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The Price of Diamonds

Does the price really reflect its value?

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For the past century or so, diamonds have been regarded as the ultimate luxury. From being embedded on something as small as a tooth, to having a whole car bejewelled, there is no stopping the glory and grandeur that diamonds promise to bring. Clearly, only the rich and those willing to spend will be able to splurge on these luxury items, whereas the poor only get to long for such things. This leads to two very interesting questions: Why are diamonds so expensive, and why does everybody want a piece of it? This article will seek to answer those questions from the economic and psychological aspects and will hopefully shed light on these matters. By the end of the article, the reader will realise very well that diamonds are not a sustainable commodity, or as I would put it, diamonds are not forever.

The True Value of Diamonds

A quick search over the internet will show just how expensive a piece of diamond could cost. A 0.32 carat diamond, which is roughly 64 milligrams, may start at a price of over $1227. To put that to scale, two grains of rice weigh around 60 milligrams. The price of 64 milligrams of gold, in comparison costs only $2.70. This exercise goes to show that diamonds are ridiculously priced. We also learned that gold is much cheaper even though gold is also regarded just as luxurious, if not more. From this, we know that diamond is more expensive than gold, yet only gold is being traded as commodities. This is rather confusing because something of such great value should justify it being traded as a commodity. This fact alludes to two things; that diamonds are simply far too rare to be traded, or that it really does not have any true intrinsic value. We will now move on to discover whether any of these claims are true.

The fact that diamonds are very rare minerals is obviously easy to believe, since it is rarely seen, compared to the likes of rubies or sapphires. In addition, its very high price suggests that it is indeed a very rare mineral. In truth, however, they are not as rare as the reader would think. Diamonds are plentiful in numerous different parts of the world, and there are warehouses full of them waiting to be sold. In fact, it is the most common gem on our planet. This is because essentially, diamonds are just a different form of carbon, which means that the element of diamond is actually just carbon. The carbon element has an abundance of 200,000 parts a billion, which is at least 50,000 times more than the abundance of gold which only has a concentration of 4 parts per billion in the Earth's crust. Interestingly, scientists have found ways to turn graphite (another form of carbon) into diamond under very high pressure and temperature. Although this process is currently expensive and tedious, there is no telling how much it will progress, what with the technological advancements in this age. However, conspiracy theorists will argue that this technology will never be revealed at all. We will discuss why these conspiracy theories arise in a later section. To conclude, diamonds are not rare as proposed, hence rendering the first claim false.

The next claim is that diamonds have no real intrinsic value, which is why it is not being traded as a commodity. Since diamonds are not rare, then why are they not traded as commodities if they hold such high value? This must indicate that diamonds do not have as much value than what the general public thinks. This is where the discussion gets a little tricky for it makes no sense at all that diamonds can be worthless yet priceless at the same time. It turns out that all it needs to make something priceless is to make the people "perceive" it as priceless. "It is only true, if people believe it is true" (Ler, 2014). This can be reflected in the example of how people used to believe that the Earth is flat, where everybody believed it is true, hence making it the "truth".

The Marketing of Diamonds

The phrase "A Diamond is Forever" that we have grown fond of over generations is actually the main slogan of the De Beers company. The slogan itself is enough to make one believe that a diamond's worth is indeed everlasting. More importantly, it brings with it the image of luxury when it comes to diamonds. The intrinsic meaning of this slogan appealed to the general audience subconsciously, making the diamond a much sought-after gemstone. When there is a substantial increase in the demand of a certain product, the price will also increase with it. In reality, there are so many other precious stones that are rarer and with far more brilliant colours. However, they cost less simply because the demand for these other stones could not compare with that of a diamond.

In basic economic theory, when the prices go up, producers would want to increase production to spike up sales. When this happens, the price will return to its equilibrium price. That is the ‘invisible hands’ that Adam Smith proposed. Unfortunately, this theory does not hold when it comes to the marketing of diamonds. For decades, the De Beers company have been effectively controlling the price of diamonds. This is mainly because it has a monopoly on the global production of diamonds. Therefore, the company can produce whatever quantity of diamonds it desires, especially when it comes to sales and pricing strategy.

Theoretically speaking, the prices of diamonds will still drop to its equilibrium because a rational consumer will reduce its consumption on diamonds if the prices are too high. This theory is not difficult to accept as diamonds are not necessity goods, which means that human beings do not need them to survive. The prices of diamonds did not drop because consumers are not well-informed about the supply of diamonds. Most people still think it is rare and special, when in actual fact, gold is much higher in rarity. We call this phenomenon ‘information asymmetry’, where the producer knows things that the consumers do not. The producer then uses this to gain abnormal profits. The De Beers company further gains mileage by increasing the information asymmetry through advertisements and successful marketing campaigns.

Rethinking the Invisible Hand

As mentioned earlier, the market adjusts itself according to the supply and demand of the goods traded. Perhaps the demand for diamonds does not lie in its abundance. Perhaps there is something more to diamonds that make it so expensive. There are a few possible reasons to explain this conundrum. Firstly, although diamonds might not be as rare, they are still hard to locate and extract. With fast-progressing knowledge and technology, this might not be a problem in the future. Another possible reason is that extracting diamonds are much more expensive and difficult. This makes sense because diamond is the hardest material on Earth, so extracting them is bound to be met with great difficulty, especially when they must be free from the slightest of flaws. Lastly, the work needed to cut the diamonds involves a difficult, precise and expensive process. These few reasons might explain the high price of diamonds even though it is abundant on Earth.

The remark on the invisible hand in the previous section can also be applied in this situation, in a different context. If it is the supply and demand that controls the price, then perhaps the high price of diamonds is indeed the equilibrium price. The demand for diamonds is not restricted to how rare it is, and indeed can be on the beauty of the gemstone itself. Consumers who appreciate the craftsmanship of the diamond cutting process might just be willing to pay the high price. The true value of the diamond could just be reflected in the price in the market. However, this is only true with the assumption that the general public has full knowledge of the industry. This proposition fails if people do not actually know how the industry works, which unfortunately, is the case.

Conclusion

All in all, the value of diamond is just another marketing strategy, except a very successful one. With that said, hopefully this article will bring to light the workings behind the diamond industry, and how monopoly can seriously affect the economy, be it for better or for worse. Diamonds are in abundance, contrary to popular belief. It is the effort taken to find and extract them, and further cut them into precious cuts that underlines the demand for it today. This article concludes that although diamonds are not as rare as generally perceived, they can still fetch a high price, which might be due to monopoly or the demand of consumers, both of which would not be sustainable in the long run with the rate of technological advancement we have today.

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