WORLD HISTORY READERS

Level 5-10

The Great Depression

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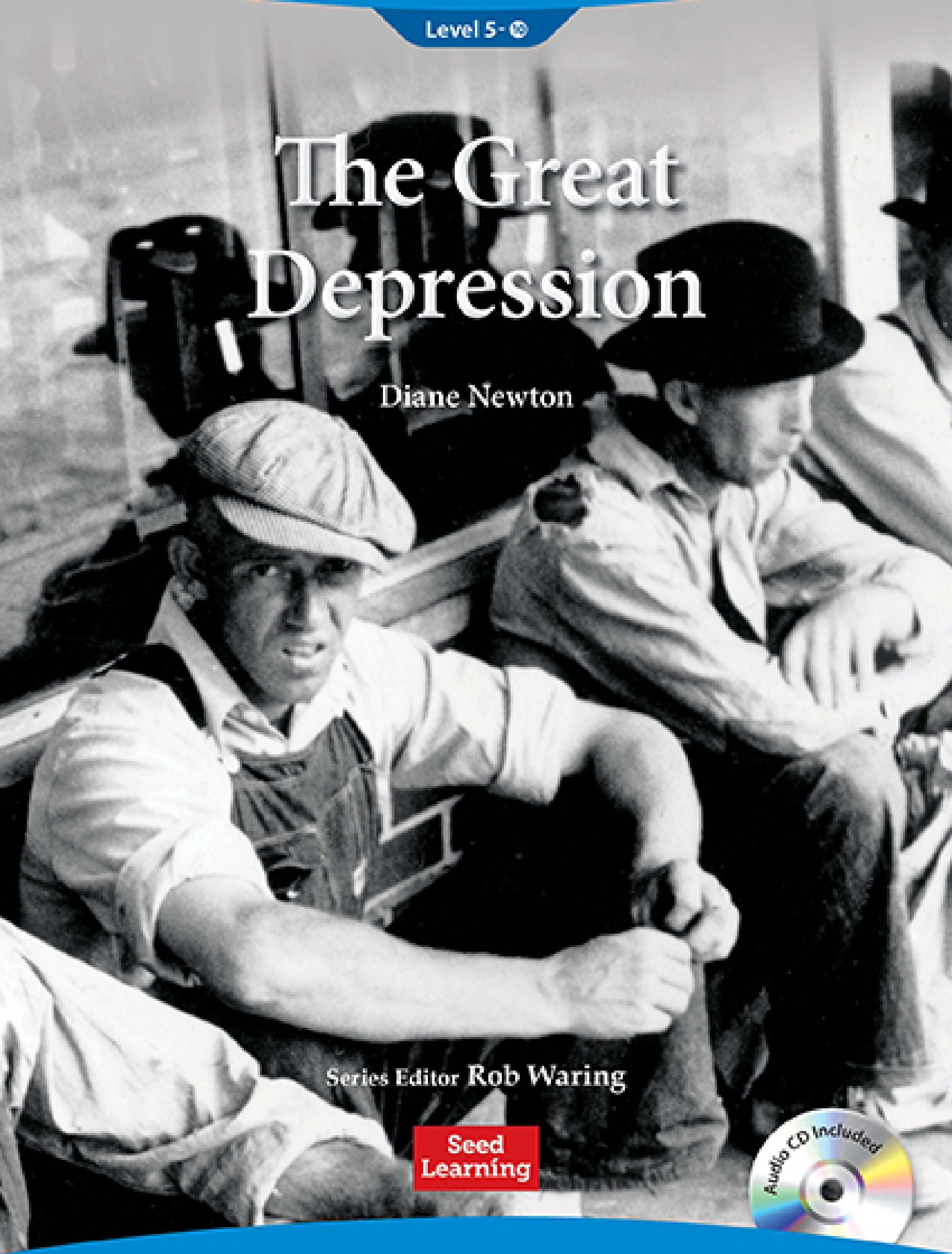

Series Editor Rob Waring

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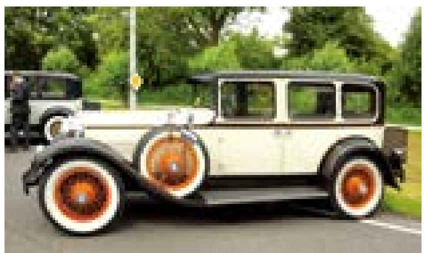
Contents

The Good Years

Imagine you had everything you wanted: a nice house, a good car, plenty of food, etc. Then, over a short amount of time, everything was gone. And this did not just happen to you, it happened to everyone you knew. It was even worse for those who did not start off with much.


Many people had good lives.


People could afford cars and gasoline before the Depression.

Well, that is what happened during the "Great Depression." First in America and then around the world, people fell into a financial panic.

So how did it all begin?


People had more money to spend before the Depression.

