

Notebook # 21- Economics 14-1

Business Cycles And Fluctuations

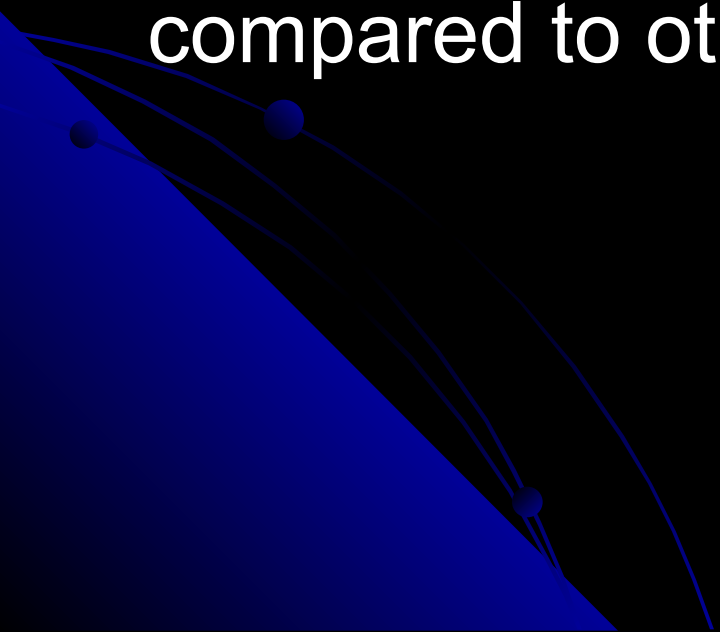
pages 375-380



Business Cycles & Fluctuations

ESSENTIAL QUESTIONS:

- What are the two main phases of the business cycle?
- How can the Great Depression be compared to other recessions?



Business Cycles & Fluctuations

GPS STANDARDS:

SSEMA1- Describe the means by which economic activity is measured.

- e.) Define the stages of the business cycle, as well as recession and depression.

Business Cycles & Fluctuations

Economic growth is something that is beneficial to almost everyone.

The term “business cycle” refers to alternating increases and decreases in the level of economic activity.

- Another way of saying this is that economic growth is interrupted by **business cycles**—largely systematic ups and downs of real GDP.

Business Cycles & Fluctuations

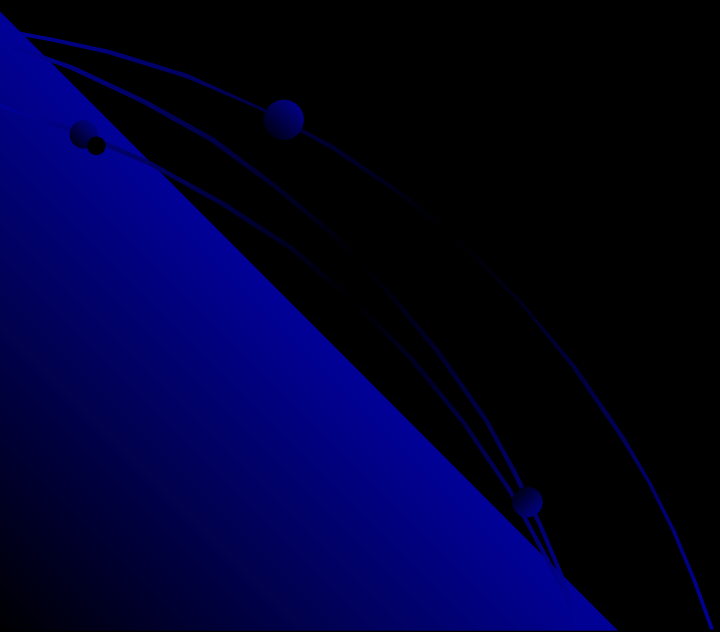
Either way, economic growth—even the record setting expansion that took place during the 1990s— always comes to a halt before it begins to take off again.

The inevitable ups and downs of the economy are among the reasons why economists have developed economic measurement tools like GDP and the Consumer Price Index (CPI), etc.

Business Cycles & Fluctuations

Up until now, the average recession in the United States lasted 15 months and reduced output by 8.7 percent.

Up until now, the average expansion lasted 46 months and increased output by 22.5 percent.

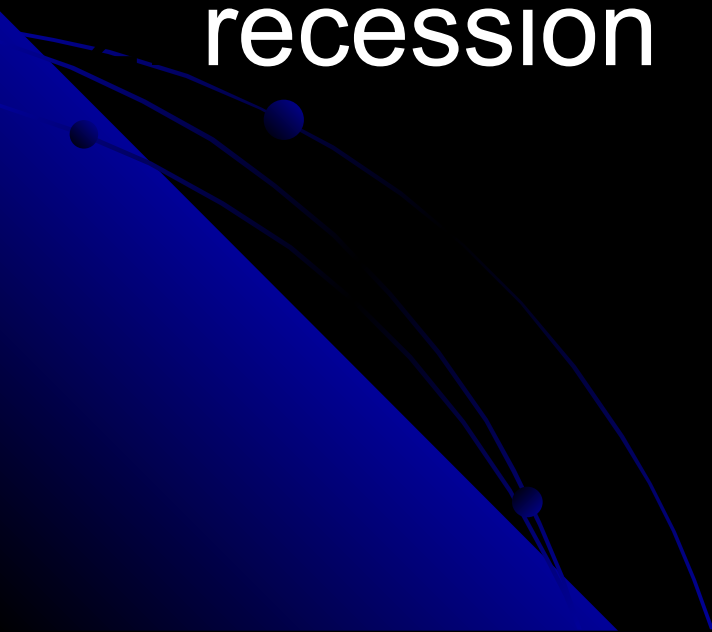


Business Cycles & Fluctuations

The business cycle consists of two phases:

expansion

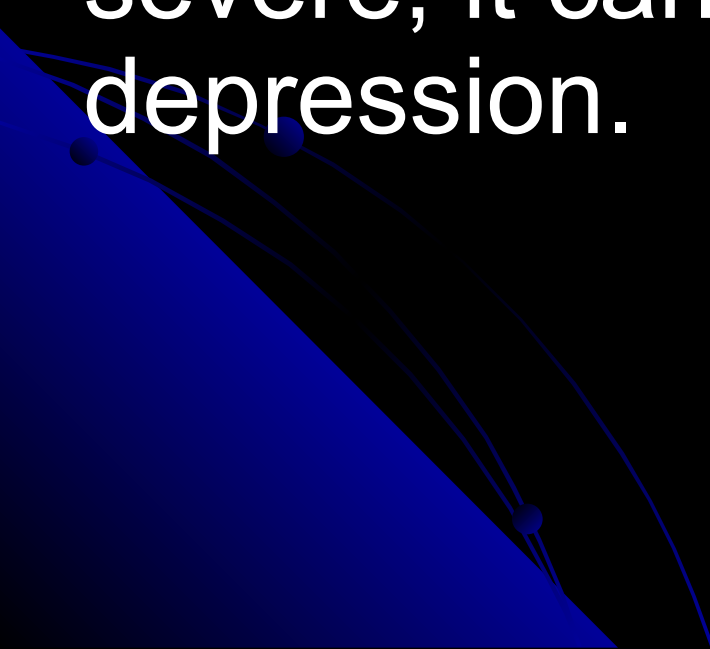
recession



Business Cycles & Fluctuations

Expansion is the recovery from a recession.

