Project: Diamond Prices

Step 1: Understanding the Model

Answer the following questions:

1. According to the model, if a diamond is 1 carat heavier than another with the same cut, how much more should I expect to pay? Why?

   A one carat heavier diamond would result in an additional $8143 in price. The formula created by the regression determined that the coefficient for carat is 8,143, so for every increase in the size of carat the price will increase by the amount of the coefficient.

2. If you were interested in a 1.5 carat diamond with a **Very Good** cut (represented by a 3 in the model) and a **VS2** clarity rating (represented by a 5 in the model), how much would the model predict you should pay for it?

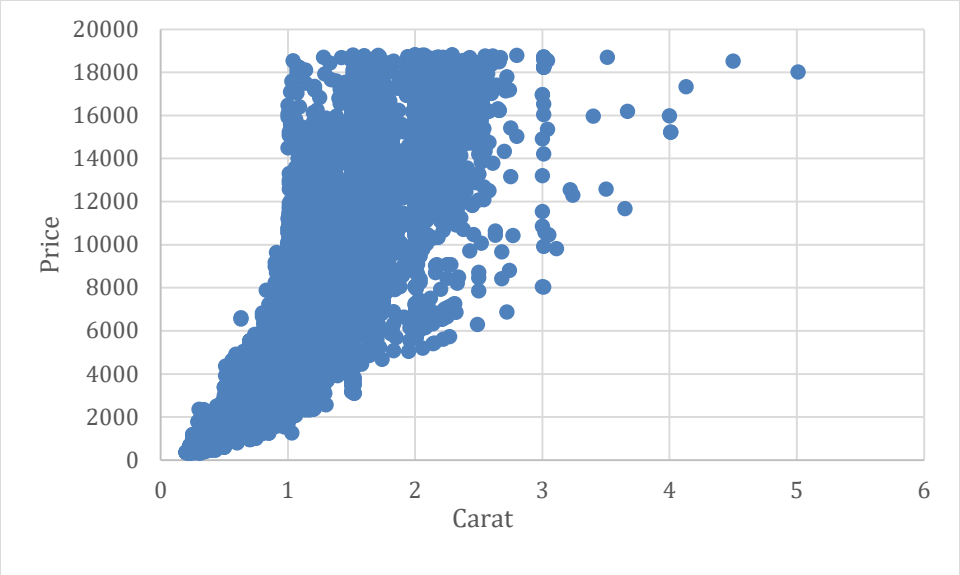
   The formula is Price = -5,269 + 8,413 x Carat + 158.1 x Cut + 454 x Clarity
   - so now we will plug in the values for the different variables.
   - Price = -5269 + 8413 x 1.5 + 158.1 x 3 + 454 x 5
   - Price = 10094.80

Step 2: Visualize the Data

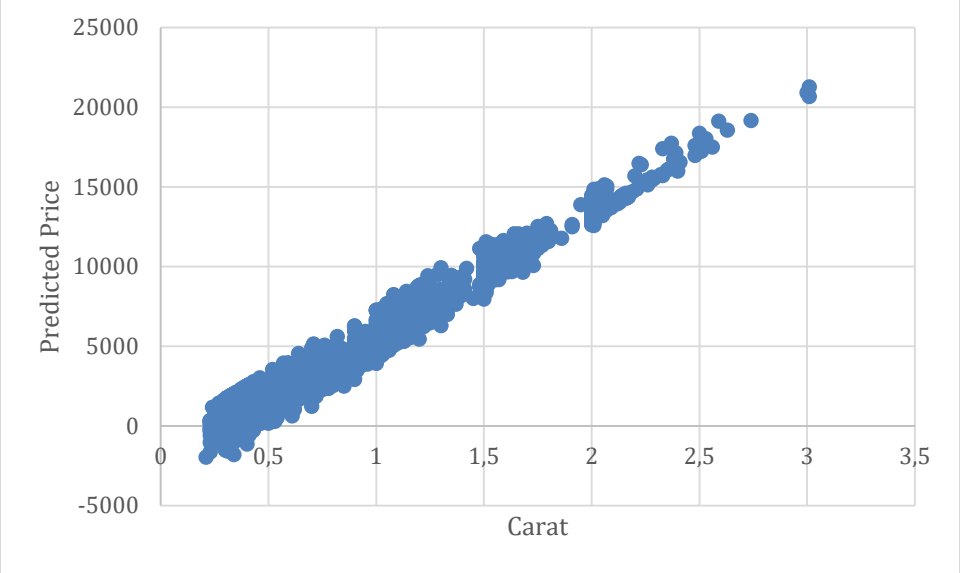
Make sure to plot and include the visualizations in this report. For example, you can create graphs in Excel and copy and paste the graphs into this Word document.

1. Plot 1 - Plot the data for the diamonds in the database, with carat on the x-axis and price on the y-axis.
2. Plot 2 - Plot the data for the diamonds for which you are predicting prices with carat on the x-axis and predicted price on the y-axis.
   - **Note**: You can also plot both sets of data on the same chart in different colors.
3. What strikes you about this comparison? After seeing this plot, do you feel confident in the model's ability to predict prices?

Plot 1: Scatter plot of Carat v Price



Plot 2: Scatter plot of Carat v Predicted Price



Looking at this plots, the model appears on average to predict accurate prices, but it can be very off for certain diamonds. There appears to be some diamonds that are sold for prices below $0, houses with carat less than 0.5. While the formula may not be accurate for individual diamonds, it should do a decent job at predicting the price we should pay for several diamonds at once since it on average looks representative.

Step 3: Make a Recommendation

Answer the following questions:

1. What price do you recommend the jewelry company to bid? Please explain how you arrived at that number.

   I recommend a bid of $8,213,465.93. I arrived at this number by using a formula from the regression model provided that was based on previous diamond prices and applied it to the diamonds that were up for bid. Since the company generally purchases diamonds from distributors at 70% of their prices, I therefore multiplied the predicted amount of 11733522.76 by 0.7 to get the final predicted bid of $8,213,465.93