

Economics of Bitcoin and Cryptocurrencies

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The Basics

The
Economics

The Social
Value

1 The Basics

2 The Economics

3 The Social Value

What is Bitcoin?

- peer-to-peer online payment system
- decentralised open system
- open-source

How does Bitcoin Work?

- wallet
- private key
- public address
- signature
- mining
- blockchain

What are the Drawbacks?

- full reliance on the protocol
- reliance on the internet
- hacking: more frequent and more severe

What are the Benefits?

- virtually instant transactions
- no middle men
- highly predictable system (no boom-bust cycles?)

When is Bitcoin useful?

- financial inclusion / empowerment
- remittances
- capital controls

Is Bitcoin Money?

- 1 medium of exchange
- 2 unit of account
- 3 store of value
- 4 standard of deferred payment
- 5 legal tender?!

Is Bitcoin Legal?

- currency vs. financial asset

Denationalized Money: Hayek's Paradise

- no government control
- no inflation
- limited number -> information asymmetry -> market failure
- situation on international currency competition (David D. Howard)
- Has the Government a Role in Money? (list of good reasons, Friedman & Schwartz, 1985)

Cryptocurrencies and Inflation

- not within a cryptocoin, but through plurality

Free banking

- similar?

Is Mining Socially Wasteful?

- compared to what? paper money? coins? gold?
- what happens to the costs?

Proof of Stake

- inflation or not