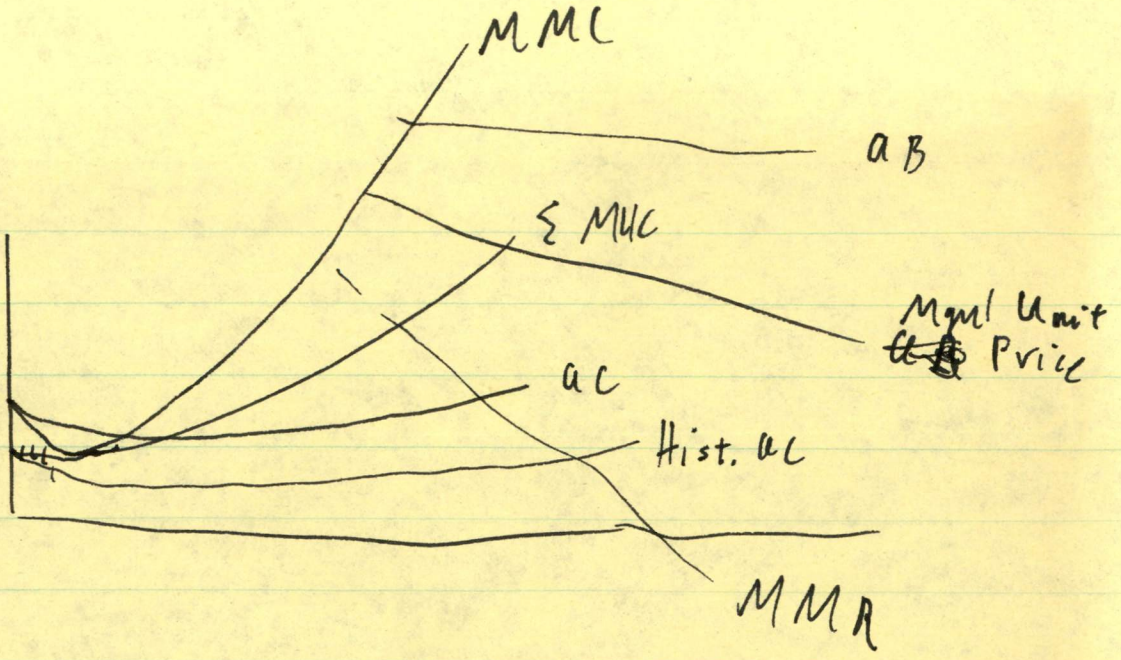
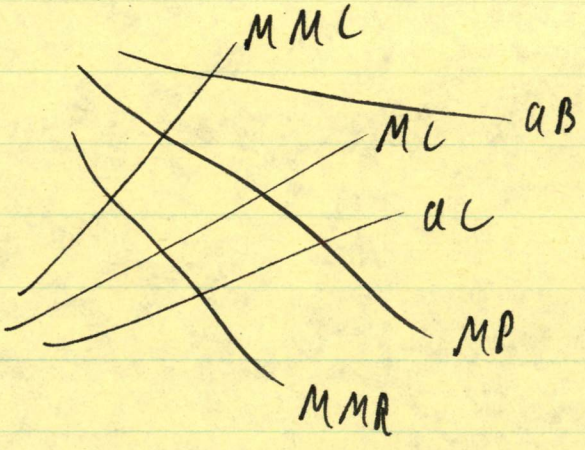
I/O. Used Notes



Comp. net inc. = ~~Total~~ Price = aC

Discrim. mnpst. net inc. = aB − aC



1. Buyer who has no position buys for MC, sells for MP, w ~~gain~~ rent or mkt. power
2. Seller or sum of sellers who own(s) mdty.
   a. Compn. MP − aC at MC = MP
   b. Mnpy. MP − aC at MC = MR
   c. Discr. Mnpy aB − aC at MC = MP

Ecs. 160 Thurs., Jan. 17

Welfare Ecs. of Compn + Mnpy. (cont.)

