The Stock Market Crash

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The stock market crash of 1929 was one of the worst stock market crashes in the history of the United States. The value of stocks fell dramatically over the course of several days at the end of October. Many people lost all of their savings and ended up losing their homes. Businesses had to layoff employees or go bankrupt. The crash signaled the start of the Great Depression that would last for more than ten years.

Before the Crash

The 1920s (also called the Roaring Twenties) were a time of economic boom and business speculation. New industries such as automobiles and radios were changing the landscape and culture of America. People thought everyone was going to be rich and that the economy would never stop growing. This optimism caused wild speculation in the stock market. Between 1921 and 1929 the stock market had grown by 600% with the Dow Jones Industrial Average rising from 63 points to 381 points.

The Crash

The crazy growth in the stock market wasn't based on reality, however. The economy could not continue to grow at such a rapid rate forever. In 1929 the economy began to slow down. At the end of October, panic gripped the stock market and people began to sell massive amounts of stock. The worst days were October 28th and 29th when values fell a total of 23%. These days became known as "Black Monday" and "Black Tuesday."

After the Crash

Although the market tried to rally, it couldn't recover. Over the course of a few months, the stock market fell around 40%. Many investors lost everything. It didn't reach the bottom until the summer of 1932 when it had dropped 89% from its peak. Billions of dollars of wealth had been erased and the country entered into a deep economic depression.

Major Causes of the Crash

The stock market crashed for a number of reasons. Here are a few of the major causes:

- Wild speculation - The market had grown too fast and stocks were overvalued. The stocks were worth much more than the real value of the companies they represented.
- The economy - The economy had slowed down considerably and the stock market didn't reflect it. Despite many signs that the economy was struggling, the market continued to rise.

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- People were buying stocks using credit - Many people were borrowing money to buy stocks (called "margin"). When the market began to fall, they had to sell quickly in order to pay their debts. This caused a domino effect where more and more people had to sell.

The Great Depression

The stock market crash signaled the beginning of the Great Depression that would last for ten years until 1939. During this period, unemployment rose to around 25%, banks failed across the country, and hundreds of thousands of businesses went bankrupt. While the stock market crash was not the only cause of the Great Depression, it did have a major impact.

When did the stock market recover?

The market reached rock bottom in 1932 and then made a mild recovery. It didn't recover all the way to back to its peak value of 1929 until the middle of the 1950s.

Interesting Facts About the Stock Market Crash of 1929

- Many banks that had invested in the stock market or loaned money to investors went out of business.
- When stocks become overvalued it is often called a "bubble."
- The worst one day percentage fall of the U.S. stock market was on October 19, 1987. October 28-29 in 1929 is still the worst percentage two day crash of the market.
- Over 16 million shares were traded on Black Tuesday. This record volume of shares was not broken for nearly 40 years.

Activities

- Take a ten question quiz about this page.

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Test Quiz

The Great Depression - Stock Market Crash.

1. What year did the stock market crash discussed in the article occur?
a. 1865
b. 1902
c. 1929
d. 1945
e. 1981

2. Around how long did the Great Depression last?
a. 2 years
b. 5 years
c. 10 years
d. 40 years
e. 100 years

3. During what month did the stock market begin to crash?
a. October
b. January
c. March
d. April
e. December

4. Which of the following caused the stock market to crash?
a. Wild speculation
b. People buying stock on credit
c. Slow economy
d. All of the above
e. None of the above

5. What is it called when people buy stocks using credit?
a. Mortgage
b. Margin
c. Bond
d. Mutual Fund
e. Certificate

6. True or False: The stock market crash is generally considered the start of the Great Depression.

a. TRUE
b. FALSE

7. When did the stock market eventually recover?
a. 2 years later
b. 1950s
c. 1980s
d. 2000
e. Never

8. What is a nickname for a time when stocks are overvalued?
a. Balloon
b. Elephant
c. Globe
d. Monopoly
e. Bubble

9. What was the result of the stock market crash?
a. The economy recovered
b. Many people lost their savings
c. Business improved
d. New jobs were created
e. All of the above

10. True or False: Before the crash, the stock market continued to rise even though the economy had slowed.
a. TRUE
b. FALSE