

Factors that led to the collapse of the stock market essay

[Business](#), [Marketing](#)



The Wall Street or the American stock market could arguably be termed as the greatest stock market of all times. Prior to its great collapse of October 1929, a crisis that went on for more than a decade, and probably the biggest financial crisis of the 20th century, the American stock market was enjoying a time of economic prosperity. It is vital to understand what really a stock market collapse is and what factors may contribute to such a crisis in order to get the actual causes that led to the great crash or stock market crash of 1929. (Klingaman & William, 10)

A stock market crash is an instantaneous decline of stocks in a significant number of companies listed in a stock market. There are various factors that can contribute to a stock market crash. These may include psychological as well as economic factors or poor implementation of policies. Panic is one major factor of stock market collapse. Collapse can also be triggered by speculation and stock market bubbles. Long periods of rising stock prices lead to people having a lot of hope in the stock market causing people to spend excessively to a point of even borrowing more than what they can repay. If the market is not sustained it could lead to a severe economic crisis. (Bierman & Harold, 34)

Looking at the great collapse of the American stock market of 1929 the above factors coupled with others could be some of the factors that contributed to its collapse. The collapse was characterized by desperate dumping of shares, unemployment, closure of around seven hundred banks and around eighty five thousand businesses. (Klein & Maury, 41).

Prior to this collapse there was a very high stock market speculation which caused the American public to borrow heavily from banks and other money

lenders to invest. The stocks prices at that time had soared so high and many believed that the prices could be sustained. Irving Fisher an economist noted this danger and warned that the prices had reached what seemed as a permanently high plateau. This meant that there could only be one way now which would be a decline. Hundred of thousands of Americans did not see this. The American public was borrowing dangerously investing the same in the stock market. Small investors got even more than two thirds of the face value of the stocks that were being sold to them. The amount of loan exceeded the value of the money in circulation at that time. It is estimated that over \$8.5 billion was out on loan. People had a false hope that the prices would rise even higher which was never to be. The speculation created an economic bubble. Due to shortage of money in circulation and people being in debt due to high loans incurred, the purchasing power declined leading to a turn down on the stock prices. The turn down of stock prices led to evaporation of certainty of high company profits resulting to panic selling leading to a further decline and finally the great crash on black Tuesday.

The great crash could not be avoided due to the condition that prevailed at that time. Due to the early 1920s boom, optimism was very high not only in the American public but also in foreign investors. The move by the federal bank to reverse the rate of speculation by increasing interest rates in its member banks was frustrated by the foreign banks and other international American businesses who continued to advance loans to investors.

Considering that the purchased stocks acted as collaterals the collapse was inevitable. Even if there was a lender of last resort, there would be no way

such a lender would re-finance collapsing stocks purchased on credit with no tangible collateral. The great Wall Street collapse of 1929 could be termed as a malady in it self.

Works cited

Bierman & Harold. The 1929 Stock Market Crash. California: Economic History Association press. 2008.

Klein & Maury. Rainbow's End: The Crash of 1929. New York: Oxford University Press. 2001.

Klingaman & William K. 1929: The Year of the Great Crash. New York: Harper & Row. 1989.