

# L19: Token Lifecycle Management

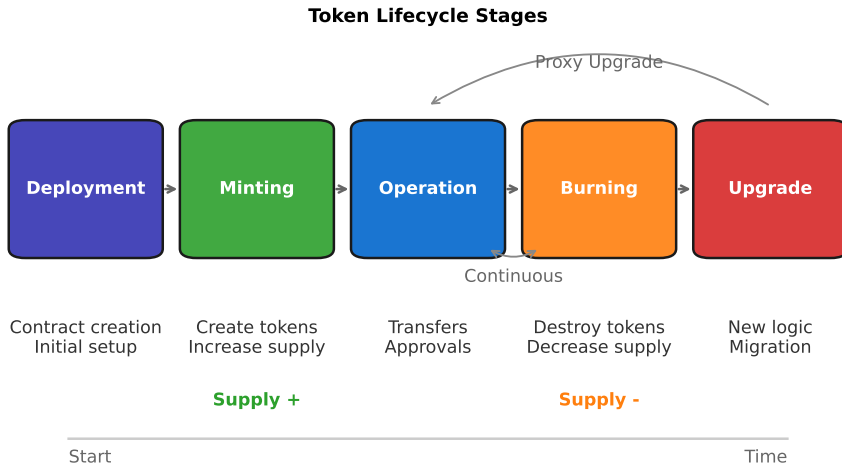
## Module B: Ethereum & Smart Contracts

Blockchain & Cryptocurrency Course

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By the end of this lesson, you will be able to:

- Implement various minting strategies (owner, public, allowlist, merkle tree)
- Design burning mechanisms for deflationary tokenomics
- Use Pausable pattern for emergency circuit breakers
- Apply access control patterns (Ownable, AccessControl, multi-sig)
- Understand upgradeability patterns (Transparent Proxy, UUPS)
- Implement time-locked operations and governance mechanisms



*Tokens progress through deployment, minting, operation, burning, and potential upgrades.*

## Complete lifecycle of a token contract:

- 1 **Deployment:** Contract creation, owner/admin setup, initial distribution
- 2 **Minting:** Creating new tokens (increasing supply), controlled by governance or owner
- 3 **Operation:** Normal transfers, approvals, staking, may include pause capability
- 4 **Burning:** Destroying tokens (decreasing supply), voluntary or forced mechanisms
- 5 **Upgrade/Migration:** Proxy upgrades or token swaps, governance-controlled

# Minting Strategy 1: Owner-Controlled

## Simple admin-based minting:

```
import "@openzeppelin/contracts/token/ERC20/ERC20.sol";
import "@openzeppelin/contracts/access/Ownable.sol";

contract OwnerMintToken is ERC20, Ownable {
    constructor() ERC20("Owner Mint Token", "OMT") {}

    function mint(address to, uint256 amount) public onlyOwner {
        _mint(to, amount);
    }
}
```

**Advantages:** Simple, flexible timing, useful for airdrops and team allocation

**Disadvantages:** Centralized control, risk of unlimited inflation, regulatory concerns

### Anyone can mint up to a maximum supply:

```
contract PublicMintToken is ERC20 {
    uint256 public constant MAX_SUPPLY = 1_000_000 * 10**18;
    uint256 public constant MINT_PRICE = 0.01 ether;
    uint256 public constant MAX_PER_TX = 10 * 10**18;

    function mint(uint256 amount) public payable {
        require(totalSupply() + amount <= MAX_SUPPLY, "Max supply exceeded");
        require(amount <= MAX_PER_TX, "Exceeds max per transaction");
        require(msg.value >= amount * MINT_PRICE / 10**18, "Insufficient payment");
        _mint(msg.sender, amount);
    }
}
```