3. Buyer who owns buying indy.

a. Compn. $aB - MC$ at $MC = MP$
b. Mnpsny $aB - MC$ at $MMC = MP$
c. Discr. mnpsny $aB - aC$ at $MC = MP$

4. Bottleneck - middleman who owns neither

a. Compn. $MP - MC$ at $MC = MP$
b. Monop. - monops. $MP - MC$ at $MMC = MMR$
c. Discr. mny + msy: $aB - aC$ at $MC = MP$

M. 2

5. Mnpstc. Compn

6. Ld best.

7. Nat. mnpy.

8 Forgetfulness and distracting from main point — do firms max. profits?

9 Neglected - how do cartels do it? They retire some of the best land, raise social costs to the max.

9. The need to exclude.

Many that restricts output needs to exclude the people who are fired from forming new firms and re-entering the indy. How?

a. ~~[illegible]~~ Control — lock-up — the land,

i. Farm cartel
Pay rent to idle land, thru govt.

ii. Oil
Slow leasing Fed. lands
allowable system
Now, dominant producer shuts down wells.

iii. Gas retailing.
Dominate hot corners

Bring Becki Final
and Guffey

Tues., Jan. 21

I/O

1. Mupy is distrib. & allocative.
   Xfr. of units
   Alloc. at mgmt.

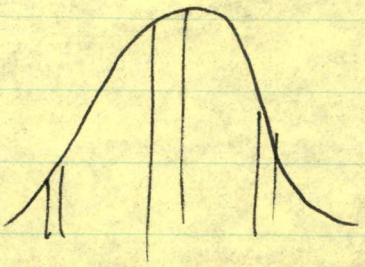
2. Preemption
   R:O ratio, or life index, etc.

3.

Gr. 160 1-7-86

1101 Watkins

1. Names
2. Texts
3. Assmnts
4. Midterms
5. Outline course
6. Vocab. lists
7. ask for ~~duffus~~ defns.
8. Unit 1

23. 

Rent

High rent = low-cost

Low-cost swallow hi-cost. Scale often gets the 'credit' as cause, when prior accum. is cause.

Meanings of low-cost

1. Hi rent
2. Circ. ent possession
3. Low vble cost, (due to hi fixed cost)

24. Tech. advance

25. See my old principles notes

26. Robbin pricing

27. Spreading rents

Spatially, by p.w., postage-stamp pric., etc.

By control

28. Excess capacity

29. Queueing

I/O

19 Aug 88 p. 1

Circulation: 1,136,813 Daily/1,421,

Cartel Calls Shots

Diamonds — Industry Is on a Roll

By ROBERT W. GIBSON,
Times International
Economics Correspondent

LONDON—Ten times a year, the diamond industry's elite—about 150 dealers, wholesalers and cutting factory owners—come here from all over the world.

The occasion is called a "sight" and its participants—more than a dozen of them from the United States—are "sight holders." They gather every five weeks at 17 Charterhouse St., headquarters of the Central Selling Organization, the marketing arm of the international diamond cartel run by De Beers of South Africa. Their gathering place is a six-story building in the same financial district neighborhood Charles Dickens used as the site of Fagin's kitchen in "Oliver Twist."

In private rooms, spare except for desk, chairs, a telephone and an electronic scale for measuring carat weight, rough diamonds are distributed to each client in cartons that look like shoe boxes. Inside the boxes are a pre-selected assortment of stones from De Beers' stockpile deemed by the cartel to be appropriate for the client's needs, consistent with what De Beers views as best for the world market at that point in time.

Cash-Only Basis

It is an arbitrary process, with no haggling. The box may contain anywhere from a low of $1 million worth of diamonds to $25 million or more. At about 25% less than the wholesale price for uncut diamonds, the sale is made on a take-it-or-leave-it, cash-only basis.