If a recession becomes very severe, it can turn into a depression.



Business Cycles & Fluctuations

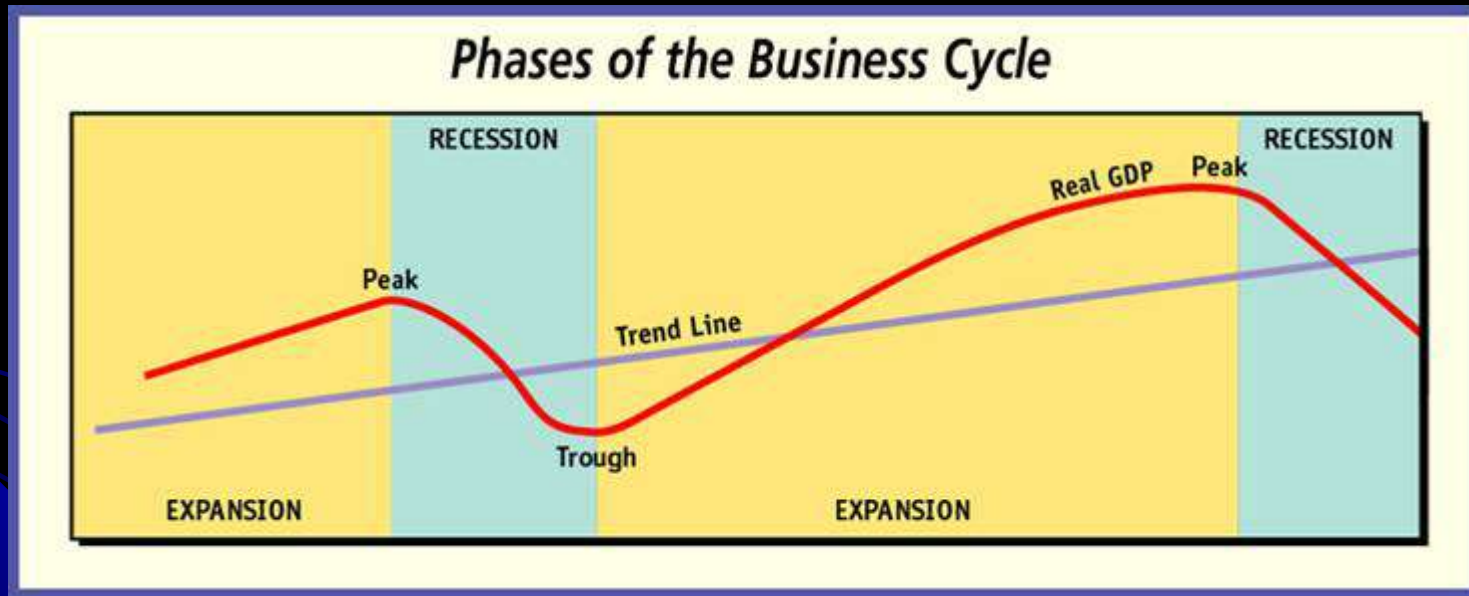
As you know, the worst depression in U.S. history was the Great Depression, which began in 1929.

The Great Depression was caused by various factors, including excessive borrowing in the 1920s and global economic conditions.

- Since the Great Depression, the United States has experienced several recessions, but each was short compared with the recovery that followed.

Business Cycles in the United States

Figure 14.1



A recession begins with a peak and ends with a trough.

Business Cycles & Fluctuations

What happens during a depression?

The following takes place:

production slows

output declines

3. unemployment rises

4. the standard of living falls

Causes of the Business Cycle

Businesses reduce their capital expenditures once they decide they have expanded enough.

Businesses cut back their inventories at the first sign of an economic slowdown.

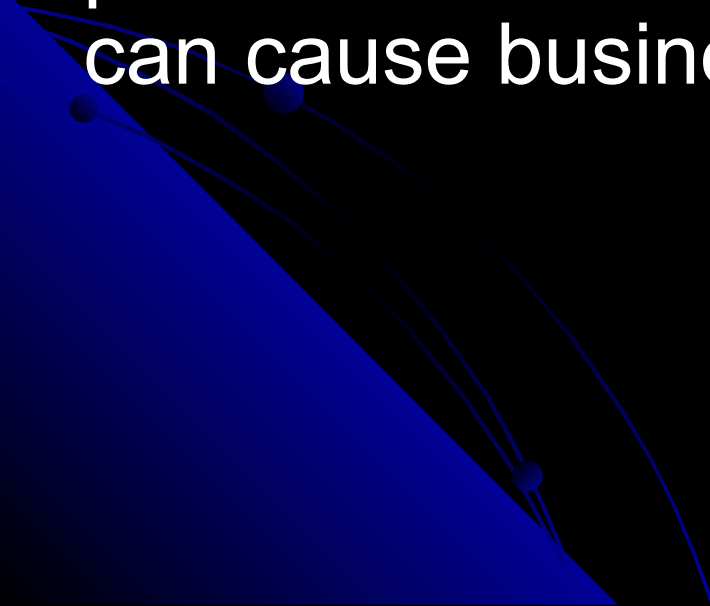
Businesses cut back on investment after an innovation takes hold.

- Tight money policies of the Federal Reserve System slow the economy by shrinking the money supply and increasing the interest rates for borrowing money.

Causes of the Business Cycle

Internal shocks, such as the banking crisis and the housing crisis can cause business cycles.

External shocks, such as increases in oil prices and international conflicts (wars), can cause business cycles.



Causes of the Business Cycle

Why do businesses cut back on their inventories when they think the economy is turning down?

Because they fear sales will decline and they will be stuck with inventory that they cannot sell as consumer demand for products declines.



Causes of the Business Cycle

Why is it important to predict business cycles?

Businesses and the government are better able to plan their actions if they know how the economy is likely to perform.

