


Blockchain Primer: The Path of Cardano's ADA Towards Sound Money

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History of Sound Money

The year is 1971 and the then-current US President Richard Nixon is speaking on the television. What followed was a chain of events that would lead to most of the world abandoning its connection to "sound money" - also known as the gold standard - and effectively transitioning into a fiat currency monetary system. Prior to this, a nation's currency was pegged to a nation's gold reserves.

This was not the first time a government had transitioned to fiat currency, as it makes it easier for governments to print and spend endlessly without a trace of financial constraint - usually with catastrophic consequences in the end. Most countries today have eventually found themselves on a similar path, as seen with the dire economic situations in some underdeveloped nations and rising debt levels.

The reason people should care about their government's indebtedness is simple. As the government prints more and more money, the existing currency that is held by its citizens depreciates as the supply of money grows in comparison to available goods. When this reaches an extreme, economists call it hyperinflation and unfortunately many countries have experienced this problem firsthand. Looking back at history, we can see that all paper currencies have eventually returned to their inherent value – zero.

Sound Money – What Is It?

Today, we take for granted that a certain amount of dollars, yen or any other major fiat currency in our pockets will buy us a cup of coffee today as well as tomorrow. Apart from the 2% average yearly depreciation due to targeted “healthy” inflation – this is mainly correct. So, in the short-term, given that a government doesn't go through a currency or debt crisis, there shouldn't be any problem holding one's wealth in government paper or fiat currency. However, because we humans have the ability to think years and decades ahead (as well as reflecting on the history of other fiat currencies), having wealth in sound money is also not a bad idea.

So, what are our sound money options? The traditional choice would certainly be gold and silver, but today we can make the case for cryptocurrencies being sound money.



What are the Characteristics of Sound Money?

The first characteristic of sound money is its finite supply which can usually be found in both precious metals as well as cryptocurrencies. With Cardano for example, there can only ever be a supply of 45 billion ADA, making it finite like minable gold on earth.

Another widely accepted feature of sound money is longevity which means that the asset has the ability to preserve its wealth over time. Because value is partially intersubjective, as long as other people value an asset, it has value. Gold has value to many people because they know that there are countless others who feel the same way, creating liquidity for gold. In fact, a bar of gold can be sold just about anywhere in the world.

The same is currently true for cryptocurrencies such as Cardano's ADA. [1] But comparing the long track record of gold with a short ten year history of cryptocurrencies is akin to comparing apples to oranges.

The reason gold became a medium of exchange was not only its scarcity, but also due to its unique characteristics. [2] Gold not only can keep its appearances unchanged for thousands of years but also has unique use cases thanks to its abilities. In addition to being corrosion resistant, gold is also easy to mold into different shapes for things such as jewelry.

Silver also has many of gold's characteristics as well, but can tarnish over time. However, silver beats gold in its conductivity, being the most conductive metal on earth. We can use these two metals in electronics, aerospace, dentistry and medicine. These abilities give them value, but what about cryptocurrencies?

The Path of Cardano's ADA Towards Sound Money

Unlike gold & silver, cryptocurrencies such as Cardano's ADA are intangible, leading some to the conclusion that they might not have inherent value. However, the value of cryptocurrencies is rather derived from the level of adoption of its blockchain network ecosystem. In this case it is similar to something like the Internet, which also doesn't have any value in and of itself. To have value, the network must be used by many people, similar to the Internet and other popular social networking applications/sites. This network effect is what drives exponential utility to Cardano's ADA.

The long-term vision at EMURGO is to build Cardano into a provably secure decentralized network system with smart contracts, with the first step being full decentralization with the Shelley era. Cardano will be able to offer true value through its network in countless ways as it is the first, third-generation blockchain to evolve out of a research-first driven approach and built with high assurance code and formal methods. This sets it apart from other projects in the space and lends valuable credibility to creating a robust network with a diverse set of ecosystem stakeholders.

Having a truly decentralized cryptocurrency like Cardano's ADA enables ADA holders to hold and control their own wealth without the trust of third parties, whereas smart contracts

give us the ability to create a decentralized infrastructure that vastly outperforms existing platforms in efficiency, accessibility, and interoperability. Individuals and enterprises will be able to build a vast array of projects on top of Cardano, whether it is a digital asset exchange or a supply chain for a coffee producer. This is what gives cryptocurrencies such as Cardano's ADA value and make it sustainable in the long run.

Sources:

[1] <https://www.jmbullion.com/investing-guide/james/gold-silver-history/>

[2] <https://geology.com/minerals/gold/uses-of-gold.shtml>



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EMURGO drives the adoption of Cardano and adds value to ADA holders by building, investing in, and advising projects or organizations that adopt Cardano's decentralized blockchain ecosystem. EMURGO leverages its expertise in blockchain R&D as well as its global network of related blockchain and industry partners to support ventures globally.

EMURGO is the official commercial and venture arm of the Cardano project, headquartered in Singapore, with a presence in Japan, the USA, India, and Indonesia. EMURGO works closely with IOHK and The Cardano Foundation to grow Cardano's ecosystem globally, and promote its adoption. Learn more about the project at <https://emurgo.io>

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