**Use Cases:** NFT mints, fair launch tokens, crowdfunding

## Gas-efficient allowlist using Merkle proofs:

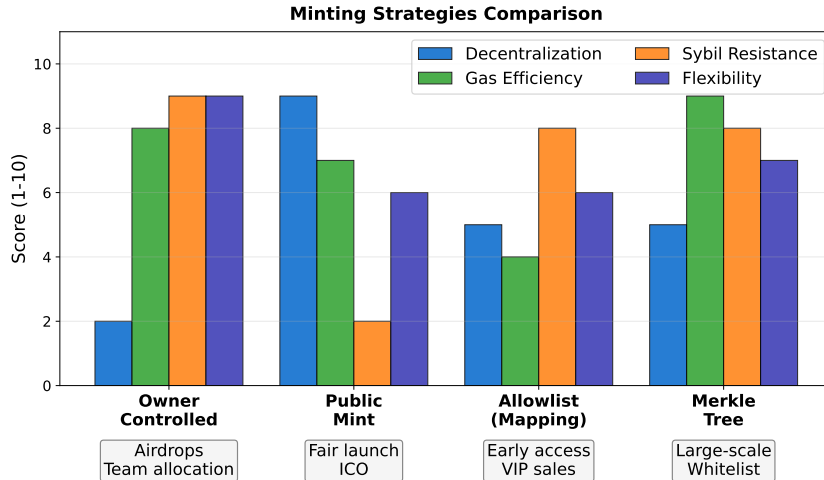
```
import "@openzeppelin/contracts/utils/cryptography/MerkleProof.sol";

contract MerkleMintToken is ERC20 {
    bytes32 public merkleRoot;
    mapping(address => bool) public hasClaimed;

    constructor(bytes32 _merkleRoot) ERC20("Merkle Token", "MTK") {
        merkleRoot = _merkleRoot;
    }

    function claim(uint256 amount, bytes32[] calldata merkleProof) public {
        require(!hasClaimed[msg.sender], "Already claimed");
        bytes32 leaf = keccak256(abi.encodePacked(msg.sender, amount));
        require(MerkleProof.verify(merkleProof, merkleRoot, leaf), "Invalid proof");
        hasClaimed[msg.sender] = true;
        _mint(msg.sender, amount);
    }
}
```

**Advantage:** Store single root hash (32 bytes) instead of entire allowlist



*Merkle tree offers best gas efficiency for large allowlists*



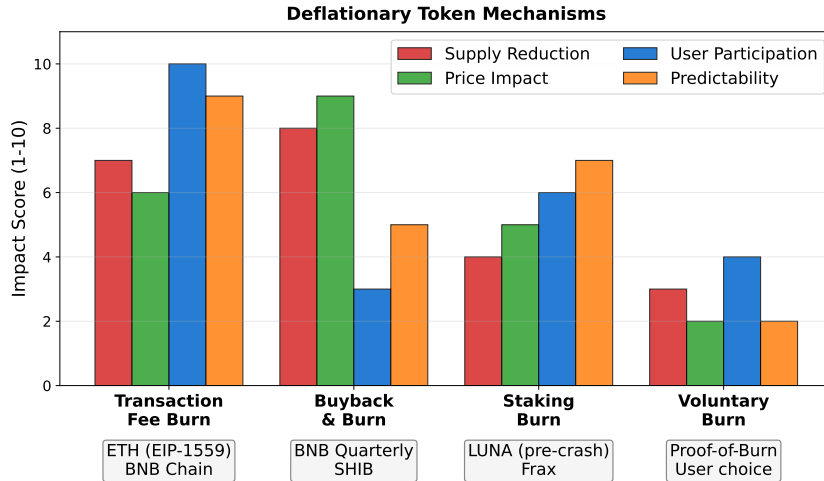
## Destroying tokens to reduce supply:

```
import "@openzeppelin/contracts/token/ERC20/extensions/ERC20Burnable.sol";

contract BurnableToken is ERC20Burnable {
    constructor() ERC20("Burnable Token", "BURN") {
        _mint(msg.sender, 1_000_000 * 10**18);
    }
    // Inherited: burn(uint256 amount) - burns caller's tokens
    // Inherited: burnFrom(address account, uint256 amount) - burns with allowance
}
```

## Burn Strategies:

- **Voluntary:** Users burn their own tokens (e.g., for utility)
- **Fee Burn:** Transaction fees burned automatically (EIP-1559 model)
- **Buyback & Burn:** Protocol buys tokens from market and burns them



*Transaction fee burns are most predictable; buyback has highest price impact*

## Single owner with full control:

```
import "@openzeppelin/contracts/access/Ownable.sol";

contract OwnedToken is ERC20, Ownable {
    constructor() ERC20("Owned Token", "OWN") {}

    function mint(address to, uint256 amount) public onlyOwner {
        _mint(to, amount);
    }

    function renounceOwnership() public override onlyOwner {
        // Irreversibly give up ownership (contract becomes unmanaged)
        super.renounceOwnership();
    }
}
```

**Risk:** Single point of failure (owner key compromise = full control loss)

**Mitigation:** Use multi-sig wallet as owner (Gnosis Safe)

**Require multiple approvals for critical operations:**

**Gnosis Safe Example:**

- 3-of-5 multi-sig: Requires 3 out of 5 owners to approve transaction
- Prevents single key compromise
- Common setup: Deploy token with Gnosis Safe as owner