Occasionally, clients are deleted from the roster of eligible sight holders. After a crash in diamond prices in the spring of 1980, according to interviews with De Beers officials, half the then-300 sight holders were stricken from the list for one of two reasons:

— Either they lost the financial stability that De Beers demands of sight holders—although the cartel extends no credit and withholds possession of sold diamonds until the check clears the bank.

— Or the buyers alienated De Beers through some form of misconduct, generally involving clients who resold to speculators for quick profit entire allocations of rough diamonds, violating an unwritten cartel "understanding." Quickie profits that tend to disorder the market are considered bad form.

Worldwide System

And through its worldwide intelligence system, De Beers, a severe taskmaster, learns of such things. Recent history has reenforced its vigilance.

A decade ago, for the first time in its turbulent history, the diamond cartel lost control of the world market to speculators, who seized on the notion that diamonds were a good financial investment during a period of high inflation.

As inflation worsened and prices skyrocketed, the cost of borrowing soared. Much of the diamond business floated on loans.

Then, when interest rates

Please see DIAMONDS, Page 26

Compiled from the Los Angeles Times, the s Times-Washington Post news service and jor wire and supplementary news agencies.

In View

Tommy Perse and wife Anne-Marie are carrying minimalism to the max in their Melrose Avenue emporium. (Page 1.)

Liberace is gone, claimed by AIDS. But part of his $18-million legacy has been the subject of a dramatic court dispute. (Page 1.)

Veteran R&B star Hank Ballard is in high spirits since "The Twist" has zoomed back onto Billboard's Top 40 national pop chart. He wrote it. (Page 1.)

The State

Baby Left at Church Altar

A San Francisco priest whose Mass was disrupted by a child's cries discovered an abandoned baby boy in an adjoining church, officials said. The child, described as about 15 months old and weighing 35 pounds, was found at the foot of an altar in St. Dominic's Church, officials said. "There was no note, no bag of clothing. Just the little guy," said Michael Hancock, an investigator for the San Francisco Department of Social Services. The Rev. LaSalle Hallissey, who found the child, said the boy appeared to have been well cared-for. The baby, who wore a gold bracelet inscribed with the name "Austin," was taken to the Children's Home Society to await placement in a foster home pending an investigation. Investigators said they had few leads to the child's parents.

Six women filed a sex and race discrimination class-action suit against Lucky Stores in U.S. District Court in San Francisco, charging that Lucky has systematically discriminated against women, blacks and Latinos in its Northern California division. The suit said that between 1984 and 1986 women made up 34% of the sales force but held only 6.5% of managerial positions, 12.4% of assistant managerial positions and 2% of night managerial positions. The division has 160 stores and 5,000 employees. The plaintiffs had previously made similar complaints to the federal Equal Employment Opportunity Commission, which is expected to issue its report next month. Judith Decker, a Lucky spokeswoman, denied the charges by saying Lucky "practices equal opportunity employment and promotes on that basis." The suit argued that Lucky keeps women and minorities in the lowest jobs and in dead-end jobs and denies them full-time assignments and promotions.

No one won the $11.8-million jackpot in Wednesday's 6/49 Lotto game, which means that Saturday's jackpot could top $18 million, state lottery officials said. Four players guessed five of the six numbers plus the bonus number and will each get $394,000. Those winning tickets were sold in Redwood City, San Francisco, Fontana and Chula Vista. A total of 181 people picked five of six numbers and will each get $4,488. There were 11,530 winners in the four-of-six category, and 238,340 players picked three of the six numbers. Four-of-six winners will get $64 and three-of-six players will receive a standard $5. The winning numbers were 11, 13, 14, 22, 40 and 46. The bonus number was 4.