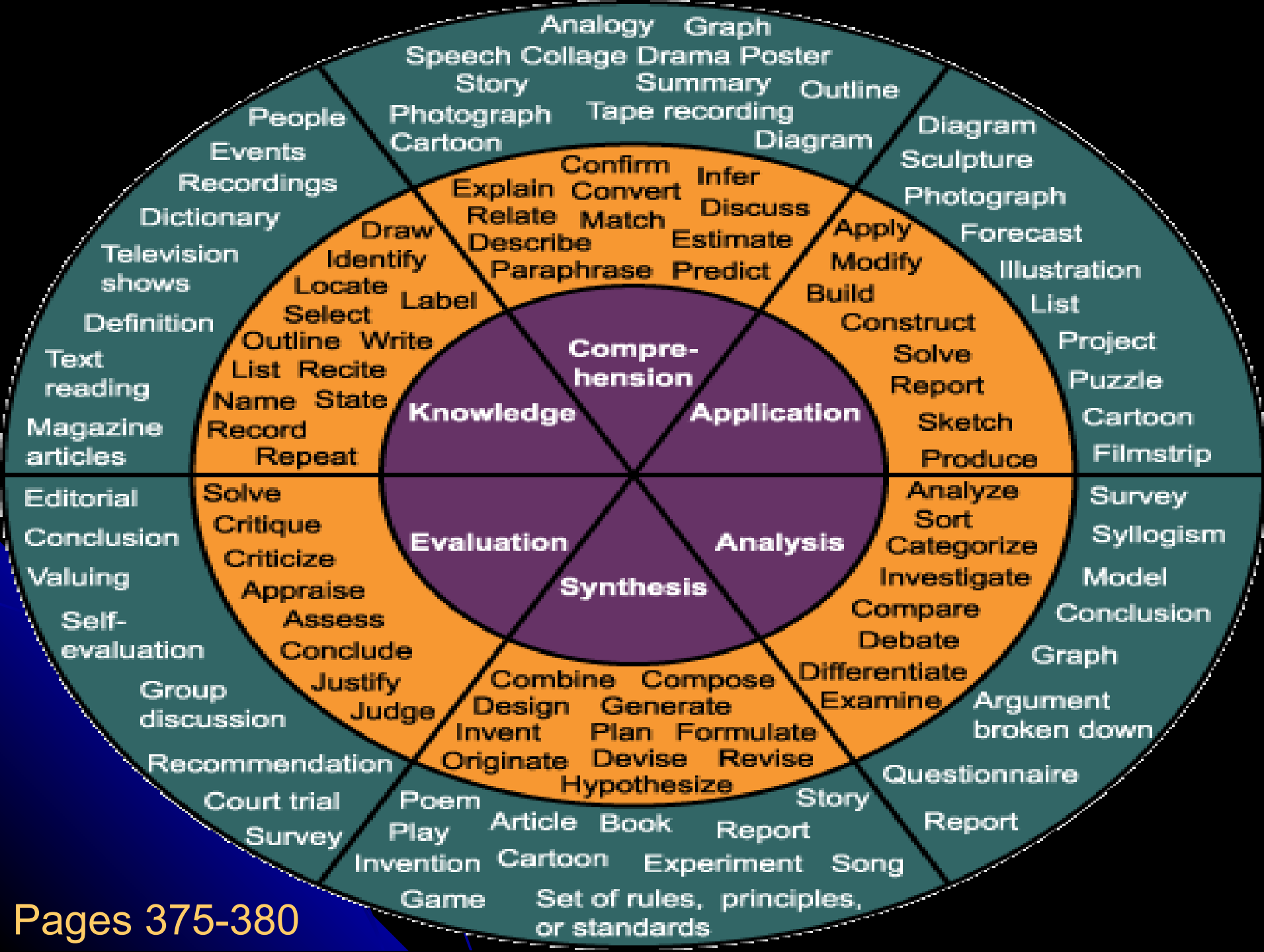
- A business that had planned to expand its plant, for example, might delay construction if it believed the economy was about to enter a recession.

Causes of the Business Cycle

How does the Great Depression compare to other recessionary periods?

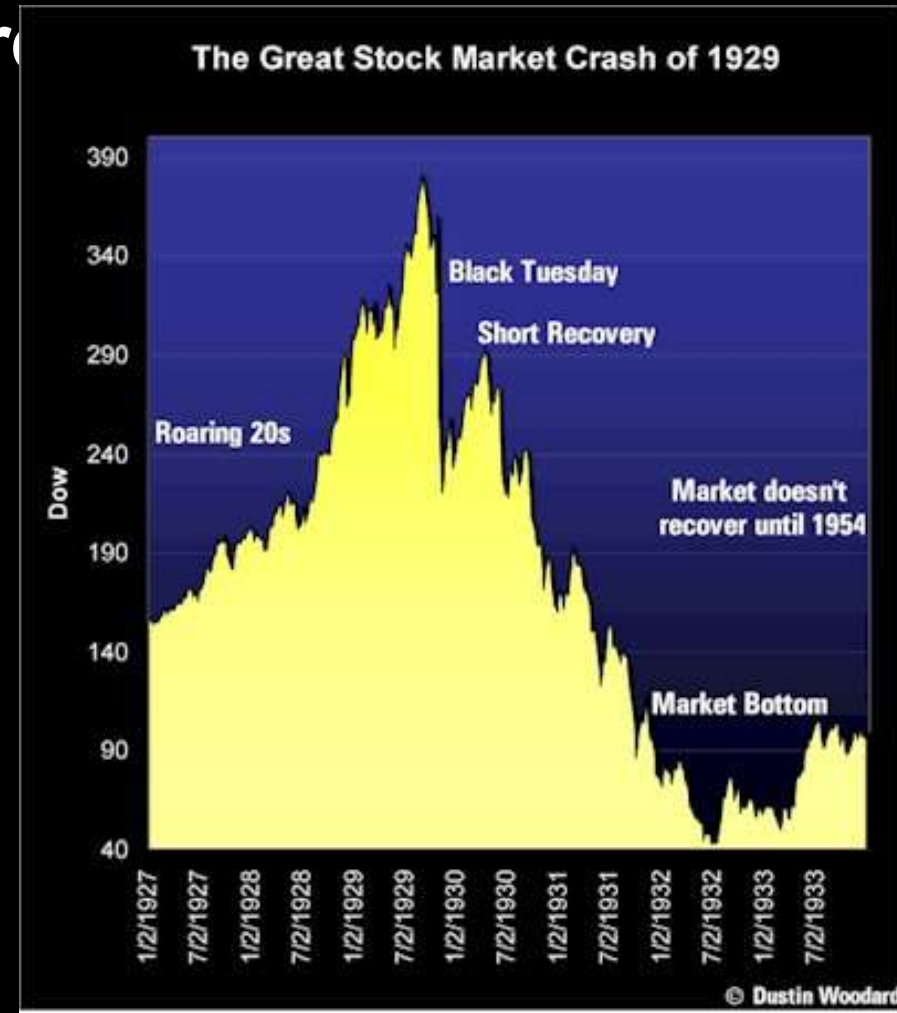
The Great Depression was more severe than the other recessionary periods.

- It was the worst economic decline in U.S. history.



CH. 24 – CRASH, DEPRESSION, AND NEW DEAL

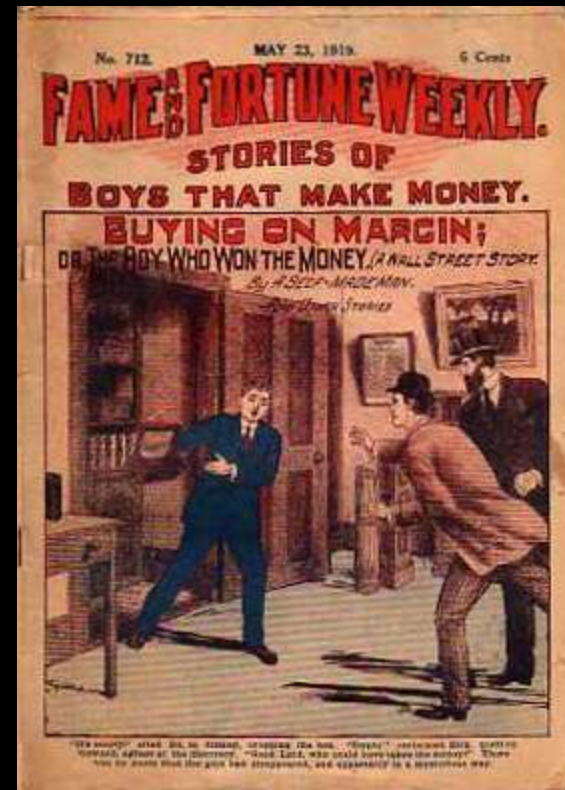
- 1920's had been a period of good economic times
- Tues. Oct. 29th, 1929 - NYC Stock market crashed, causing a depression until 1942



