Free essay on great depression

Finance, Investment

Great depression occurred after the Second World War. Its effects were felt all over the world. Both poor and wealthy nations felt the effect of this event. The time when each country was affected by the great depression varied from one country to another. It is argued that the depression origintated from united states whereby the stock market prices had fallen largely. The event resulted to a decline in economic activities in many nations. It is usually used as an example to show how economies can be greatly affected. Many lessons were learnt from the depression hence policy makers are aware of the causes and effects that such an event can lead to. With this knowledge, policy makers are able to put in place measures to prevent such event in future.

As the effects spread from the United States to other countries, the strengths and weaknesses of the economies of each county determined the extent to which these countries were affected. In response, many countries initiated protectionism policies as a way of reducing the effects of the depression. Even though there are no exact measures of depression, the business cycles that are experienced by countries from time to time are different from depression. Depression affects many countries and its effects are worse than those of business cycles.

The great depression was caused by decline in the output of the economy. The results were that the unemployment rates increased and the gross domestic product of countries dropped drastically. The policy makers can learn from this trend and take the necessary actions if such signs are observed in the economy. If the government interfered in the market such that it would facilitate increase in output, then the effects of depression

would have been reduced.

According to Keynes, government could have saved the situation by preparing deficit budgets. Deficit budgets are such that the planned expenditure is less that the taxes collected. This required the government to borrow externally or internally. Borrowing externally or internally increases money supply in an economy. This causes the increase in demand for goods and services. Increase in demand makes the prices of these goods to go up. Investors are induced to increase their investment to meet the increasing demand. When investment occurs, output of an economy increases leading to increase in the gross domestic product. Therefore, the problem of reduction in the gross domestic product in a country is tackled.

Depression leads to unemployment. When production in an economy reduces, the investors find it reasonable to reduce the number of workers in their firms as a way of cutting down costs. The policy makers will have saved the situation if they recommended deficit government financing. When government spends more than it collects through taxation, production in the economy is encouraged. As people put more investments, they will require more laborers to facilitate this production. This creates employment to the people. With deficit financing, the government starts various development projects in the country. These projects end up absorbing many of the unemployed individuals. This solves the problem of unemployment. Therefore, deficit financing is a good way of dealing with unemployment associated with depression.

A tax is another variable that could have been utilized to deal with the consequences of depression. Tax reduction reduces the prices of goods and

services. This makes goods cheaper to customers and this leads to increased demand. With increase in demand, the investors in a country find it profitable to invest and provide the goods and services being demanded. Taxes are costs to the producers and when lowered, the motivation to invest is increased. When investment increases, the output in an economy increases hence economic development. The number of employees needed in the production sector increases and this leads to reduced unemployment. The policy makers in a country can manipulate taxes charged on various goods and services to achieve desirable effects in the economy.

International trade is an important activity and countries should not take measures to prevent it. It is obvious that international trade facilitates the transfer of effects of depression from one country to another. However, the experiences of the 1930 depression show that any attempts to prevent international trade worsen the effects of depression. There are countries that depend heavily on imports and exports. Any attempts to control trade can adversely affect these economies. When countries put controls on international trade, the other countries retaliate and hence the exports and imports of such a country decrease. People lose their employment and the citizens are not able to access some important necessities that are usually imported. Policy makers in a country should consider not putting control measures on trade whenever there is depression.

Regulation of banks is an important thing in the economy. The Federal Reserve is responsible for the regulation of banks. Without regulation, these banks engage in risky businesses that can lead to adverse effects in the economy. Banks are private entities with aim of making profits. However,

some of their actions can expose them to great risks that can affect the whole economy. Before great depression, banks engaged in risky lending of money. This involved lending money without evaluating the credit worthiness of individuals. They charged huge interest rates in return. Due to lack of credit worthiness, many of the borrowers failed to repay their loans. The banks made great losses and this made some of them to close down. Closure of banks created panic and many people move to other banks to withdraw their monies. This causes more banks to close. This worsens the effects of depression.

