NAME DATE CLASS

# Economics of History Activity

## The West Between the Wars

### Economics and the Great Depression

*Although brief prosperity followed the end of World War I, the economy eventually collapsed, and a period of depression began in Europe and the United States. This in turn caused people to doubt democracy and look to alternatives.*

**Business cycles** fluctuate between periods of recession and expansion and are marked by changes in the **gross domestic product**, or GDP. A recession begins after a financial peak in the economy and ends when it reaches a **trough**, or the lowest point. This is when people usually experience the hardest times. However, a trough also indicates a turnaround point in which the economy will start to recover.

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| Economics Terms to Know |
| **business cycle** a systematic changes in real GDP marked by alternating periods of expansion and contraction  **gross domestic product (GDP)** the dollar value of all final goods, services, and structures produced within a country’s national borders during a one-year period  **trough** the point in time when real GDP stops declining and begins to expand |

A recession that lasts a long time or becomes very severe is often classified as a depression. At least two important factors led to the depression in the 1930s, which would later be called the Great Depression. The first was a series of monetary slumps in various countries during the late 1920s. The second was a global financial crisis triggered by the crash of the U.S. stock market in October 1929.

The Great Depression had profound effects around the world. In the United States, the unemployment rate skyrocketed, remaining at over 20 percent for four consecutive years between 1932 and 1935. Between 1929 and 1932, the decrease in industrial production exceeded 50 percent in numerous industries, including iron and steel, shipbuilding, and automobiles.

In Germany after the crash, loans were withdrawn by panicked Americans. As a result, German stock exchanges dropped as well, with businesses and companies failing at an alarming rate. In 1930 unemployment numbered 3 million and doubled to 6 million by 1932. Trade fell by two-thirds and Germany’s industry was operating at less than 50 percent. This economic devastation undermined many people’s faith in democracy and predisposed them to accept the simple solutions offered by politicians in quest of dictatorial power, such as Adolf Hitler in Germany.

#### Applying Economics to History

1. **Explaining** What factors brought about the Great Depression?

**1**

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1. **Drawing Conclusions** What are the positives and negatives for people when the economy hits a trough?
2. **Analyzing** Why did some people turn toward less democratic forms of government during this time?

**2**