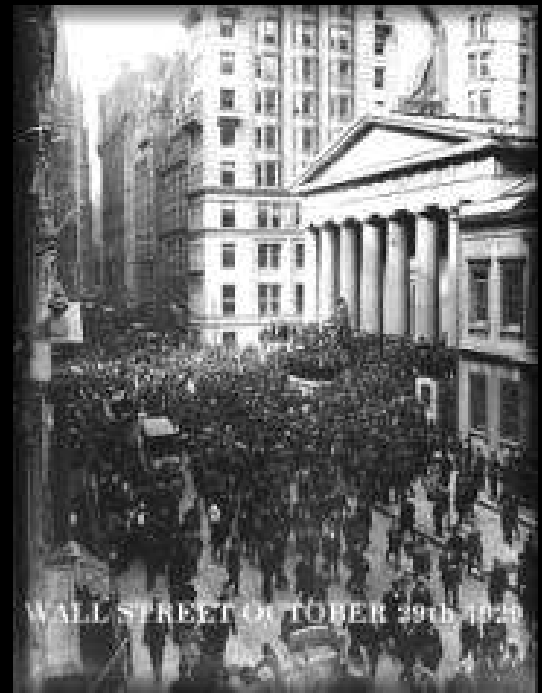
- The stock market:
- the public invests in cos. by purchasing stocks; in return for this they expect a profit
- b/c of booming 1920's economy, \$ were plentiful, so banks were quick to make loans to investors
- also investors only had to pay for 10% of the stock's actual value at time of purchase

- this was known as

BUYING ON



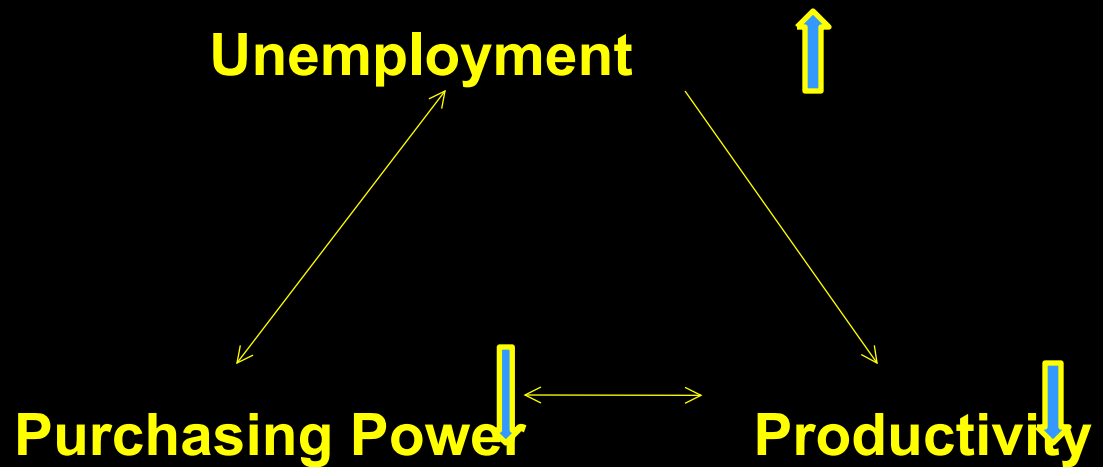
- this encouraged **STOCK SPECULATION** - people would buy and sell stocks quickly to make a quick buck
- b/c of all this buying & selling, stock value increased (Ex: G.E stock \$130 → \$396/share)
- this quick turnover didn't aid cos. → they needed long term investments so they could pay bills (stock value was like an illusion)
- unscrupulous traders would buy and sell shares intentionally to inflate a given co.'s stock value
- all of this gave a false sense of security/confidence in the



- beginning in Oct. 1929, investors' confidence dropped, leading to a market collapse
- all tried to sell at once and bottom fell out of market = **panic selling**... (many bankruptcies as banks called in loans)
- only a tiny minority of people traded on the stock exchange, but they possessed vast wealth, and the crash had a **ripple effect** on the economy



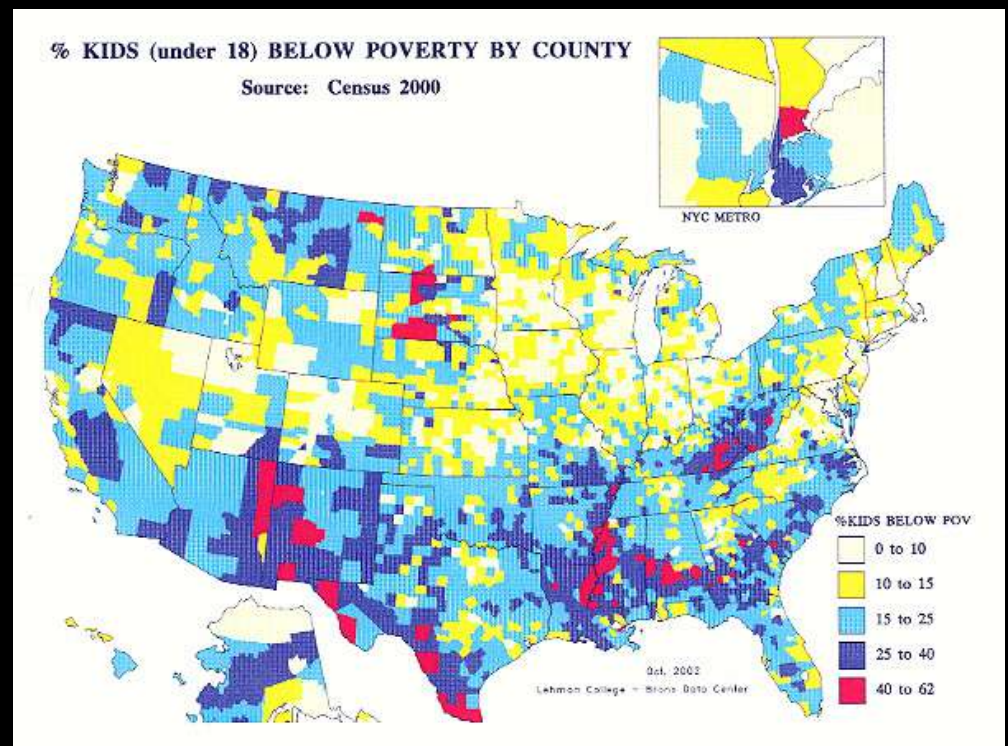
- For the poor.....
- mass consumption was already low (poor could afford to buy little)
- unemployment rose → no gov't assistance at first
- since people could not buy, productivity was cut back = further unemp.
- so w/ additional unemployment → purchasing power declined again → reduced productivity yet again (= **ECONOMIC CYCLE**)



