Bank Run Simulation

Objective: I can identify the economic policies and factors that led to the Great Depression.

Essential Questions

1. What factors led to the Great Depression? How did those factors affect the American economy?

2. What is unequal distribution of income? How did unequal distribution of income contribute to the Great Depression?

3. What were the weaknesses in the farm sector? How did the weaknesses in the farm sector contribute to the Great Depression?

4. What was the stock market crash? How did the stock market crash contribute to the Great Depression?

Big Ideas

1. A number of economic policies in the United States contributed to the Great Depression.

2. Much of the nation's wealth was concentrated in the hands of a few; the ensuing poverty caused low demand in the marketplace, lowering prices, and increasing unemployment.

3. Prices of agricultural products decreased, causing many farmers to take out loans and increase their debt. The inclement weather of the Dust Bowl contributed to poor production.

4. Investors in the stock market were buying on margin, i.e., making a down payment and borrowing the rest of the investment. When the prices of the stocks dropped, investors were unable to repay these loans, causing problems in the banking industry.

5. As the price of stocks declined, investors began to sell rapidly, leading to Black Tuesday, the day the stock market crashed when over 16 million shares were sold in one day.

Anticipatory Set: Remember our banking simulation, Money Mania? Review with your tablemates how banks work to "create" money, or M1. Stand and Share.

(This lesson is adapted from "What really caused the Great Depression?", The Federal Reserve Bank of St. Louis, 2007. https://www.stlouisfed.org/~/media/Files/PDFs/Great-Depression/the-great-depression-lesson-3.pdf)

Procedures:

1. TW introduce the simulation: You will now participate in a simulation, in which you role-play to help you understand what bank failures and panics are.

2. TW review the concept of bank reserves, and the Federal Reserve Requirement of 10%. Reserves are the amount of deposits not loaned out by banks. Banks take in deposits, set aside the reserve, and loan out the rest – thus "creating" money, or additional M1. Ordinarily, this system works well, but it does depend on the willingness – and trust – of people to hold bank deposits.

3. TW review what the "created" money is used for – buy houses, cars, items, start businesses, remodel homes, go to college, etc. The money loaned out is spent almost immediately – thus, it circulates.

4. TW ask students to predict: What happens when people no longer trust banks to hold their deposits? What happens when banks "call in" loans – i.e. ask borrowers to pay them off? What

effect does that have on the amount of money, M1, in circulation? What effect would both have on the economy as a whole?

5. You are living in the 1930s. Your community has three banks: First Community Bank, Second Federal Bank, and Third State Bank. Choose a simulation card from the bag, as I come around. (*There are a total of 23 individual simulation cards & 3 banker cards. For classes larger than 26, I have duplicated the simulation cards, and students will continue drawing from a second bag of individual cards, without the banker cards. Thus, the totals in the Discussion will depend on individual class sizes.*)

Those students who are bankers, please come to the front table and sit at your bank sign. (***Whisper instructions to bankers:*** Once customers begin coming to you, pay out as many requests as you can, but as soon as you run out of money, tape the "Closed" sign over your bank's sign on the table and then you must remain closed, but you must also talk to your customers and tell them why you cannot pay out their accounts.)

Bankers, I need you to distribute cash to everyone, according to the instructions on each card. You will have an unlimited amount of cash to do this, but you must return any left over to me.

6. Bankers, you will open for business in a few minutes, once cash is distributed. Take your places at the table.

7. The rest of you are customers and you will take the actions on your blue simulation cards.

8. TW start the simulation. 10-15 minutes for the simulation.

9. After the simulation has run its course, and bankers can no longer pay out customers' accounts, TW lead a class discussion:

How many of you made deposits in your bank account? (6+, depending on class size)

How many of you made loan payments to your bank? (4+, depending on class size)

How many of you were unable to make loan payments? (2+, depending on class size)

How many of you now want to withdraw your money from the bank? (depends on class size)

Did anyone have any problems? (Yes.) Why? (Several students may try to withdraw money, and the bank will have closed.)

With which bank did you have your account? (Second Federal Bank, possibly others as well.)

How did this make you feel? (Angry, frustrated, etc.)

10. TW explain, "The Second Federal Bank failed. The means, it ran out of cash and could not honor withdrawal requests."

11. TW ask: Second Federal banker, how much money did you have in reserve cash at the start of the simulation? ($800)

12. Individuals who withdrew or wanted to withdraw money from Second Federal Bank, come to the front of the class. Total the amount of money you withdrew and wanted to withdraw from the bank. ($1850 or more, depending on class size)

13. Individuals at Third State and First Community banks: How do you now feel about the safety of your money in your bank accounts, now that you know First Community failed? What might you do in the near future?

14. TW explain: During the banking crises of the Great Depression, people were withdrawing money from their banks – more money than the banks had in reserves.

15. TW ask: How many students had loans from Second Federal that you were unable to pay? (2 or more) How much were you unable to pay? (Alan Disharoon $100, Robert Renz $150).

16. TW ask: Second Federal banker, What would have been different if these individuals had made their laon payments as expected?

(The banker would have had some additional money coming in to the bank. That money could have been used to satisfy customers' demands for withdrawals.)

17. TW explain: Throughout history there have been periods when banks are unable to meet depositors' demands. When this happens, ***all*** bank customers lose confidence – even customers of banks who have not failed or suspended business (closed).

18. TW ask: If I were to declare the banks open for business again, and give you another set of cards to fulfill, how many of you customers of Third State and First Community, would want to run to the bank to withdraw your money?

19. Thus, a bank run becomes a systematic banking failure – all banks fail.

20. In addition, as people remove money from their checking accounts, the amount of money in circulation (stock) shrinks, or contracts. Now, there is only the cash you're holding onto.

21. TW ask students to predict: What does this mean? What happens when the amount of money in circulation shrinks? When there's less of it?

Possible Answers:

People and businesses can't borrow as much.

People buy fewer goods and services.

Businesses sell fewer goods and services, because people have less to spend.

Supply is too much; it's a glut of stuff being offered for sale. Demand is down, so prices decline.

Business revenues decline.

Businesses are able to buy fewer supplies and equipment, so they employ fewer workers, or must pay workers less or a combination of both.

Workers who are fired, paid less, or work fewer hours buy fewer goods and services, and can't repay bank loans.

More banks fail; the economy's M1 supply further shrinks. Repeat the cycle at business revenues decline… and it continues.

Closure: Exit Slip. In CQS, answer the following question: Define the phrase, "a run on the the bank." How did the failure of banks contribute to the Great Depression?

Homework: None.

Instructional techniques: Discovery learning, active participation of all students.

Materials: Play cash, blue simulation role cards, banking signs, Bank Run simulation KN.

Assessment: Informal observation, Great Depression formative

Reflection Essay

Anticipatory Set: Review with your tablemates how the loss of trust in banks helped to lengthen and deepen the Great Depression. Stand and Share.

P**rocedures:**

1. SW write a 350-word reflection essay on the bank run simulation from yesterday.

Closure: Exit Slip. In CQS, answer the following question: What is the difference between a bank failure, and a banking panic?

Homework: None.

Instructional techniques: Independent writing.

Materials: Bank Run simulation KN, Reflection writing assignment.

Assessment: Completed Bank Run Reflection Writing Assignment, Great Depression formative