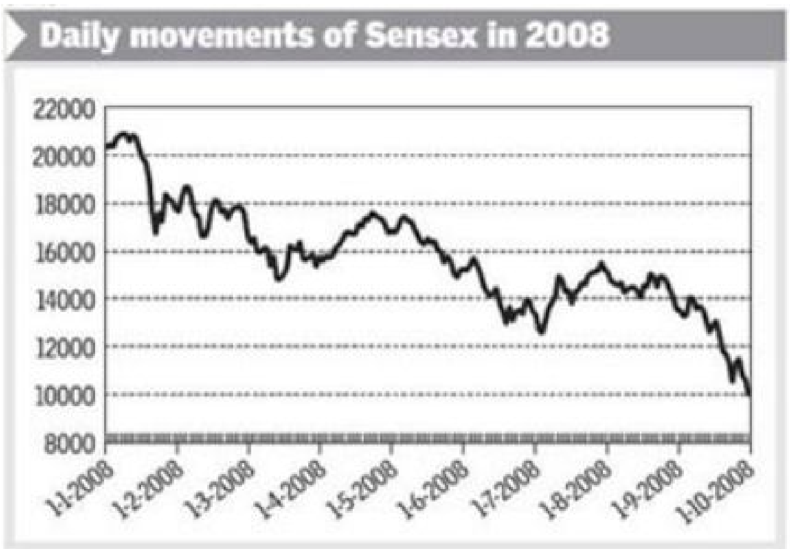
Sector. The crisis also prevented government and other private organizations to start new ventures which would be beneficial for the overall economy. FDI reduced in the country due to the weakening of the dollar. The imports also reduced since the rupee get stronger which reduced the willingness for the exporter to export.