Amtrak passenger service was disrupted for several hours Thursday because of a freight train derailment near Camp Pendelton that occurred when engineers tried to avoid hitting a man, officials said. The 5 a.m. accident, in which [illegible] left the track, blocked the

DIAMONDS: New Boom Under Way and Cartel Is in the Driver's Seat

Continued from Page 1

peaked in 1980, the rates triggered widespread default and the bottom fell out of the market. Bankruptcy became epidemic, particularly in Israel, where inflation as rampant as 400% had induced banks to enter the diamond trade and encourage others to do the same. As a result, Israeli bankers wound up stuck with boxes of overpriced diamonds used as collateral.

Worldwide, a surplus of gems got caught in the distribution pipeline. In non-mining Israel, a country that only cuts and polishes, diamonds had stockpiled.

At its zenith early in 1980, the price of a one-carat D flawless diamond, the highest quality benchmark, quadrupled to $62,000

First of two articles.

on the speculators' market. Today's price is about $17,000.

Even by piling "surcharges" repeatedly upon the official price, De Beers couldn't keep up with runaway speculation and control was lost.

"It was a nightmare," Robin Walker, a senior De Beers official, said. "It took years to crawl out of the pit."

Around the world, hundreds of diamond firms went broke and De Beers closed two mines. The market was glutted. It took three years for the market to absorb diamonds trapped by the crash in the distribution chain.

Today the speculators are gone—"disappeared as quickly as they arrived," a De Beers official said. The cartel is back in the driver's seat and a remarkable new boom is under way.

Stunning geological discoveries in Australia and Botswana plus an equally stunning manipulation of human nature in Japan have altered the diamond industry's dynamics.

As silent partners, Soviets are playing the cartel's game, and a wiser Zaire is back in the fold after a two-year defection.

India has mushroomed as a diamond-cutting center with 450,000 artisans, who specialize in converting tiny stones—as small as 1/25th of a carat—into gems that otherwise might have been consigned to industrial use.

Much has changed but the industry is said to be stable. This time, it's not a speculator's boom, even though Japanese are buying up (but holding) expensive stones in New York, Antwerp, Hong Kong and Tel Aviv.

"We monitor these things very carefully," Andrew Lamont, an official of the Central Selling Organization, said. "Although speculation is not totally eliminated, it is not a major issue."

But since 1983, the industry has not only stabilized, it also is now on a historical roll.

"An orderly one," insisted Lamont.

Like never before, new records are being established:

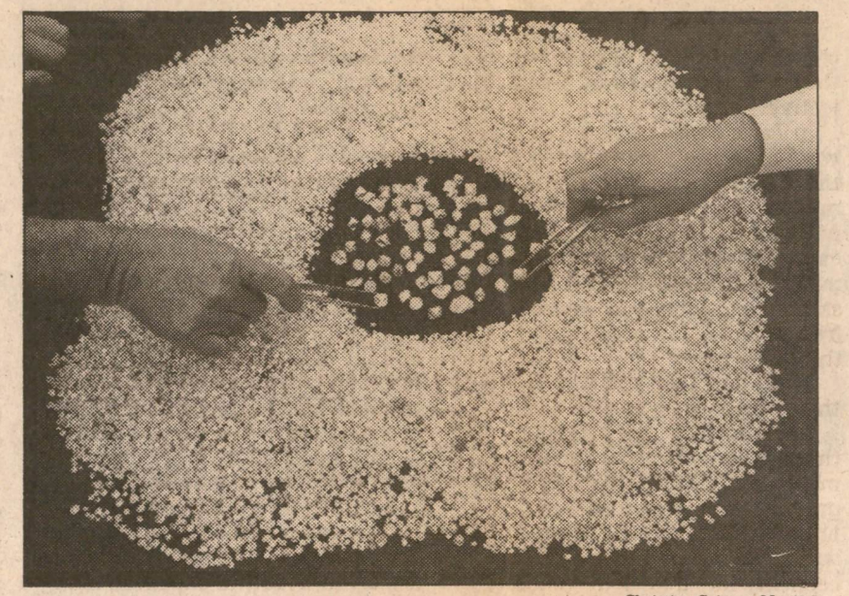
At 96 million carats a year, total production of gem and industrial rough diamonds is twice the annual 48 million carats pulled up a decade ago.