The policy makers in the government have the responsibility of ensuring that the banks run their activities in an acceptable manner. There are need be control banks to ensure that they do not expose the economy to risks of experiencing depression. Whenever the government realizes problems in the banking sector, there is a need to intervene and solve the situation before it becomes worse. During the depression, the Federal Reserve in United States could have intervened to provide liquidity to the banks. This would have helped the banks recover from the problems they were facing. This would have ensured that people have complete trust in the monetary system of their countries.

Financial advisors and banks have a great role to play in the economy to deal with problems related to depression. People have to realize that massive investment on profitable projects is risky. Massive investment on certain sectors makes these sectors unprofitable in the future. There is therefore a need to advice people how to evaluate projects before they can engage in such investments. When supply of houses in United States

economy became unprofitable, the banks and people lost largely. Increase in supply of goods leads to a decrease in price of such goods. This means that the value of these goods and services declined. When this happened to houses that were constructed in the United States, the banks were not able to recover their debts. The people made great losses and were not able to repay their loans. This made many banks to close down.

Control of the stock exchange market is an important factor in avoiding depression. People invest large sums of money in this market. Measures should be in place to reduce the risks associated with investment in this market. Depression in 1930s was partly caused by collapse of the stock market. Many people lost a lot of money. Banks also lost money they had invested in this sector causing them to close down. This initiated panic in the economy and people lost confidence in both stock exchange and banks. They therefore held their wealth in cash and this can led to negative effects in the economy.

Even though expansionary policies are associated with employment and increased output in the economy, this policy should be properly used otherwise, it can adversely affect the economy. With expansionary policies, investment in a country increase leading to increase in supply of goods and services. The effects are that these goods lose their value. The prices of such assets reduce significantly discouraging further investment. Lost value means that loans cannot be repaid. Expansionary polices that existed in 1920s was behind the great depression.

Expansionary policies may also lead to inflation in a country if not well managed. When money supply increases, the demand in the economy

increases. The rise in demand is caused by the fact that people have money to purchase various goods and services they need. When demand is higher than supply, the prices go up. This reduces the purchasing power of individuals. Specifically, the value of money reduces due to expansionary monetary policy.

Expansionary policies are however effective in creating employment, increasing output and hence driving away the effects of depression. According to monetary economists, expansionary policies lead to a reduction in interest rates in a country. Interest's rates are a measure of the costs of borrowing funds by individuals and firms. With decline in interest rates, investors find it cheaper to borrow loans to invest. This increases the demand for loans for investment. With investment, employment and output of the economy increases.

Karl Marx argues that capitalist economies are a root cause of depression that has been witnessed from time to time. Karl argues that the economic problems that arise cannot be fully solved by market forces. Even though these forces can solve these problems, it takes time before this is achieved. This is because the investors have different motives from those of the society. The conflict of interests is what results to undesirable outcomes in the economy.

Inequality that exists between people in an economy contributes to depression. Income inequality leads to overproduction in the economy. This occurs when the amount of goods produced in the marker cannot all be purchased. The wealthy invest funds in production of goods and services. To maximize their profits, they pay low wages to people. Due to low purchasing

power, the output in the economy is more than demand. This shows how inequality can lead to depression. People are willing to purchase the available goods but they have no money to do so. Government intervention is necessary to help people purchase the goods and services they need. Therefore, inequality associated with free market mechanism can lead to depression.

Great depression can be seen to have many negative effects to the people and the economy in general. Policy makers therefore need to be aware of the causes, effects, and remedies of a depression. There are many theories that give different arguments on the issue of depression. Some argue that it was caused by government interventions and others argue that free market mechanism is behind the depression. However, policy makers should be able to evaluate the economic situations effectively before making a decision on what to do. Even though market mechanisms correct any imbalances in the economy such as inflation rates, the government should play its role in correcting economic situations. The market forces respond to these problems slowly such that before the problems are solved, the economy may be greatly affected. The best course of action is to allow market forces to control the economic activities in the economy and at the same time, checking the economic situations in the economy through government intervention from time to time. These actions can lead to best responses to economic problems in a country.