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THE GREAT DEPRESSION

CASE STUDY

Additional Reading:

- http://www.thecanadianencyclopedia.ca/en/article/great-depression/#h3_jump_5
- https://www.federalreservehistory.org/essays/great_depression
- http://rooseveltinstitute.org/real-lesson-great-depression-fiscal-policy-works/
- https://www.thebalance.com/the-great-depression-of-1929-3306033
- https://www.iwu.edu/economics/PPE08/terry.pdf

LEADING QUESTIONS:

- What fiscal and monetary policies were implemented during the Great Depression? How did they affect the economy? How did they differ from the policies that existed before the Great Depression?
- What tools of the monetary and fiscal policies were used and how did they function?
- Between the classical theory approach and the Keynesian theory approach, which is more effective when dealing with an economic crisis?
- How did the actions of the Bank of Canada and the Federal Reserve System differ or compare to each other? How did the Canadian and American economies differ or compare to each other?
- Why did Canada face fewer bank failures then the United States of America?

ROLES:

- **Consumers**
- **Firms**
- **Central Bank representatives**
- **Government representatives**

DISCUSSION QUESTION:

Did government intervention and the involvement of central banks benefit the economy before and during the Great Depression?

Background Information:

Throughout the decade of 1929 to 1939, the Great Depression was the worst economic crisis to occur. The crisis began in the United States of America and extended its effects throughout the world.

The markets most influenced by the Depression include the automobile industry, the housing market, and the banking industry. The leading firms in the oligopoly automobile market, known as the “Big Three” are Ford Company (a private corporation), General Motors (a public corporation), and Chrysler (a public corporation). As for the housing market structure, it was a monopolistic competition. Before the Depression, the American housing market reached its peak with 50 percent inflation rate. However, it collapsed by 30 percent mid-Depression. Furthermore, the American banking industry consisted of the 8,000 Federal Reserve Systems (a crown corporation) and 16,000 non-member banks. In 1935, the Bank of Canada was established as the central bank. This was due to the instability of the monetary policy before 1935, due to the existence of various chartered banks. The Bank of Canada maintained interest rates at 2.5 percent in 1935 to encourage consumers and firms to borrow and spend more.

The stakeholders during the economic crisis include all consumer groups, firms, and political parties that are affected by changes in the economy. Firms such as General Motors and Camel cigarettes benefited due to their strategy of increasing advertising budgets, while the American farming firms suffered due to their lack of adaptiveness. Additionally, affected consumer groups include low and high-income families, and men and women. Approximately 40 percent of the high-income families did not feel the effect of the Depression, and the effects were predominantly felt by the lower income families. The economic trade-off of the low-income families spending less was decreased monetary flow. During the Great Depression as men struggled to aid their families, women began joining the workforce resulting in increased respect and freedom in the household. The economic trade-off of women gaining respect and freedom is the decrease in family time. The non-monetary costs during the economic crisis were: increased poverty, high unemployment rates, decrease in aggregate demand and decreased immigration.

The role of the government is to redress imbalanced social, economic and political conditions. The social instabilities included deprivation of basic human necessities and formation of women’s actions groups. The economic instabilities consist of the consequences of being in the depression stage of the business cycle such as the inflation rate of -2.08 percent, and financial crises. Political instabilities included the formation of three new political parties in Canada, the rise of fascism in Germany and Italy, and the rise of militarism in Japan. In Canada and the United States of America, the government increased export and import tariff rates to protect home industries, resulting in doubled unemployment rates. In the United States of America, social security welfares states were introduced such as The New Deal, by the Democratic President Franklin D. Roosevelt in 1933, and the unemployment insurance, both of which provided a better standard of living. The two trade agreements and policies which impacted the Great Depression were, The Smoot- Hawley Act and Reciprocal Trade Agreement Act. The Smoot-Hawley Act was established in 1930 by President Herbert Hoover which increased tariff rates to protect American home industries. The act reduced global trade by 66 percent and had devastating effects on the global depression. Furthermore, the Reciprocal Trade Agreement Act was established in 1934 by President Franklin D. Roosevelt; this allowed the United States President to negotiate 60 bilateral agreements with foreign countries.

Economic indicators such as the gross domestic product, consumer price index, and unemployment rates act as key measures of the economic conditions. In 1929, the American gross domestic product peaked at $104.6 billion, which was at an all-time low in 1933 at $57.5 billion during the Depression. Furthermore, the CPI rate in 1925 was 17.5 percent which became 7.1 percent in 1930 during the Depression. By 1933 unemployment peaked at 24.9 percent indicating a deflation and a drop in GDP.

ROLES DIVISION:

	CONSUMERS	FIRMS	CENTRAL BANKS	GOVERNMENT REPRESENTATIVES
Considerations:			*Not limited to either Bank of Canada or Federal Reserve System, can mention the point of views of several different central banks.*	*Not limited to Canada or United States of America.*
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