At $31 billion last year, retail sales of diamond jewelry set the fifth straight annual record.

A sixth record year of retail sales obviously is in the making. As though Black Monday's stock market crash last October had never occurred, prices of rough diamonds have risen 23½% in the last 10 months and sales for the first six months of 1988 are up 41% over the same period last year.

But 10 months ago, on hearing the news of the New York Stock Exchange's nose-dive, cartel managers were electrified.

"Talk about timing!" De Beers' Walker exclaimed, recalling the nightmare. "A week before the bottom fell out, we had raised prices [by 10%]! There we were on Oct. 20 in shock, looking at each other and saying, 'Whew! What have we done to deserve this? What kind of a hole are we in? Bloody hell, we've just clawed our way back and here we go again!'



Christian Science Monitor

A week's production of De Beers in Namibia—24,000 carats.

"We made decisions and held our breath."

Did they consider rescinding the new price increase?

"Oh, no, absolutely no," Walker snapped. "We never reduce price—never."

"Not ever? Not even during the Great Depression?"

"No, not even then," he replied.

So what did De Beers' strategists discuss?

"Cutting back supply," Walker said. "We severely reduced our sales in November and December, then maintained a cautious policy into the new year until reports of a good Christmas came in."

By spring, with 1987 results in hand and demand strengthening, cartel managers were breathing again.

Behind rising demand, of course, was the industrialized democracies' economic growth, including—in addition to that of the United States, Japan and West Germany—the growth in Pacific Rim nations.

Like oil, diamonds are denominated in dollars, making them cheaper for Japanese, West Germans and others with currencies strong against the dollar.

But Americans still provide the No. 1 diamond market; and weak or not, their dollars are buying 36% of all diamond jewelry sold worldwide.

From the smugglers of tropical Africa (officially known as "artisan miners") to the storefront merchants who advertise 50% off (but neglect to say off what), almost everyone is experiencing a boom in the multi-tiered and secretive diamond industry.

The leviathan, of course, dominates.

Last year, De Beers posted the highest sales of diamonds ($3 billion) and pre-tax profits on its diamond business ($678 million) since Cecil Rhodes, the British imperialist and entrepreneur, founded the company 100 years ago, offering British shareholders "patriotism plus 5%."

As a cartel banned under U.S. law, De Beers maintains no presence in the United States—not even a cubbyhole of an office. No corporate executive ever transacts business in America.

The cartel sells directly to American dealers and manufacturers only on non-U.S. soil. De Beers executives refrain from entering the United States except for personal vacations.

For half a century, the N.W. Ayer company in New York has represented De Beers inside the United States, directing a wide range of marketing activities, including the "Diamonds Are Forever" campaign.

Over its century, De Beers has remained a South African company with strong ties to Britain and West Europe.

But never has the diamond world's entire landscape altered the way it has over the past decade. A lot of old notions about the diamond industry no longer hold water.

South Africa is no longer the world's biggest diamond producer. It ranks fifth.

The leading producer in volume is Australia, which from the Argyle, a newly discovered and developed mine in the northwest quarter of the country, is producing a mind-boggling 31 million carats a year, nearly one-third of the world's total output.

Easily the most prolific mine in world history, the Argyle, only 5% of whose production is gem-quality, will become better known in the United States next year, when an exhibition of Australian diamonds is due to open.

After Australia comes Zaire (with 23% of the world's total carats, almost completely industrial grade), Botswana (15%, about one-third of it in gems and the Western world's major producer in terms of value) and the Soviet Union (14%).

South Africa (11%) has the smallest volume of the five major producers.

The leading producer in value, however, is tiny Botswana, whose high-quality diamonds yield $700 million a year—three times more than the income currently earned by Australia's Argyle. For 20 years Botswana has produced diamonds, but the recent discovery of the Jwaneng mine, which De Beers equates with the richest mine fields of South Africa, makes Botswana an all-star.