PRODUCTIVITY AND UNEMPLOYMENT

- in 1920's U.S. Eco. was based on the productivity – purchasing power - employment cycle
- for many goods to be produced , purchasing demand had to be there: this resulted in high employment and a healthy economy
- b/n 1924-27, U.S. productive capacity doubled but it was b/c of technological innovation
- electricity and mechanical advances made for better production, but no new jobs were added to the economy
- so more consumer goods were available, but there weren't nec. more people to buy them (**OVERPRODUCTION**)

- a 2nd major problem: *uneven dist. of wealth*
- 0.1% at top owned as much as bottom 42% of American families (42% below *poverty line*)
- of the 58% above the poverty line, most fell into the *middle class* category - they were not wealthy; they had jobs b/c of the industrialization & consumerization of the American market place
- this middle class depended on their salaries and when productivity declined they lost their jobs
- and b/c of low savings, they had to cut back on their purchases
- this decline in



VOLUNTARY NON - COERCIVE COOPERATION

- he refused to pay reparations to European countries for war damages
- money was not available
- = **HOOVER MORATORIUM**
- a temporary suspension of reparations payments
- Euro. countries agreed to suspend reparations payments to Germany



TARIFF WARS

SMOOT HAWLEY

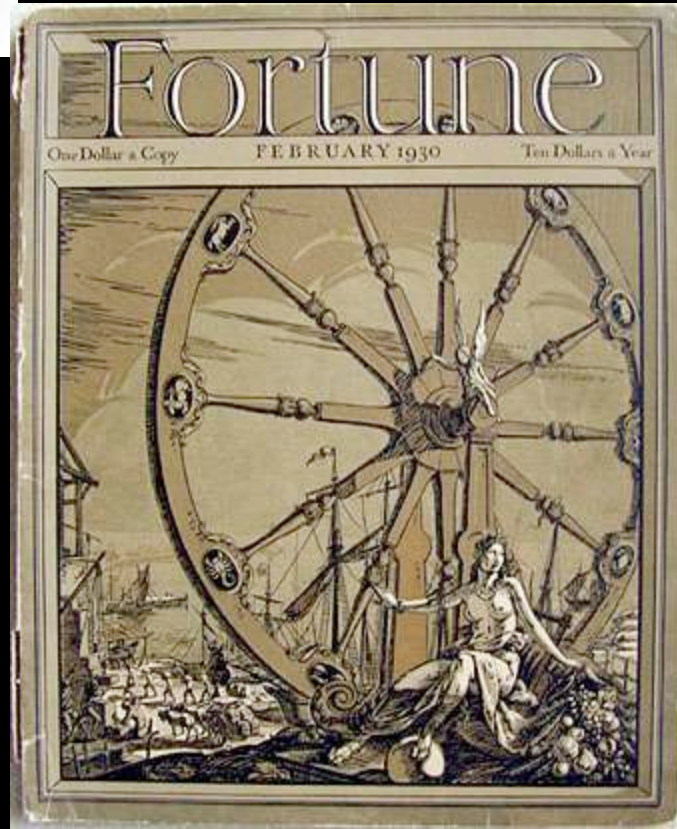


GLOBAL ECONOMY

in retail
passed
foreign man
American gov
productivity de



- also in 1931, the Soviets flooded the world market with cheap wheat (1/2 U.S. price) in an attempt to get money to pay back Austrian banks (but price was too low and they couldn't)
- this resulted in the **BANKERS' PANIC**
- Austrian banks borrowed from German banks and appealed to the **BANK OF INT'L SETTLEMENT** (Fr veto)
- Austrian banks and loaning German banks therefore were forced into bankruptcy
- and b/c German banks had borrowed from Americans, U.S. banks began to go bankrupt, wiping out life savings



AMERICANS REACT TO HOOVER

- Hoover was increasingly unpopular, but he continued to try... → he persuaded Congress to establish the **RECONSTRUCTION FINANCE CORPORATION**
- had power to make emergency loans to banks
- but it was too little too late...
- and Hoover wouldn't involve himself in any programs of direct gov'tal aid to individuals -didn't want to erode Americans sense of "BUGGED"



BONUS ARMY

BONUS MARCH

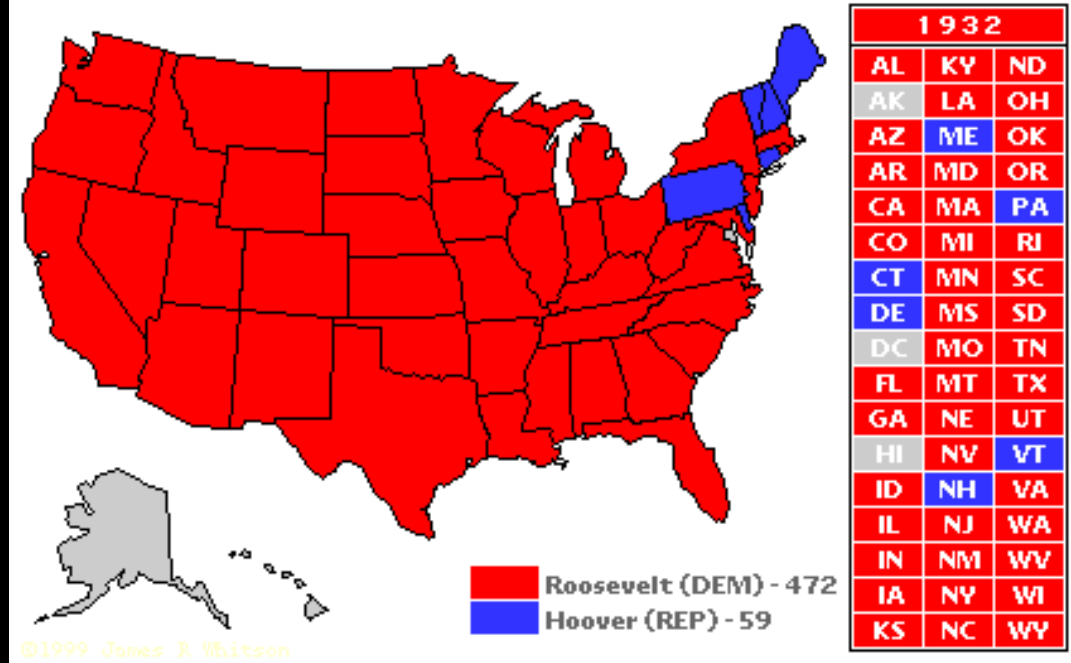
HOOVERVILLES

**HOOVER-MEALS
RIDES**

HOOVER



- **1932 ELECTION**
- 1 out of 4 was unemployed...
- nat'l income was 50% of what it had been in 1929
- Repubs. nominated Hoover → no hope
- winner by a landslide = **FRANKLIN DELANO ROOSEVELT**



CH. 24 - THE NEW DEAL

- this was the name FDR gave to his new program to fight the Depression
- it was a **revolution** in American society - changed completely the way the gov't functions
- the first phase of the New Deal dealt exclusively w/ eco. reform - unlike Hoover, FDR believed gov't legislation/involvement was crucial to stimulate the economy
- step 1 - dealt w/ the banking crisis - **BANKING HOLIDAY**- banks shut down and subject to gov't inspection, allowed to open when "healthy"- people's confidence returned → they redemitted, allowing banks to

**UNDER EXECUTIVE ORDER OF
THE PRESIDENT**

Issued April 5, 1933

all persons are required to deliver

ON OR BEFORE MAY 1, 1933
all GOLD COIN, GOLD BULLION, AND
GOLD CERTIFICATES now owned by them to
a Federal Reserve Bank, branch or agency, or to
any member bank of the Federal Reserve System.

