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## The Stock Market: Booms and Crashes (the 1920s)

### Guided Notes


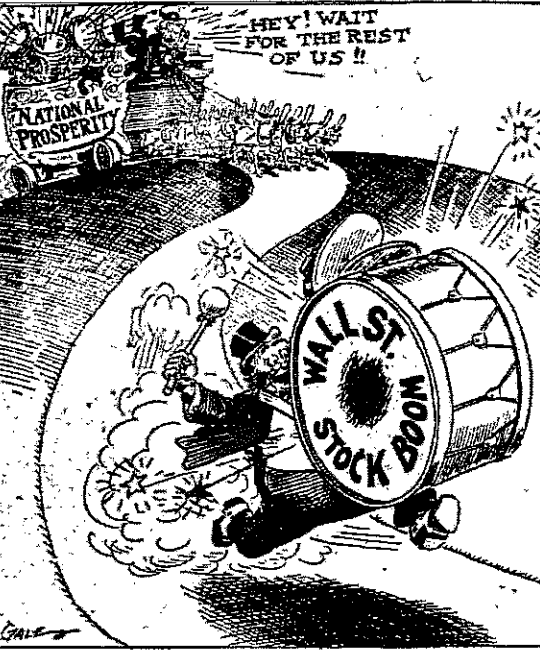
Stock Market  
 ↑ (More) Buyers = ↑ Price  
 ↑ (More) Sellers = ↓ Price

**How does the Stock Market work and what led to the crash?**

Explanation	Picture Summary
<p>1</p> <p>Publicly owned companies offer ownership to anyone willing to buy. → Anyone can own part of a company (Stockholder)</p> <p>During the 1920s...      "Amateurs were trying to speculate in the market      ↳ they weren't pros!"</p>	
<p>2</p> <p>The value of a stock changes daily. Each day, the ratio of buyers to sellers determines the price.</p> <p>During the 1920s...  <math>\frac{\text{Buyers}}{\text{Sellers}} = \text{Price of stock}</math></p> <p>• there were more small buyers, so the price rose fast      ↳ called a <u>Boom</u></p>	

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<p>3</p> <p><b>Big Idea: Buy shares at low price, sell at high price to make \$</b></p> <p><b>During the 1920s...</b></p> <ul style="list-style-type: none"><li>As prices rose, more people participated &amp; didn't know when to stop</li><li>Speculated on credit</li><li>Speculation on credit: buy what you think will profit with money you'll think you have</li></ul>	 <p>American people kept buying credit &amp; didn't know when to stop</p>
<p>4</p> <p><b>More buyers, the stock rises More sellers, the stock falls</b></p> <p><b>During the 1920s...</b></p> <ul style="list-style-type: none"><li>Companies were booming far ahead of the <u>actual</u> wealth of the nation</li><li>The Market refers to the measurement of multiple companies</li></ul>	

### “What Goes Up, Must Come Down”

Roger Babson prediction on September 5, 1929: "Sooner or later a crash is coming, and it may be terrific... Factories will shut down, men will be thrown out of work, the vicious circle will get in full swing and the result will be a serious business depression.

“...There may be a stampede for selling which will exceed anything that the Stock Exchange has ever witnessed,” Babson warned, according to reports in the New York Times. “Wise are those investors who now get out of debt and reef their sails.”