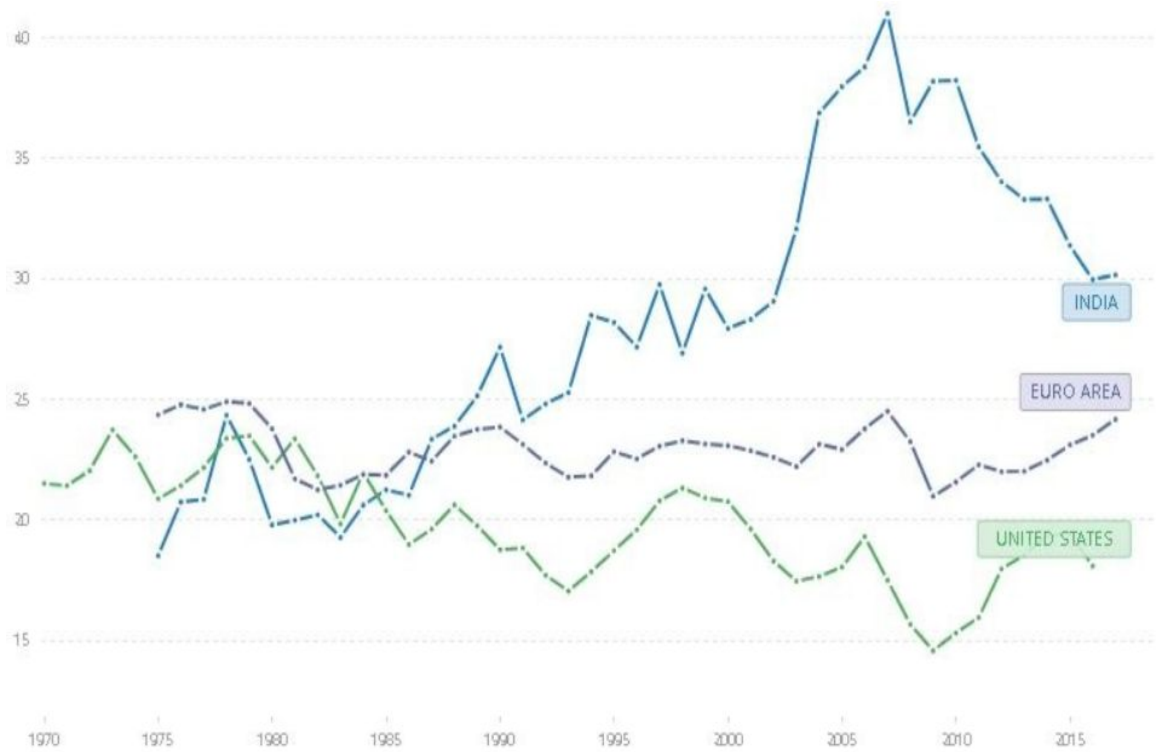
Interesting Links

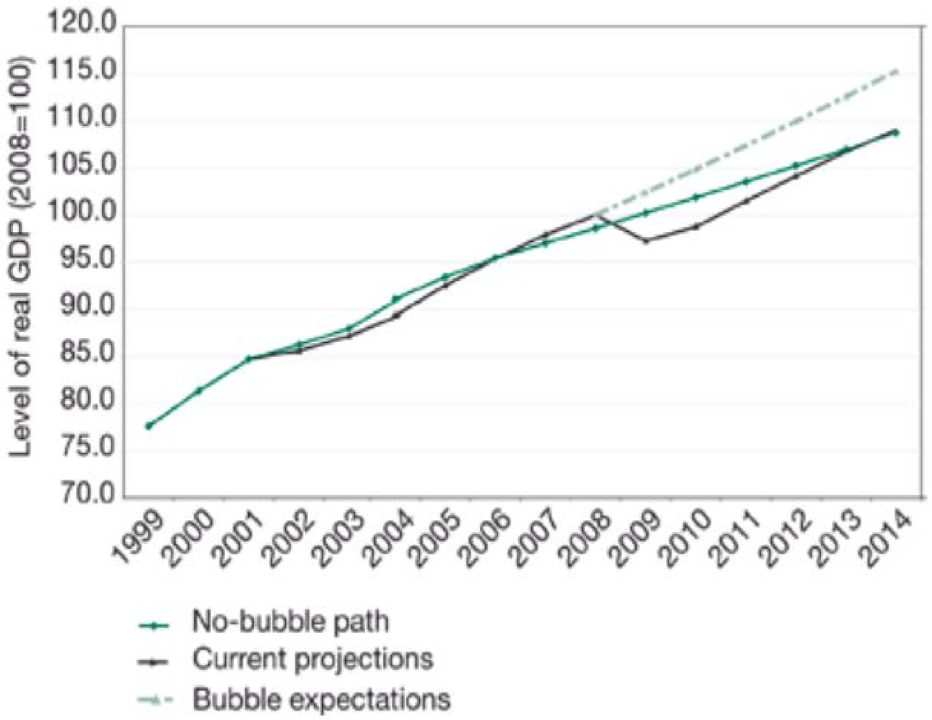
https://en.wikipedia.org/wiki/Financial_crisis_of_2007%E2%80%932008
https://economictimes.indiatimes.com/view-point/the-subprime-crisis-and-what-it-means-for-india/articleshow/3010504.cms
https://www.slideshare.net/rssa21/recession-in-india-2008

