The Great Crash of 1929
A Reconciliation of Theory and Evidence

Ali Kabiri
Lecturer in Economics, University of Buckingham, UK
# Contents

*List of Figures* ix  
*List of Tables* xi  
*Preface* xiii  
*Acknowledgements* xv  

**Prologue**  
1. The 1920s US stock market and the evolution of finance theory: the emergence of investment science  
2. The estimation of the longevity of dividend income  
3. New ideas on risk and uncertainty  

1 **Introduction** 17  

2 **Literature Review and Methodology** 31  
2.1 Modern literature related to the 1920s 31  
2.2 'Bubbles' 37  
2.3 Methodology 49  

3 **The US Economy and the Financial System** 58  
3.1 The boom and bust of the US stock market 58  
3.2 The real economy 61  
3.3 The Gold Standard 64  
3.4 Monetary dynamics and the US stock market 71  
3.5 The Federal Reserve in its first fifteen years of operation 85  

4 **The Returns to US Common Stocks from 1871 to 2010** 94  
4.1 Measuring the ‘fundamental’ value of the US stock market 94  
4.2 The realised return on stocks from the 1920s to 2010 105  
4.3 A growth model to value new technology stocks 108  
4.4 The formation of closed-end funds 127  
4.5 The 1927-9 phase of the boom 131  

5 **The October Crash of 1929 and the NYSE Credit System** 145  
5.1 Financial stability and the NYSE credit system 145  
5.2 Money market leverage for Common Stock trading 149  
5.3 The October crash of 1929 163
6 The Great Contraction of 1929–1932 and the Value of Stocks 174
7 Conclusions 187

Appendix: Results of cross-sectional tests 206
Notes 210
Bibliography 217
Index 229