

# The paradox of value: why is water cheap and diamonds are expensive?

---

## 1. A simple choice?

Discuss the following scenarios with a partner. What would you choose and why?

1. **Scenario A:** You are a contestant on a game show and have just won the grand prize. You can choose one of the following: a one-carat diamond or a lifetime supply of bottled water.
2. **Scenario B:** You have been lost in the desert for three days with no water. A helicopter appears and offers you one of the following: a one-carat diamond or a single one-litre bottle of water.

**Discussion:** Why does the value of these items change depending on the situation? What does the word "value" really mean?

### Expected answers:

In Scenario A, the logical choice is the diamond. Its exchange value is far higher. In Scenario B, the obvious choice is water. Its use value (for survival) is infinitely higher than the diamond's in that context. This illustrates that "value" is not absolute; it depends on context, need, and utility.

## 2. Essential vocabulary

Read the text below and fill in the gaps with the correct words from the box. These words will help you understand the video.

paradox

dehydrated

circumstances

utility

valuable

pioneering

The fact that water, which is essential for life, is cheap while diamonds are incredibly expensive is a famous economic **paradox**. This concept was famously discussed by the **pioneering** economist Adam Smith. To understand it, we must consider that an item's worth is not fixed.

Something that isn't very **valuable** in one situation can become priceless in different **circumstances**. For example, if you are severely **dehydrated**, a bottle of water has immense **utility**, meaning it is incredibly useful and satisfies a critical need.

## 3. Video: The paradox of value explained

Watch the video and answer the questions below.

1. According to the video, what are the two types of value that Adam Smith considered?

He considered **exchange value** (what you could obtain for an item at a later time) and **use value** (how helpful an item is in your current situation).

2. What is "opportunity cost"? How does it apply to the desert scenario?

**Opportunity cost** is what you lose by giving up another choice. In the desert, the opportunity cost of choosing the diamond is your life, because you give up the water you need to survive.

3. How do modern economists try to unify these different ideas of value?

They unify them under the concept of **utility**, which is how well something satisfies a person's wants or needs.

4. Explain the "law of diminishing marginal utility" using an example from the video (or your own).

The **law of diminishing marginal utility** is the principle that the more you have of something, the less satisfaction you get from each additional unit. For example, the first bottle of water in the desert is crucial, but after you have all you need, additional bottles become a burden.

5. What does the video say is the "ultimate source of value"?

The ultimate source of value comes from us: the needs we share, the things we enjoy, and the choices we make.

[Watch the video on YouTube](#)

## 4. Key economic concepts: A deep dive

Match the economic terms from the video with their correct definitions.

1. <b>Exchange value</b> (c)	a. The satisfaction or usefulness a person gets from something.
2. <b>Use value</b> (e)	b. The principle that the more you have of something, the less satisfaction you get from each additional unit.
3. <b>Opportunity cost</b> (d)	c. What an item is worth in terms of what you can trade it for (e.g., money).

4. <b>Utility (a)</b>	d. What you lose by choosing one option over another.
5. <b>Marginal utility (f)</b>	e. How helpful or necessary an item is in a particular situation.
6. <b>Law of diminishing marginal utility (b)</b>	f. The benefit gained from consuming one additional unit of a good or service.

## 5. Grammar focus: Hypothetical situations

To discuss the scenarios in the video, we use the **second conditional**. It describes unreal or hypothetical situations in the present or future.

**Structure:** If + past simple, ... would + base verb.

- "If you **were** in the desert, you **would choose** the water."
- "It **wouldn't matter** how much the diamond was worth if you **never made it out of the desert.**"

Complete the following sentences using the second conditional.

1. If I **won** (win) a million dollars, I **would buy** (buy) a house.
2. What **would you do** (you/do) if you **were** (be) in the desert scenario?
3. The diamond **would be** (be) useless if there **were** (be) no one to sell it to.
4. If water **were** (be) as rare as diamonds, it **would be** (be) incredibly expensive.
5. Most people **would not choose** (not/choose) the diamond if their life **depended** (depend) on the choice.

## 6. Useful phrases for weighing options and value

Study these phrases for discussing value and making choices in different contexts.

### Discussing context:

- "In this specific context/scenario,..."
- "From a purely practical standpoint,..."
- "Under normal circumstances, I would choose..."
- "The value is entirely dependent on the situation."

### Comparing value:

- "On the one hand, X has a high exchange value, but on the other hand, Y has greater use value."
- "There's a clear trade-off between immediate needs and long-term gain."
- "In terms of survival, water is invaluable."
- "The perceived value of... is much higher than its practical utility."

### Considering consequences:

- "The opportunity cost of choosing the diamond would be my life."
- "We have to weigh the potential benefits against the risks."
- "In the long run, the better choice would be..."

## 7. Discussion: Modern paradoxes of value

In small groups, discuss the value of the following items using the concepts and phrases from this lesson. Consider their **use value**, **exchange value**, and **marginal utility**.

**Items for discussion:**

- A university degree
- A smartphone
- Clean air in a polluted city
- An hour of free time
- Social media followers

**Use these questions to guide your discussion:**

1. Which has higher use value vs. exchange value?
2. Does the "law of diminishing marginal utility" apply? How?
3. What is the opportunity cost of acquiring or spending time on this item?
4. If you were in a crisis, how would its value change?

Be prepared to share your group's most interesting conclusions with the class.