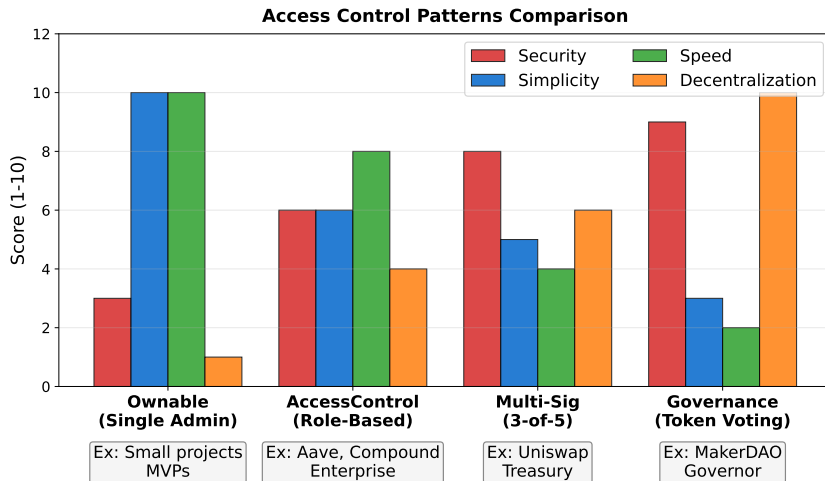
**Workflow:**

- 1 Owner 1 proposes transaction (e.g., `mint(alice, 1000)`)
- 2 Owners 2 and 3 approve transaction
- 3 Transaction executes automatically when threshold reached

**Real-World Usage:**

- Uniswap: 4-of-7 multi-sig controls protocol fees
- Compound: Timelock + multi-sig for governance execution

# Access Control Patterns Comparison



*Multi-sig balances security and speed; governance offers maximum decentralization*

## Motivation for upgradeable contracts:

- Fix critical bugs without redeploying
- Add new features (e.g., staking, governance)
- Comply with changing regulations

## Fundamental Challenge:

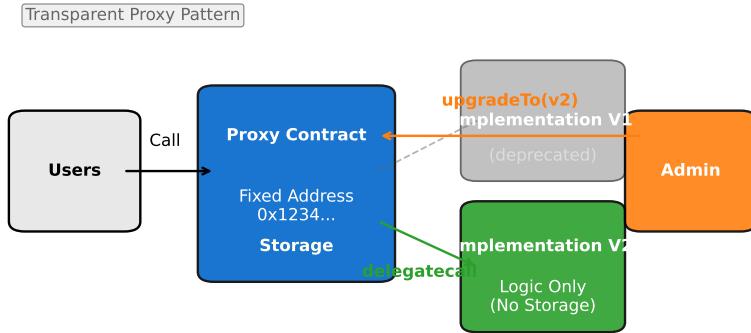
- Smart contracts are immutable after deployment
- Bytecode cannot be changed

## Solution: Proxy Pattern

- **Proxy Contract:** Fixed address, users interact with this
- **Implementation Contract:** Contains logic, can be swapped
- Proxy uses `delegatecall` to execute implementation logic

**Risks:** Admin can rug pull, storage layout collisions, requires trust

## Proxy Upgrade Pattern



**Key: Storage stays in Proxy, Logic can be upgraded**

*Storage stays in proxy; only logic is upgraded via delegatecall*

## Separate admin and user interfaces:

```
// Proxy Contract (deployed once, never changes)
contract TransparentProxy {
    address public implementation;
    address public admin;

    function upgradeTo(address newImplementation) external {
        require(msg.sender == admin, "Not admin");
        implementation = newImplementation;
    }

    fallback() external payable {
        address impl = implementation;
        assembly {
            calldatacopy(0, 0, calldatasize())
            let result := delegatecall(gas(), impl, 0, calldatasize(), 0, 0)
            returndatacopy(0, 0, returndatasize())
            switch result
            case 0 { revert(0, returndatasize()) }
            default { return(0, returndatasize()) }
        }
    }
}
```



- ❶ **Minting Strategies:** Owner-controlled (centralized), public mint (open), Merkle tree (gas-efficient allowlist)
- ❷ **Burning:** Voluntary burn, fee burn, buyback and burn for deflationary tokenomics
- ❸ **Pausable:** Emergency circuit breaker halts transfers during critical bugs
- ❹ **Access Control:** Ownable (single admin), AccessControl (role-based), multi-sig (distributed trust)
- ❺ **Upgradeability:** Transparent Proxy separates storage from logic, enabling upgrades
- ❻ **Timelock:** Delay critical operations to allow community reaction and exit
- ❼ **Governance:** Token-weighted voting enables decentralized control

- ❶ What are the security tradeoffs between Merkle tree allowlists and simple mapping-based allowlists?
- ❷ Should all tokens be pausable, or does this introduce too much centralization risk?
- ❸ How can upgradeable contracts maintain credible neutrality when admins can change the code?
- ❹ What is the optimal timelock delay for different types of governance actions?
- ❺ How do deflationary tokenomics affect long-term protocol sustainability?

### Coming up next (hands-on lab):

- Analyzing USDC and DAI contracts on Etherscan
- Examining token holder distribution and centralization
- Tracking transaction patterns and whale movements
- Identifying upgrade events and governance actions
- Deploying your own ERC-20 token with custom features

### Preparation:

- Review Etherscan contract reading interface
- Familiarize with USDC and DAI token pages
- Prepare Sepolia testnet ETH for deployment