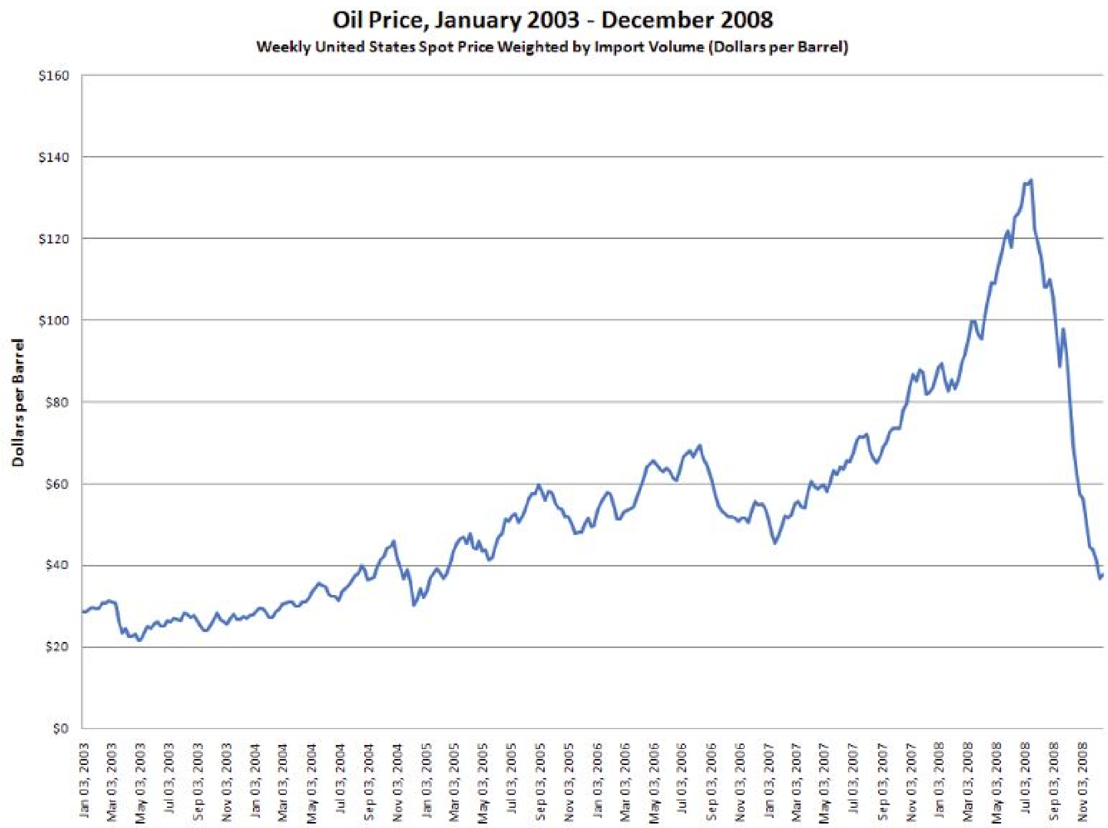
Graphs :-

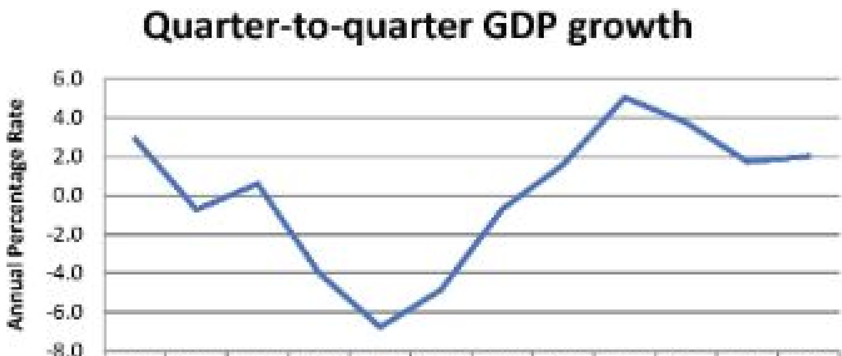





40
35
30
25
20
15
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015
INDIA
EURO AREA
UNITED STATES


120.0
115.0
110.0
105.0
100.0
95.0
90.0
85.0
80.0
75.0
70.0
Level of real GDP (2008=100)
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
No-bubble path
Current projections
Bubble expectations





	2007 :Q4	2008 :Q1	2008 :Q2	2008 :Q3	2008 :Q4	2009 :Q1	2009 :Q2	2009 :Q3	2009 :Q4	2010 :Q1	2010 :Q2	2010 :Q3
Growth	2.9	-0.7	0.6	-4.0	-6.8	-4.9	-0.7	1.6	5.0	3.7	1.7	2.0

Citations & Interesting Resources

https://www.thebalance.com/effects-of-the-great-depression-4049299
https://www.investopedia.com/articles/economics/08/1970-stagflation.asp
https://www.economicshelp.org/blog/glossary/stagflation/
https://money.howstuffworks.com/stagflation1.htm
http://www.nits.ac.in/departments/humanities/new_hum/social_scanner/12.doc
https://www.thebalance.com/unemployment-rate-3305744
https://www.quora.com/Why-was-India-not-affected-much-by-the-2008-financial-crisis
https://cashmoneylife.com/economic-financial-crisis-2008-causes/
https://www.thestreet.com/politics/great-depression-causes-14663720
http://www.sjsu.edu/faculty/watkins/dep1929.htm