L14: Gas Mechanics

Module B: Ethereum & Smart Contracts

Blockchain & Cryptocurrency Course

December 2025

Learning Objectives

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

- Explain what gas is and why Ethereum uses it
- Calculate transaction costs using gas price and gas limit
- Understand EIP-1559's base fee and priority fee mechanism
- Identify gas costs for different EVM operations
- Apply optimization techniques to reduce gas consumption
- Analyze real-world gas usage patterns

What is Gas?

Gas is a unit of computational effort in Ethereum:

- Measures the cost of executing operations on the EVM
- Prevents infinite loops and spam attacks
- Compensates validators for computation and storage
- Decouples computational cost from ETH price volatility

Key Concepts:

- **Gas:** Abstract unit of work (e.g., 21,000 gas for simple transfer)
- **Gas Price:** Amount of ETH per gas unit (measured in Gwei)
- **Gas Limit:** Maximum gas user is willing to consume
- **Transaction Fee:** Gas Used $\times$ Gas Price (in ETH)

Why Gas Exists

Three Critical Functions:

1. **Prevent Denial-of-Service Attacks:**
   - Without gas, infinite loops could halt the network
   - Attackers would need to pay for computational resources
   - Example: `while(true) {}` would drain attacker's balance
2. **Incentivize Validators:**
   - Validators earn transaction fees for including transactions
   - Higher gas price = higher priority in block inclusion
   - Market-based fee mechanism
3. **Resource Allocation:**
   - Limited block gas limit (e.g., 30,000,000 gas per block)
   - Prioritizes transactions willing to pay more
   - Prevents block bloat

Ether Denominations

Ether units from smallest to largest:

Unit	**Wei Value**	**Typical Use**
Wei	1	Smallest unit (like satoshi)
Kwei (Babbage)	10^3	-
Mwei (Lovelace)	10^6	-
Gwei (Shannon)	10^9	Gas prices
Microether (Szabo)	10^{12}	-
Milliether (Finney)	10^{15}	-
Ether	10^{18}	Main unit

Most Common:

- **Gwei (Gigawei):** Standard unit for gas prices (1 Gwei $= 10^9$ Wei)
- **Ether:** User-facing unit (1 ETH $= 10^{18}$ Wei)

Gas Calculation: Pre-EIP-1559

Legacy Transaction Fee Model (before August 2021):

Formula:

$$\text{Transaction Fee} = \text{Gas Used} \times \text{Gas Price}$$

Example:

- Gas Used: 21,000 (simple ETH transfer)
- Gas Price: 50 Gwei (user-specified)
- Transaction Fee: $21{,}000 \times 50 = 1{,}050{,}000$ Gwei $= 0.00105$ ETH

Challenges:

- Users had to manually estimate gas price
- Overpaying was common to ensure inclusion
- No refund if gas price was too high
- Fee volatility during network congestion

EIP-1559: London Hard Fork (August 2021)

Major overhaul of gas fee mechanism:

Key Changes:

1. **Base Fee:**
   - Algorithmically determined per block
   - Burned (removed from circulation)
   - Adjusts based on network congestion (target 50% full blocks)
2. **Priority Fee (Tip):**
   - User-specified tip to validator
   - Incentivizes block inclusion
   - Goes directly to validator
3. **Max Fee:**
   - Maximum gas price user is willing to pay
   - Refund if actual cost is lower

EIP-1559 Fee Calculation

New Formula:

$$\text{Transaction Fee} = \text{Gas Used} \times (\text{Base Fee} + \text{Priority Fee})$$

With cap:

$$\text{Effective Gas Price} = \min(\text{Base Fee} + \text{Priority Fee}, \text{Max Fee})$$

Example:

- Gas Used: 21,000
- Base Fee: 30 Gwei (set by protocol)
- Priority Fee: 2 Gwei (user tip)
- Max Fee: 50 Gwei (user maximum)
- Effective Gas Price: $\min(30 + 2, 50) = 32$ Gwei
- Transaction Fee: $21{,}000 \times 32 = 672{,}000$ Gwei $= 0.000672$ ETH
- Burned: $21{,}000 \times 30 = 630{,}000$ Gwei
- To Validator: $21{,}000 \times 2 = 42{,}000$ Gwei

Base Fee Adjustment Mechanism

Dynamic base fee targets 50% full blocks:

Algorithm:

- Target gas per block: 15,000,000 (50% of 30M limit)
- If block is more than 50% full: Base fee increases by max 12.5%
- If block is less than 50% full: Base fee decreases by max 12.5%
- Formula: $\text{BaseFee}_{new} = \text{BaseFee}_{old} \times \frac{\text{GasUsed} - \text{GasTarget}}{\text{GasTarget}} \times \frac{1}{8}$