Executive Order

FORBIDDING THE ISSUANCE OF GOLD COIN, GOLD BULLION
AND GOLD CERTIFICATES.

¹ By virtue of the authority vested in me by Section 3(b) of the Act of October 3, 1917, as amended by Section 7 of the Act of March 3, 1933, entitled "An Act to provide relief in the existing national emergency in banking, and for other purposes", in which accordingly Act Congress declared that a serious emergency exists, I, Franklin D. Roosevelt, President of the United States,

Section 1. For the purposes of this exception, the term "qualified" means:

Section 1. It is the sense of the House of Representatives that the Secretary of the Treasury should be authorized to conduct a study of the economic and social effects of the use of gold in the United States, and to report the results of such study to the House of Representatives.

1. The author is a senior research associate of the Institute of Chemistry of the USSR Academy of Sciences, Leningrad. He is also a senior research associate of the Institute of Chemistry of the USSR Academy of Sciences, Leningrad. He is also a senior research associate of the Institute of Chemistry of the USSR Academy of Sciences, Leningrad.

Section 1. (a) No person, including any person, knowing the nature of any gold coin, gold bullion, or gold certificate after April 26, 1933, shall, within three days after receipt thereof, deliver the same to the person mentioned in Section 2, unless such gold coin, gold bullion or gold certificate are held for use of the currency, specified in subsection (b), (c), or (d) of this section.

The White House
April 5, 1945

For Further Information, Consult Your Local Bank

GOLD CERTIFICATES may be identified by the words "GOLD CERTIFICATE" appearing thereon. The serial number and the Treasury seal on the face of a GOLD CERTIFICATE are printed in YELLOW. Be careful not to confuse GOLD CERTIFICATES with other issues which are redeemable in gold but which are not GOLD CERTIFICATES. Federal Reserve Notes and United States Notes are "redeemable in gold" but are not "GOLD CERTIFICATES" and are not required to be surrendered.

Special attention is directed to the exceptions allowed under Section 2 of the Executive Order

CRIMINAL PENALTIES FOR VIOLATION OF EXECUTIVE ORDER
\$10,000 fine or 10 years imprisonment, or both, as
provided in Section 9 of the order

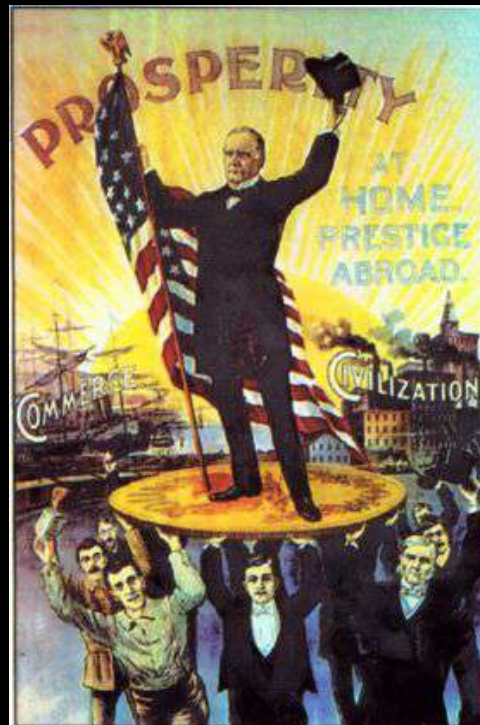
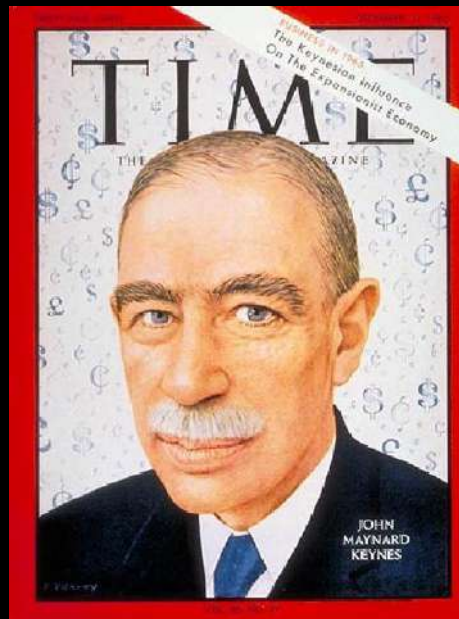
W. C. Woodman
Secretary of the Treasury.

Security Exchange Commission

Joseph P.
Kennedy

GOLD
STANDARD

...that
reser
allow)-
circulation
and prices
(= inflation), caus
dollar value to r



SPECIFIC PIECES OF LEGISLATION (direct gov't intervention in the eco.)(called "Alphabet Soup")

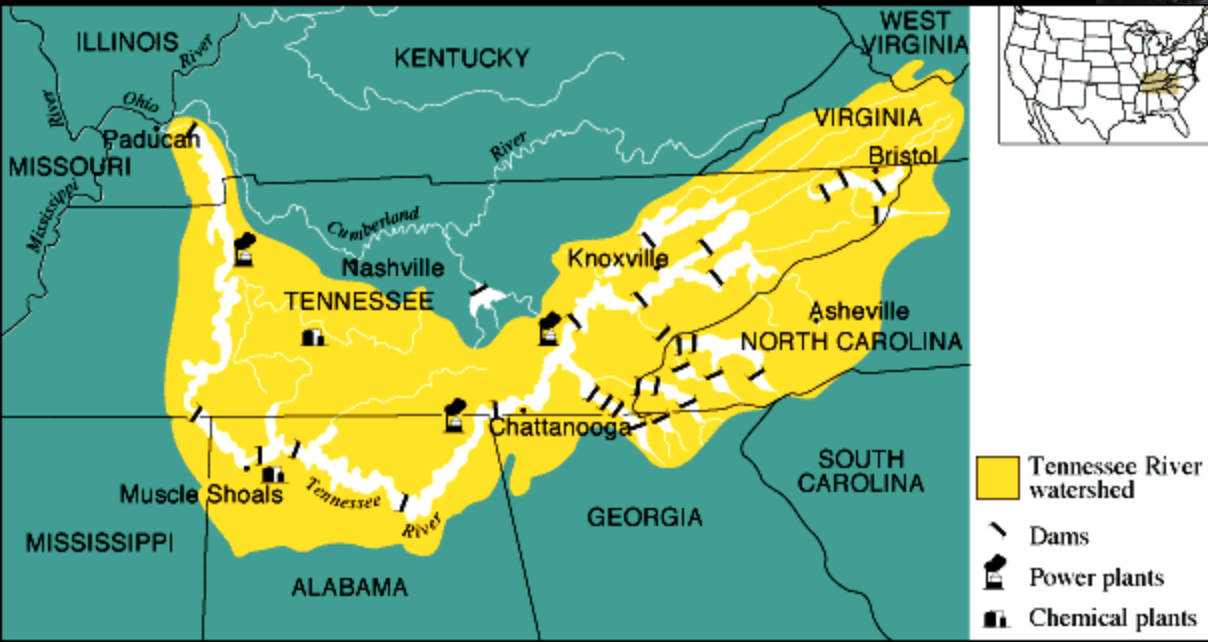
- NATIONAL INDUSTRIAL RECOVERY ACT (NIRA) and NATIONAL RECOVERY ADMIN (NRA)

