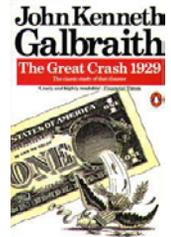


## What Went Wrong



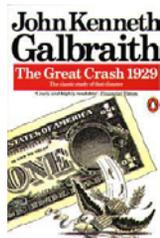
## The Traditional Story

The traditional story is that of a failure of markets.

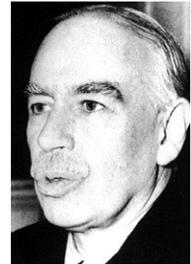
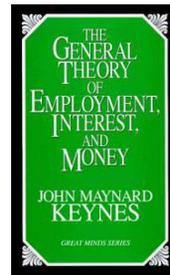


## The Traditional Story

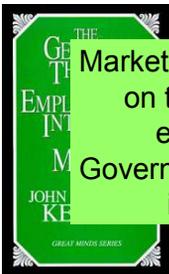
The traditional story is that of a perfect storm



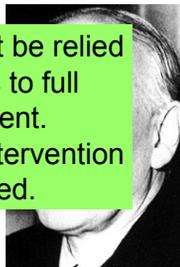
## The Keynesian Version



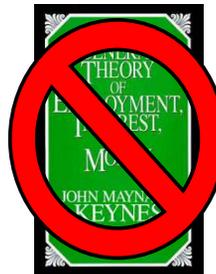
## The Keynesian Version



Markets cannot be relied on to get us to full employment. Government intervention is required.



## The Keynesian Version



## The Monetary History



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What Went Wrong

## Friedman and Schwartz



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## Phase I-The 1929 Recession

- Business Cycle reached peak in August 1929

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What Went Wrong

## Phase I-The 1929 Recession

- Business Cycle reached peak in August 1929
- Market “crashed” in October, 1929.
  - Decline comparable to October 1987
  - Decline comparable to July 2002.

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What Went Wrong

## Phase I-The 1929 Recession

- Business Cycle reached peak in August 1929
- Market “crashed” in October, 1929.
  - Decline comparable to October 1987
  - Decline comparable to July 2002.
- Signaled Recession

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What Went Wrong

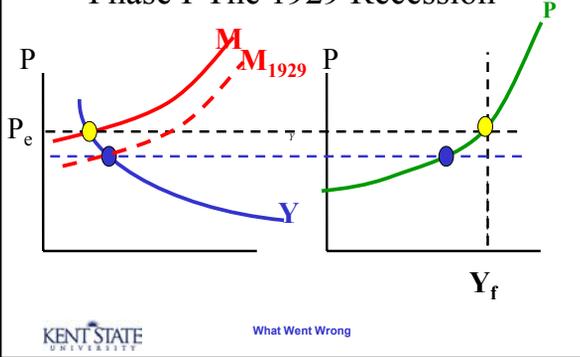
## The 1929 Crash



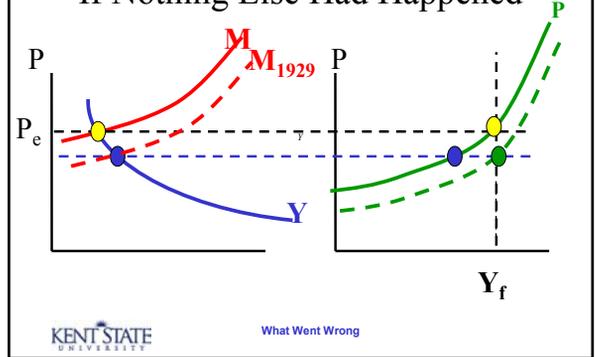
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### Phase I-The 1929 Recession



### If Nothing Else Had Happened

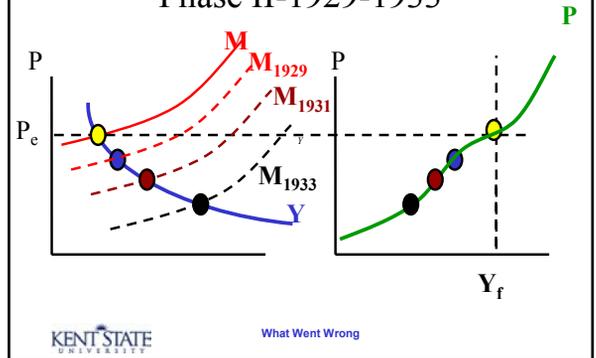


### Phase II-1929-1933

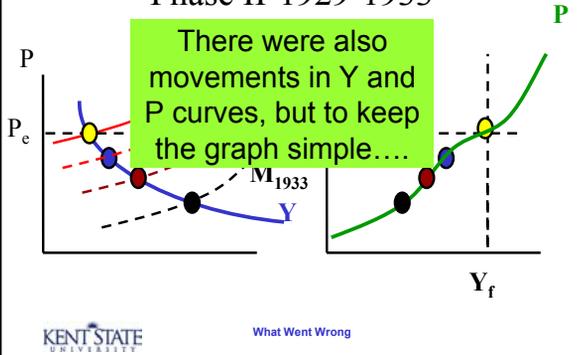
- A Series of Monetary Shocks
  - Bank Failures
    - US
    - Foreign
  - Britain abandons Gold Standard in 1931
- Hawley Smoot Tariff

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### Phase II-1929-1933



### Phase II-1929-1933



### Components of GDP

Year	GDP	C	I	G
1928	811.5			
1929	865.5	661.4	91.3	120.6
1930	790.7	626.1	60.9	132.9
1931	739.9	606.9	38.3	138.5
1932	643.7	533.0	11.5	133.8
1933	635.5	541.0	17.0	129.2
1934	704.2	579.3	30.7	145.7
1935	766.9	614.8	56.9	147.9
1936	866.6	677.0	72.9	174.7
1937	911.1	702.0	91.1	167.3
1938	879.7	690.7	60.2	180.2
1939	950.7	729.1	77.4	196.0
1940	1034.1	767.1	107.9	201.5
1941	1211.1	821.9	131.7	335.1

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## Two Unanswered Questions

- Why didn't the economy bounce back sooner?

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- Why didn't the economy bounce back sooner?
  - People expected decline to be short-lived.
  - Thus only modest adjustment in wages and price expectations.
  - Multiple Shocks.

## Two Unanswered Questions

- Why didn't the economy bounce back sooner?
- Why did the Federal Reserve System allow the money supply to fall?

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- Why didn't the economy bounce back sooner?
- Why did the Federal Reserve System allow the money supply to fall?

Why Indeed?

End

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