A 50-50 partner in the mine with De Beers, a representative of the Botswana government now sits on De Beers' board, a symbol of the

Please see DIAMONDS, Page 27

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FOR INFORMA

DIAMONDS: Australia, Zaire Are Top Producers; South Africa Is Fifth

Continued from Page 26

importance of the country's mines to the world market.

From all this, a significant fact emerges:

Although De Beers mines not only in South Africa but also in Botswana, Namibia and Angola as well, it no longer mines most of the world's diamonds, pulling up only about 36% of them. Through the cartel, though, De Beers still markets 80% to 85% of all diamonds.

Therein lies the company's power. By manipulating supply and price, De Beers controls the market—and it retains the monopoly by negotiating buying contracts with all the other major producers.

That, in turn, means dealing with the Soviet Union. Moscow insists on a long spoon but it sits at the table and sups with the South African-directed cartel.

Discreetly, the Soviets ship all their rough diamonds of gem quality through third-party companies to De Beers' Central Selling Organization in London. The only known exceptions are a number it holds back for cutting and polishing factories in Moscow, Kiev and Sverdlovsk.

In London, the Soviets' stones are co-mingled with others and their nationality, for all practical purposes, lost.

De Beers denies that it has a contract with the Soviet Union.

But to describe the situation further, a company spokesman said:

"We agree that goods from the Soviet Union are likely to wind up in our marketing system.

"The Soviets endorse the idea of a single channel outlet and, because they agree that diamonds as a luxury product require special marketing, they do not sell in competition with the Central Selling Organization."

For Moscow, using middlemen in the distribution chain saves embarrassment. In a bid to win support from tropical Africa's emerging nations, Moscow has called for a world trade boycott of South Africa since 1963.

(As it happens, the Oppenheimer family that controls De Beers is among the staunchest foes of the South African government's apartheid policies.)

For big producers like the Soviet Union, the cartel's appeal is hard to deny.

When demand is strong, it's easy for anyone to sell, often at higher prices than De Beers pays.

When times are tough, however, a producer can go begging—because buyers disappear.

But not De Beers. Bad times or good, its stockpile keeps purchasing—but only from producers who stay in the fold.

De Beers is rich enough to make that strategy work: In 1984, after years of swallowing post-speculation surplus, the cartel's stockpile had accumulated $2 billion worth of diamonds. Through acquisition of Botswana's own stockpile in 1986, the De Beers stockpile now is worth $2.3 billion.

Market Guaranteed

For those willing to play the game, De Beers guarantees a market.

"We are there in good times and in bad times, and most producers know the meaning of that," De Beers' Walker said. "We are the only truly successful marketing system for any world-wide commodity."

Once in, producers tend to stay—with one sad exception.

For two years, Zaire defected. Long unhappy over cartel payments, the government of the former Belgian Congo decided in May of 1981 to abrogate the contract it had had with De Beers since 1967 and sell directly to a consortium of Antwerp merchants.

At higher prices, life outside the cartel was wonderful—at first. Zaire sold all its diamonds.

Although minor players like Venezuela, Guyana and Guinea stay outside the cartel, De Beers is content to let that happen because they are not important, even collectively, as producers.

In Zaire's case, it mattered. Zaire was producing a high percentage of the world's natural industrial diamonds; even though smugglers siphon off an estimated 2 million carats a year (eventually selling many of them to De Beers buying stations elsewhere in Africa), Zaire's defection was perceived as a threat.

There are two versions of what then happened.

According to one version—not the cartel's—De Beers dumped diamonds of the particular type Zaire produces and torpedoed their world price, a blow that De Beers could withstand but one that sent Zaire's economy into a tailspin, generating serious problems there.

According to De Beers, no dumping was involved: The global economic slump did it.

Either way, Zaire couldn't sell. Chastened, it returned to the fold in February, 1983.