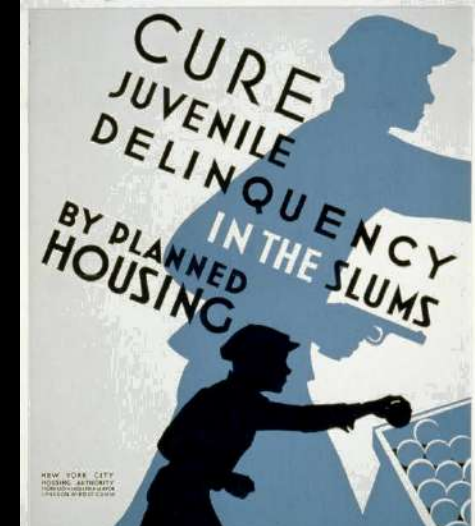
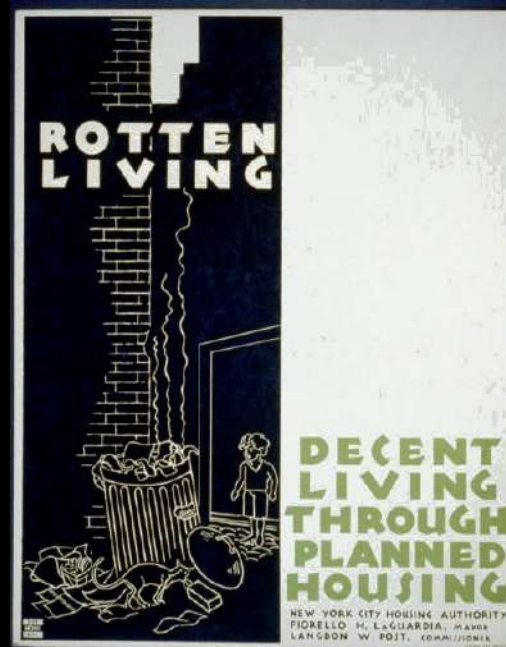
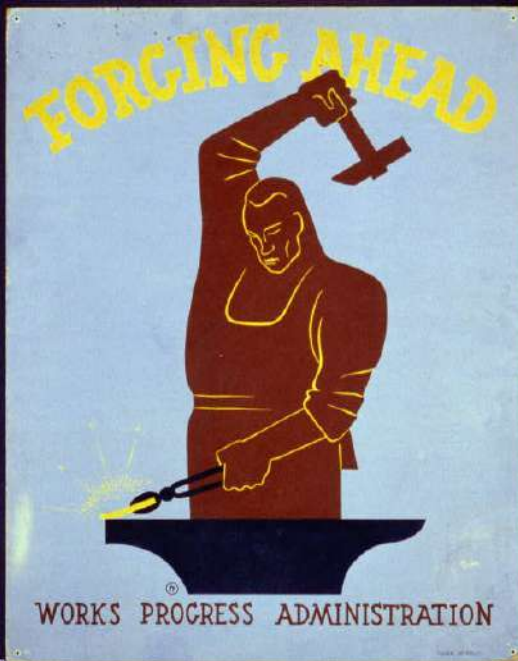


LIBERTY



- **TENNESSEE VALLEY AUTHORITY (TVA)** - used to promote hydroelectric power, control flooding - lower rates → private industry, manuf. fertilizer → fed. gov't. took ownership (*nationalization v. privatization*)





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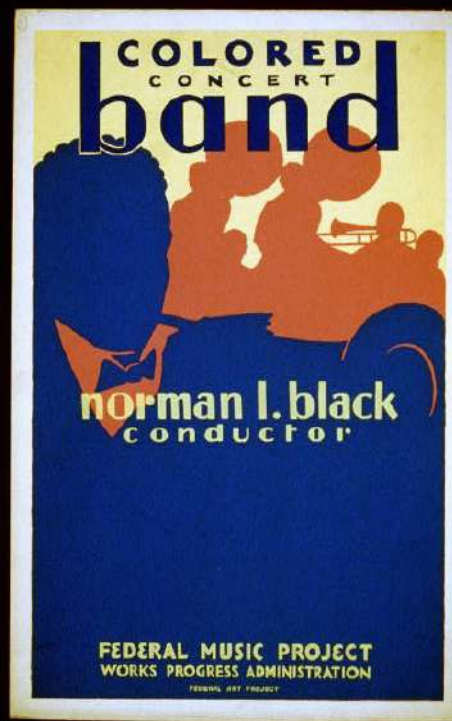
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WOMEN IN THE WPA

WPA GIVES MEN AND WOMEN WORKING IN THE SAME LOCALITY
EQUAL PAY FOR THE SAME WORK

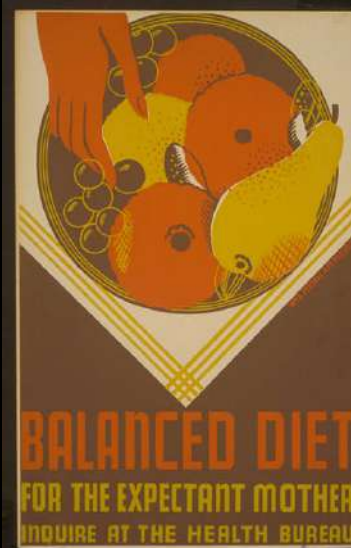


WPA WOMAN WEAVER

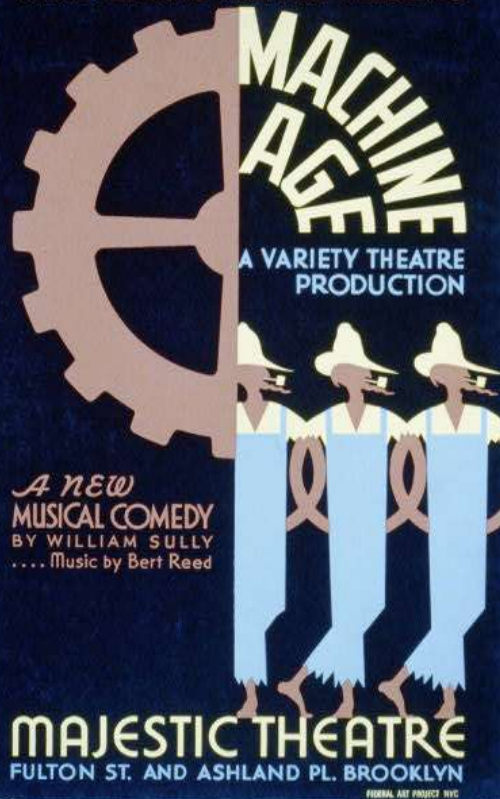


WPA MAN WEAVER

WORKERS RECEIVE A SECURITY WAGE, REPRESENTING SO FAR AS CAN BE
DETERMINED, A SUBSISTENCE STANDARD OF LIVING IN THE LOCALITY
WHERE THEY RESIDE. THE AVERAGE IS \$32.50

