# Policy Responses to the Great Depression and Global Financial Crisis

# Starter - Recap Question

**Instructions:** Test yourself with the below quick question

What is meant by a Recession?

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What is meant by a Slump?

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What is the difference between monetary and fiscal policy?

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# Presentation 1 - Intro to the Great Depression

Complete the activities below so as to have a complete set of Notes:

**Definition:** *The Great Depression*

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**Key Notes:** Causes

*Connect the boxes in the correct order so as to have a coherent logical chain of analysis*

In 1929, after a decade of rapid growth and a huge rise in share prices, the US stock exchange crashed.

Widespread share ownership among middle-income households meant consumption plummeted and a huge loss of confidence, slashing investment and causing business closures.

**Credit Crunch:** Banks had to cut lending as loans were not being repaid and nervous individuals withdrew their savings.

Many economists believe that the simultaneous tightening of monetary and fiscal policy in the late 1920s and early 1930s, combined with the increase in protectionism, turned a tough financial crisis into a deep depression

The falling demand in the US set off a downward spiral in international demand.

# Pairs Task: Optimal Policy Brainstorm

**Instructions:**

* With your partner, discuss what policies you would implement falling the great depression
* Discuss your ideas with the class

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| Fiscal Policy Responses | Monetary Policy Responses |
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# Presentation 2a - US Responses to the Great Depression

Complete the activities below so as to have a complete set of Notes:

**Key Notes:** Elaborate on the below policy responses

**Bad at the Start:** Worsening the depression!

*Tariffs:*In 1930, US president Herbert Hoover attempted to protect US industries by increasing tariffs on foreign goods

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*Austerity:* Initially the US, in line classical economic thought, pursued balanced budgets

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*Tight monetary Policy:*Interest rates were raised in September 1931 to preserve the value of the dollar (linked to the Gold Standard)

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*Stat:* Studies suggest that money supply fell by 31% between 1929–33 due to these factors.

**Improvements:** In 1933, under the new President Franklin D. Roosevelt, the US utilised the ideas of Keynesian Economics,

In a negative output gap a government needs to invest to crowd in private investment and by ‘priming the pump’ can start a positive multiplier effect to kick start growth.

*The New deal*

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*Abandoning the Gold standard*

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**Key evaluation:** There is some debate as to what extent this was effective in bringing the US into recovery or whether it was the huge spending associated with the Second World War which provided the real boost

# Presentation 2b - UK Responses to the Great Depression

Complete the activities below so as to have a complete set of Notes:

**Key Notes:** Elaborate on the below policy responses

**The depression in the UK:** The UK was relatively insulated as it had experienced no real credit boom in the 1920s

But as the UK economy relied heavily on trade, the decline in global demand, hit the economy, and with lower exports, the UK went into recession

*Austerity:* The UK, like the US, pursued balanced budgets in line classical economics

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*Abandoning The Gold Standard:* The UK too removed the requirement to maintain the value of currency relative to a fixed amount of gold, allowing for growth of the money supply

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# Presentation 3 - Intro to the Global Financial Crisis and Great Recession

Complete the activities below so as to have a complete set of Notes:

**Definition:** *The Global Financial Crisis (GFC)*

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**Key Question:** How did the GFC lead to ‘The Great Recession’?

*Connect the boxes in the correct order so as to have a coherent logical chain of analysis*

In trying to increase their profits, banks had loaned out too much to individuals with limited ability to pay them back – ‘sub-prime’ – and had bundled these loans into derivatives such as mortgage backed securities (MBS) to sell as seemingly low risk assets

As the housing market became saturated, interest rates on mortgages rose, making mortgage payments more expensive to pay back, which many couldn’t afford

When mortgage defaults started to rise in the US, banks started having to write off bad loans, which also slashed the value of MBS

**Credit Crunch:** Banks around the world lost money, and nervous depositors withdrew their savings, slashing their ability to loan.

A ‘bank run’ even led to the collapse of Lehmann Brothers in the USA, as depositors rushed to withdraw their cash, which the bank did not have readily available, forcing them to close.

Many businesses now struggled to refinance loans or take out loans for investment. The effect was a huge fall in investment and spending in the economy.

# Pairs Task: Optimal Policy Brainstorm

**Instructions:**

* With your partner, discuss what policies you would implement falling the great recession
* Discuss your ideas with the class

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| Fiscal Policy Responses | Monetary Policy Responses |
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# Presentation 4a - US Responses to the Great Recession

Complete the activities below so as to have a complete set of Notes:

**Key Notes:** Elaborate on the below policy responses

*American Recovery and Reinvestment Act:*Barack Obama in 2009 signed a stimulus plan worth $787 billion, almost 6 per cent of that year’s GDP

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*Expansionary Monetary Policy:* the Federal Reserve cut the interest rate in stages from 5.25 per cent in 2007 to 0–0.25 per cent in 2008

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*Quantitative Easing (QE):* The USA used QE to try to revive consumer spending and economic growth

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# Presentation 4b - UK Responses to the Great Recession

Complete the activities below so as to have a complete set of Notes:

**Key Notes:** Elaborate on the below policy responses

*Initial Fiscal Stimulus:* In the UK, a number of fiscal measures were introduced, amounting to 2.2 per cent of 2009 GDP

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*Subsequent Austerity:* By 2010 the UK had moved towards measures aimed at reducing the budget deficit, in contrast to the US where this was not a priority.

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Definition: *Liquidity trap*

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*Expansionary Monetary Policy:* The BoE cut the base interest rate in stages from 5.75 per cent in 2007 to eventually 0.5 per cent in March 2009

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*Quantitative Easing (QE):* The UK also used QE to try to spark economic growth

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