Getting Rich Quick

It is natural for people to want more than what they have. They want to make their lives better or their children's lives better. In America, before the Great Depression, this was certainly true.


People thought about how they could get rich.

Traditionally, the safe way to save money is to put it in a savings account in a bank. Over time, you will earn a small amount of interest on that money. But this is slow. It takes a very long time to make money this way.

A quicker way to make money is to invest in shares. Basically, shares are pieces, or percentages, of a company. If the company you invest in does well, then you profit. This is a much faster way to make money. But it can be dangerous! If the company you invest in does not do well, then you lose money.

Ordinary American people were investing in shares.

The Big Gamble

Before the Great Depression, many people were investing in shares. They felt confident because the stock market was doing well. In general, people's shares were increasing in value. People began to expect the market to continue to rise.

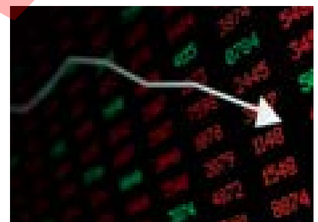
People bought things like cars on credit.

People were buying nice things for their homes that they could not afford yet.

Some people spent money they did not actually have yet. Some even borrowed money from banks based on future stock market income.

Share prices kept going up.

Trading in shares is like gambling—you can win or lose.



Share prices can go down as well as up.

The trouble is that a share is not worth a set amount. It is only worth as much, or as little, as someone is willing to pay for it. Buying shares is risky. You take a chance that the value will go up, not down. This is what we call speculating on the stock exchange, the place where shares are traded.

From 1920 to 1929, stocks continued to increase in value. Many banks even invested the money they held in the stock market.

But then on one day, everything changed.

The Wall Street Crash

The Wall Street Crash was named after the street where the US stock exchange was located: Wall Street. This event was also called “Black Tuesday.”

On October 29, 1929, stock prices collapsed. Panic set in. Suddenly, everyone wanted to sell their shares and get their money back.

As everyone wanted to sell and no one was buying, the value of shares kept falling until eventually they were worthless. People lost all the money they invested. Those who had borrowed money to buy shares suddenly found themselves heavily in debt.

The stock market crash

Wall Street is a street in New York, US.

People who still had money preferred to save it.

Because of the crash, people did not want to spend money. They wanted to save the money they had left. No one wanted to buy the products that factories were producing. Industry slowed down, and businesses began to lay off workers. Millions of people became unemployed.

Wages dropped because there was so much competition for work. Less money meant less production, and so it continued. Could it get worse?

Businesses failed and factories closed.

Comprehension Questions

1. A share is worth…
   (a) what someone will pay.
   (b) 1 cent.
   (c) 1 dollar.
   (d) nothing.
2. The value of shares always…
   (a) goes up.
   (b) goes down.
   (c) stays the same.
   (d) goes up and down.
3. Wall Street is a…
   (a) town in the US.
   (b) street in New York, US.
   (c) street in the UK.
   (d) street in Germany.
4. The banks could not repay loans because there was a…
   (a) shortage of gold.
   (b) sudden demand for loans.
   (c) sudden demand for cash.
   (d) shortage of bank tellers.
5. The Great Depression lasted about…
   (a) 30 years.
   (b) 5 months.
   (c) 2 years.
   (d) 10 years.
6. The gold standard was a system that set the price of…
   (a) a share.
   (b) a currency.
   (c) bank loans.
   (d) debt.
7. The president of the US at the start of the Depression was…
   (a) Franklin D Roosevelt.
   (b) Winston Churchill.
   (c) Adolf Hitler.
   (d) Herbert Hoover.
8. In the UK, the people who suffered the most lived in the…
   (a) north.
   (b) south.
   (c) east.
   (d) west.
9. In 1929, Germany was struggling to pay back loans to…
   (a) Turkey.
   (b) Poland.
   (c) the US.
   (d) Hungary.
10. World War II started when…
    (a) Poland invaded Germany.
    (b) the UK invaded Germany.
    (c) Germany invaded Poland.
    (d) the US invaded Poland.

Key **1.** (a) **2.** (d) **3.** (b) **4.** (c) **5.** (d) **6.** (b) **7.** (d) **8.** (a) **9.** (c) **10.** (c)

Glossary

- **currency** the money (banknotes and coins) used in a country, e.g., dollar or euro
- **debt** money owed to someone
- **devastating** causing great damage
- **International Monetary Fund (IMF)** a part of the United Nations that encourages trade between countries and gives financial help to poor countries
- **invade** to attack a country by force in order to take control or do damage to it
- **invest** to put your money into a business so you can make more money
- **poverty** the state of living with very little money
- **profit** money made by companies when sales are greater than costs
- **share** one of the equal parts that the ownership of a company is divided into
- **speculate** to buy and sell in the hope that the value of what you buy will increase and you can make a profit
- **stabilize** to make steady or secure; to make more certain and sure
- **unemployment** the state of not having a job