To survive as a cartel, much more than cohesion was required—and more than a stockpile, no matter how deep the pockets. Production wasn't just expanding. It was about to explode.

The carat upsurge needed a fantastic upsurge in buyers.

As De Beers' staff of economists in London saw it, two trends were emerging:

The first trend, of course, was a diamond glut. With too many diamonds already surfacing, a number of other mines were under development. A cartel-threatening surplus might soon be at hand.

The second trend offered a perfect economic mate to the first one: Japan's fantastic economic growth.

But Japan?

For more than a millennium, Japanese favored pearls, opals and emeralds. Mainly known as a birthstone, diamonds were neither used nor sought by the Japanese masses.

Until 1959, the importation of diamonds had been prohibited by the Japanese government as part of postwar austerity—and nobody had noticed.

In 1968, De Beers contracted with J. Walter Thompson, the American advertising agency. At that time, fewer than 5% of Japanese women getting married had a diamond engagement ring.

Then Madison Avenue went to work.

In full color ads from television and the printed page, Japan got the diamond treatment with an advertising campaign that in 1988 dollars probably cost close to half a billion dollars over the two decades. Today, about one fourth of De Beers' $120-million global advertising budget goes to Japan.

The campaign was subtle. It displayed beautiful Japanese models in Western fashions participating in activities like yachting, ocean swimming and mountain climbing, all adopting with joy a modern, exciting Western life style adorned with—what else?—diamond jewelry.

Astonishing Results

The results were astonishing. By 1972, about 27% of Japanese women getting married received a diamond engagement ring, by 1978 it was half and today it is 75%—about the same as in the United States.

"No Japanese bride," said Richard Kujawski, the Central Selling Organization's market controller for Japan, "wants to be without a diamond engagement ring today."

And unlike Americans, De Beers says, Japanese women commonly buy diamonds for themselves.

Today it is no wonder that a museum-quality modern bust of a samurai warrior dominates the decor in the staid London board room of the Central Selling Organization.

From "a zero market," as Kujawski described it, Japan has developed over 20 years into the world's No. 2 market.

As a newborn market, Japan staves off disaster for the time being. But some people in the industry see the pressures never ending.

"Not in the 1990s but sometime in the 21st century I think the cartel may break down like OPEC [the Organization of Petroleum Exporting Countries]," said Vivian Prins, one of the four brokers in London who serve as go-betweens for De Beers and the sight holders.

"I can see that happening. We don't have to have a cartel—diamonds can exist perfectly well in a free market, only with big swings in prices, as you get with other commodities. Life is just more comfortable with a cartel."

And partners in the cartel like the Soviet Union or Australia may indeed decide to break away, advised Prins, a widely known and highly esteemed broker whose father and grandfather were in the diamond business.

Already India is encouraging the Australian owners of the Argyle mine to defect, selling production directly to Bombay area cutters, "thus circumventing De Beers to the financial advantage of miner and buyer," Prins said.

Diamonds are said to be the world's most concentrated form of wealth. But except for refugees, tax cheats and outlaws, diamonds are a terrible financial investment under most circumstances, according to the evidence of the 1980s. The gems are financially less liquid than gold, far more volatile and totally unstandardized—no two diamonds are the same.

Unless you have need to conceal wealth, diamond experts says, diamonds are an imprudent place to store capital.

De Beers agrees. It strongly advises against diamonds as a vehicle for investment.

"Our policy is that diamonds should be regarded for their beauty, rarity and lasting value," Julian Ogilvie Thompson, De Beers' chairman, said in a statement in Johannesburg.

On the other hand, rare stones can provide a remarkable return: A red diamond just short of a carat in weight—to be exact, .95 carat—was purchased for $880,000 at Christie's in New York in 1987, reportedly for the Sultan of Brunei. In 1955, the previous owner, a Montana collector, paid $8,000.

Times researcher Nina Green contributed to this article.

Next: The Crown Jewels

