Stock Market Crash and Great Depression

Student name

Course

Date

Introduction

For many people, who are remotely familiar with the history of the Great Depression. The main event that obvious the foundation of the economic downturn is panic on the New York Stock Exchange on October 24 (Black Thursday) and October 28 (Black Monday) 1929. At the same time, not everyone unambiguously assesses the causal relationship between the exchange crash of 1929 and the subsequent economic downturn. Was stock market crash the central premise of the Great Depression, or was the stock market crash just a reaction of asset prices to a decline in production? In addition to disputes about the relative importance of the factors that led to the Great Depression, the debate remains the question of how these factors could cause economic stagnation of such magnitude over such a long period of time. In this context, the researchers point out two crucial points. The beginning of the fall in industrial output in the United States preceded the stock market crash (peak production occurred in August 1929. And secondly, the volume of private sector investment in the stock market was lower than current values.

Along with this, several economists of that time (J. Schumpeter, F. Gordon) point to the relationship between the stock market crash and consumer spending. The fall of the stock market was a factor that led to a protracted decline in real production. Using annual data on production in various sectors of the economy shows a negative relationship between stock market volatility before the stock market crash of 1929 and consumer spending on durable goods during the 1929-1930s. History shows that the fall in the stock market caused a great deal of uncertainty. In the expectations of the private sector regarding future economic growth, which led to a drop-in cost and an accelerated decline in business activity.

Comparing the stock market crash of 1929 with the fall of the 1987 stock market did not lead to a significant increase in stock market volatility and was perceived by economic entities as a single episode. Unlike in 1929, the fall of the stock market in 1987 did not lead to an increase in uncertainty. Undoubtedly, such factors as institutional problems of the banking system, monetary and fiscal policy errors, which will be discussed below, played an essential role in the Great Depression. But at the same time, the empirical relationship between stock market volatility and lower consumption indicates the significant part of the financial crisis in the spread of depressive effects in the American economy of the 1930s.

Conclusion

The profound economic crisis, like the Great Depression, directed to main institutional changes in the utmost significant areas of the American economy. The critical characteristic of the Great Depression is the deflation of asset prices, such as the value of real estate and securities. In fig. Figure 3 shows the dynamics of the Dow Jones Index and the trading volume of the shares making up the index. Several conclusions follow from this. First, the stock market crash of 1929 was accompanied by a significant increase in trading volume, which confirms the panicky nature of sales. Secondly, at the stage of market decline, all growth attempts were followed by an even stronger decline. It suggests that during the crisis, more money was lost by investors trying to catch the bottom of the stock market than during the stock exchange crash of 1929. Thirdly, the decline continued until the second half of 1932. Therefore, the stock market began its recovery earlier than the real sector. Summing up, it is clear that identifying the nature of economic crises and their prerequisites is a vital area of ​​financial analysis since it should help modern politicians avoid mistakes made by their predecessors.