

Name \_\_\_\_\_

## Unintended Consequences: Government Policies and the Great Depression

### Short Answer Key

1. The Smoot-Hawley Tariff Act unintentionally worsened the Great Depression by raising tariffs on imported goods, which led to reduced international trade and a global economic downturn. Other countries retaliated with their tariffs, further damaging global trade.
2. The Federal Reserve's initial response to the Great Depression worsened the economy by raising interest rates, which reduced the money supply and contributed to deflation. Later, it failed to provide sufficient liquidity to banks, resulting in widespread bank failures and a further contraction of the money supply.
3. Adhering to the gold standard during the Great Depression limited the government's ability to address economic challenges because it tied the value of the U.S. dollar to a fixed amount of gold, restricting the flexibility to implement monetary policies to combat deflation and stimulate the economy.
4. The reduction in government spending during the early years of the Great Depression contributed to economic challenges by reducing demand in the economy, leading to lower production and increased unemployment. This austerity approach prolonged the economic downturn.
5. The lack of deposit insurance during the Great Depression had significant consequences as it led to bank runs. People rushed to withdraw their money from banks out of fear of losing their savings in case of bank failures, further destabilizing the financial system.

