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The Panic of 1907

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The official case solution for the Panic of 1907
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Setting the Stage
The Panic of 1907 was a financial crisis that led to the creation of the Federal Reserve
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The Panic of 1907

One of the most severe, but brief, financial crisis' the United
States has ever experienced

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Setting the Stage

The Gilded Age:

- Coming into 1907 the United States was experiencing a period of unprecedented growth
- Driven by westward expansion and railroads

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U.S. Current Economy

- Annual outflow of money during harvest season between New York and agricultural "hot spots"
- In the autumn months, money flew out of New York
 - As a result interest rates were raised to attract cash flow
 - Creating international investment

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Britain's Role

- 1905: British insurance firms cover roughly half of San Francisco's fire underwriting
- In addition, Britain was attracted as a foreign investor in New York by high interest rates driven by the annual agricultural cycle

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April 18, 1906: Disaster strikes San Francisco

- 5:12 am: An earthquake registering a magnitude of 7.8 struck the city
- Although the earthquake lasted under a minute, it started fires lasting 4 days
 - Killing around 3,000 people
 - Destroying 80% of the city

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Aftershock Felt Around The World

- The devastation in the San Francisco drew gold out of the world's major money centers
- This created a liquidity crunch that created a recession starting in June of 1907
 - By September, the market had fallen by 24% YTD

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F. Augustus Heinze

- Owner of United Copper Company in Butte, Montana
- In 1906 he moved to New York City where he formed a relationship with Charles W. Morse
 - Together they served on 6 national banks, 10 state banks, 5 trust companies and 4 insurance firms

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