Abstract

This thesis analyzes the major causes of the severe economic depression appeared in 1930s. It focuses on the role of the interest rate in its causing and the duration of it. The aim is to - through the comparison of three economic schools - Keynesians, Austrians, and Monetarists - show the different views of understanding the interest rate as such and then apply them on the situation before and during the crisis to explain various perspectives on its role in possible causing of the contraction of economic activity in a process of the business cycle.

The comparison outlines, how deeply individual schools differ. While Keynesians considered the dear money and high interest rates as the main cause of the crisis and similarly to Monetarists, they both suggested keeping them on low level, Austrians promptly refused the policy of low interest rates.

Further, firstly, it shows the inverse relationship between the growth of money supply and interest rates in 1920s and proves that the decrease of interest rates was caused to large extent by the increased quantity of money. Secondly, it provides the evidence that the growth of money supply and of investment spending was larger than the growth of gross domestic product.