Example:

- Current base fee: 100 Gwei
- Block uses 20M gas (66% full, above target)
- Increase factor: $(20{,}000{,}000 - 15{,}000{,}000)/15{,}000{,}000/8 = 0.0417$
- New base fee: $100 \times (1 + 0.0417) = 104.17$ Gwei

Gas Limit vs Gas Used

Understanding the difference:

Gas Limit:

- Maximum gas transaction may consume
- Set by user before sending transaction
- Acts as safety cap
- If exceeded, transaction reverts
- Unused gas is refunded

Example:

- User sets gas limit: 100,000
- Transaction uses: 65,000
- Refund: 35,000 gas worth of ETH

Gas Used:

- Actual gas consumed by transaction
- Determined by operations executed
- Cannot exceed gas limit
- Used for fee calculation
- Visible on Etherscan

Common Values:

- Simple transfer: 21,000
- ERC-20 transfer: 45,000-65,000
- Complex contract: 100,000-500,000+

Gas Costs by Operation

Every EVM opcode has a fixed gas cost:

Operation	Description	Gas Cost
ADD, SUB, MUL	Arithmetic operations	3
DIV, MOD	Division/modulo	5
EXP	Exponentiation	10 + 50/byte
SHA3 (Keccak-256)	Hash function	30 + 6/word
SLOAD	Load from storage	800 (warm) / 2100 (cold)
SSTORE	Write to storage	20,000 (new) / 5,000 (update)
CALL	External contract call	700 + value transfer costs
CREATE	Deploy contract	32,000 + code size
LOG	Emit event	375 + 375/topic + 8/byte

Most Expensive: Storage operations (SSTORE, SLOAD)
Cheapest: Arithmetic and stack operations

Storage: The Gas Guzzler

Why storage is expensive:

- Persists data across all nodes forever
- Requires disk I/O (slower than RAM)
- State bloat affects all future nodes

Storage Gas Costs (EIP-2929, EIP-2200):

- **SSTORE (set to non-zero from zero):** 20,000 gas
- **SSTORE (update non-zero):** 5,000 gas
- **SSTORE (set to zero):** 5,000 gas + 15,000 refund
- **SLOAD (cold access):** 2,100 gas (first access in transaction)
- **SLOAD (warm access):** 100 gas (subsequent accesses)

Example:

- Storing one 256-bit word (32 bytes): 20,000 gas
- At 30 Gwei base fee + 2 Gwei tip: 0.00064 ETH
- At $2000/ETH: $1.28 to store 32 bytes!

Gas Optimization: Storage Patterns

Inefficient: Multiple SSTOREs

```
contract Inefficient {
    uint256 public value1;
    uint256 public value2;
    uint256 public value3;

    function updateAll(uint256 v1, uint256 v2, uint256 v3) public {
        value1 = v1;  // 20,000 gas (or 5,000 if updating)
        value2 = v2;  // 20,000 gas
        value3 = v3;  // 20,000 gas
    }
    // Total: 60,000 gas for 3 writes
}
```

Efficient: Packed Storage

```
contract Efficient {
    uint256 public packedValues;  // Pack 3 uint85 values in one slot

    function updateAll(uint85 v1, uint85 v2, uint85 v3) public {
        packedValues = uint256(v1) | (uint256(v2) << 85) | (uint256(v3) << 170);
    }
    // Total: 20,000 gas for single write (3x cheaper!)
}
```

Gas Optimization: Memory vs Storage

Use memory for temporary data:

Inefficient: Storage for Temporary Array

```
contract Inefficient {
    uint256[] public tempArray;  // Storage

    function processData(uint256[] calldata input) public {
        delete tempArray;  // Gas refund, but still expensive
        for (uint i = 0; i < input.length; i++) {
            tempArray.push(input[i] * 2);  // SSTORE per iteration
        }
        // ... use tempArray ...
    }
}
```

Efficient: Memory Array

```
contract Efficient {
    function processData(uint256[] calldata input) public {
        uint256[] memory tempArray = new uint256[](input.length);
        for (uint i = 0; i < input.length; i++) {
            tempArray[i] = input[i] * 2;  // Memory write (cheap)
        }
        // ... use tempArray ...
    }
}
```

Gas Optimization: Short-Circuiting

Exploit boolean evaluation order:

Inefficient: Expensive Check First

```
function transfer(address to, uint256 amount) public {
    require(balances[msg.sender] >= amount && to != address(0), "Invalid");
    // If to == address(0), still loads balances[msg.sender] (2100 gas SLOAD)
}
```

Efficient: Cheap Check First

```
function transfer(address to, uint256 amount) public {
    require(to != address(0) && balances[msg.sender] >= amount, "Invalid");
    // If to == address(0), immediately fails (no SLOAD)
}
```

Principle: Place cheaper conditions first in logical AND (&&)
Savings: 2100 gas when early condition fails

Gas Optimization: Event Logs vs Storage

Events are much cheaper than storage:

Storage:

- Accessible on-chain
- 20,000 gas per new slot
- 2,100 gas to read (cold)
- Persistent, queryable
- Required for contract logic

Events:

- Not accessible on-chain
- 375 gas + 375/topic + 8/byte
- Cannot read from contracts
- Stored in logs, queryable off-chain
- Great for historical data

Example:

```
// Store transaction history in events (cheap)
event Transfer(address indexed from, address indexed to, uint256 amount);

function transfer(address to, uint256 amount) public {
    balances[msg.sender] -= amount;
    balances[to] += amount;
    emit Transfer(msg.sender, to, amount);  // ~1500 gas
    // DON'T store in array: transactionHistory.push(...) would be 20,000+ gas
}
```

Gas Refunds

Get partial refunds for freeing storage:

Refundable Actions:

- **SSTORE to zero:** 15,000 gas refund (after paying 5,000 to clear)
- **SELFDESTRUCT:** 24,000 gas refund (contract deletion)

Refund Cap (EIP-3529):

- Maximum refund: 20% of gas used
- Prevents gas token exploitation
- Example: Use 100,000 gas → max refund 20,000 gas

Example:

```
function clearStorage() public {
    delete largeMapping[key1];  // 5,000 gas cost + 15,000 refund
    delete largeMapping[key2];  // 5,000 gas cost + 15,000 refund
    // Gas used: 10,000
    // Potential refund: 30,000 (but capped at 20% = 2,000)
}
```

Real-World Gas Usage Patterns

Typical gas costs on Ethereum mainnet:

Transaction Type	Gas Used
Simple ETH transfer	21,000
ERC-20 token transfer	45,000 - 65,000
Uniswap V2 swap	100,000 - 150,000
Uniswap V3 swap	120,000 - 185,000
NFT mint (ERC-721)	80,000 - 150,000
OpenSea NFT purchase	150,000 - 300,000
Deploy simple contract	200,000 - 500,000
Deploy complex contract (e.g., Uniswap V3)	4,000,000+

At 30 Gwei + 2 Gwei priority fee (32 Gwei total):

- Simple transfer: 0.000672 ETH ($1.34 at $2000/ETH)
- Uniswap swap: 0.004 ETH ($8 at $2000/ETH)
- Complex contract deploy: 0.128 ETH ($256 at $2000/ETH)

Key Takeaways

1. **Gas Purpose:** Prevents spam/DoS, compensates validators, allocates scarce block space
2. **EIP-1559:** Introduced base fee (burned) + priority fee (to validator) for predictable pricing
3. **Base Fee Dynamics:** Adjusts by up to 12.5% per block to target 50% full blocks
4. **Storage is Expensive:** SSTORE costs 20,000 gas (new) or 5,000 gas (update), use sparingly
5. **Optimization Strategies:** Pack storage, use memory for temp data, batch operations, emit events
6. **Real Costs:** Simple transfer costs \$1-2, complex DeFi interactions can cost \$10-50+

Discussion Questions

1. Why does EIP-1559 burn the base fee instead of giving it to validators?
2. If Ethereum's block gas limit is 30M and average block time is 12 seconds, what is the theoretical maximum transactions per second for simple ETH transfers?
3. Under what circumstances might a user set a very high max fee per gas?
4. How do Layer 2 solutions (e.g., Optimism, Arbitrum) reduce gas costs?
5. What are the tradeoffs between storing data on-chain vs using events vs using off-chain storage (IPFS)?

Next Lesson Preview: L15 - Solidity Fundamentals

Coming up next:

- Introduction to Solidity programming language
- Data types: uint, address, string, arrays, mappings
- Functions, visibility modifiers, state mutability
- Events and error handling
- Inheritance and interfaces
- Writing your first smart contract (HelloWorld, Counter)

Preparation:

- Install MetaMask browser extension
- Familiarize yourself with Remix IDE (remix.ethereum.org)
- Review basic programming concepts (if-else, loops, functions)