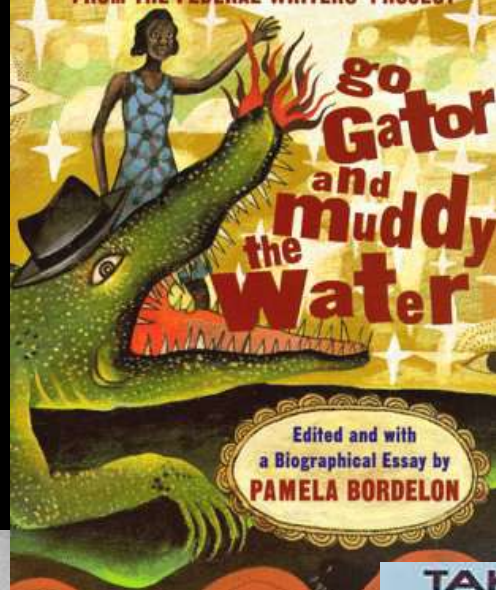


W.P.A. FEDERAL THEATRE PRESENTS



WRITINGS BY
ZORA NEALE HURSTON

FROM THE FEDERAL WRITERS' PROJECT



FEDERAL WRITERS' PROJECT



TAKE A CAVE TRIP
THROUGH
WIND CAVE

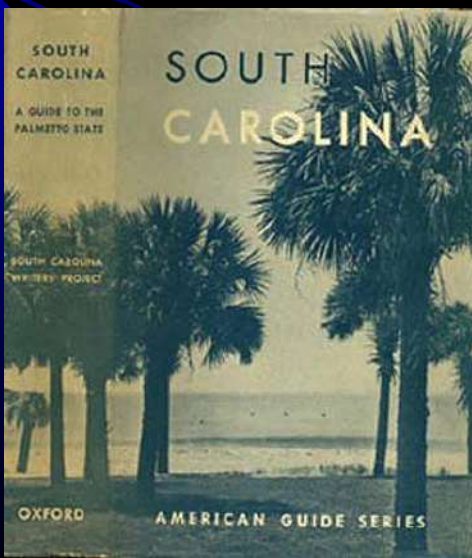
CAVE TEMPERATURE
47° WINTER & SUMMER
OPEN ALL THE YEAR



WIND CAVE
NATIONAL
U.S. DEPARTMENT
OF THE INTERIOR



PARK
NATIONAL PARK
SERVICE



- ***Kansas City
from Politics,
Farming, & the
Law***
- **Thomas Hart
Benton,
1936**



The Annual Move by Otis Dozier, 1936



Construction of the Dam by William Gropper



- **AGRICULTURAL ADJUSTMENT ACT (AAA)**

SUBSIDIES



EX: Food Stamp Act of 1939

- **CIVILIAN CONSERVATION CORPS (CCC)**



- **NATIONAL YOUTH ADMIN. (NYA)**

- **FED. EMERGENCY RELIEF ACT (FERA)**



- **National Labour Relations Act**

Wagner
labour tactics
bargaining &
etc...) - it outlawed

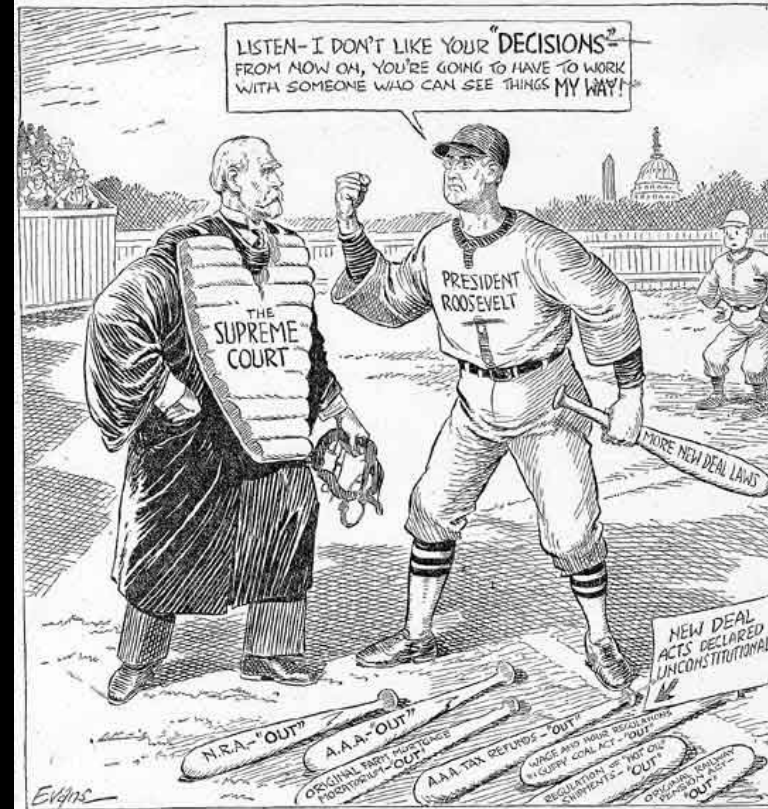
BLACKLISTS



● Social Security Act

creeping
socialism
WELFARE
STATE





WHAT THE PRESIDENT IS AFTER

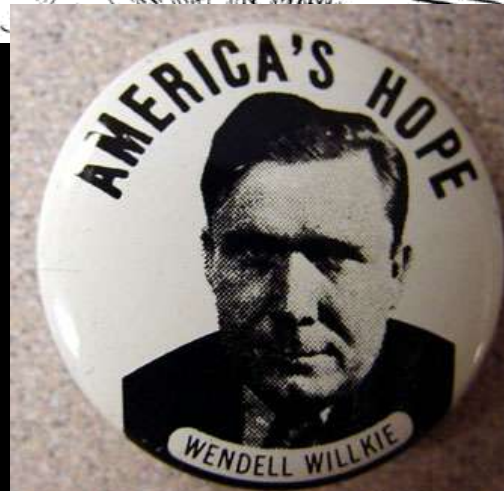


"*pack the court*"

opposed to
this proposal

but judges
to appoint new
approved all New

- the late 1930's – new Qs arose...
- FDR concerned w/ int'l issues
- in 1939 he proposed no new major domestic reform measures (1st time in his pres.)
- **ELECTION OF 1940** - FDR broke with tradition & ran a 3rd time
- FDR v. **Wendell Wilkie** - the big issue here was American support of the **Allies** (G.B.), now embroiled in WWII v. **Nazi Ger.**
- both U.S. pol. parties wanted to support G.B. but to remain **neutral** - in fact a **CONSENSUS** had developed b/n the Dems. and Repubs.



IMPACT OF THE NEW DEAL



- a **3rd revolution** in American culture and politics- more gov't involvement but w/in the context of traditional U.S. democracy (not socialist...)
- New Deal helped in stimulating the U.S. economy, but only WWII would solve any lingering problems → unemployed found jobs in munitions factories and the military as the U.S. became the **ARSENAL OF DEMOCRACY**
- New Deal saw expansion of U.S. gov't in :
 - 1) eco. - constant gov't intervention/deficit spending
 - 2) social reform - welfare state - after this pt the U.S. gov't was expected to play a role in any economic crisis
- so FDR fundamentally reformed (not transformed) American