**Purpose of Smart Contracts:**

**The Essence of Blockchain and Smart Contracts:**

Almost every interaction or transaction in our lives involves some form of agreement or contract. For instance, purchasing a chair involves a contract to buy lumber, assemble it, and sell the finished product. Your electricity supply is also based on an agreement between you and the electric company. When you get an oil change for your car, you’re promised a service in exchange for money.

Almost everything we do in modern life relates to an agreement or contract in some way.

To make it more relatable, think of contracts and agreements as promises. Traditional contracts, however, require trust between parties, and this doesn’t always work in favor of honesty and fairness.

**The Problem with Traditional Agreements:**

Lets consider some real world examples of where trust leverages agreements can go wrong and why blockchain technology and smart contracts mitigates these risks.

**Consumer Trust:**

In the 80s and 90s, McDonald’s Monopoly game promised customers a chance to win money through game cards obtained with purchases. However, it turned out that the game was rigged by insiders who manipulated the system for their gain. Essentially, McDonald’s failed to keep its promise.

This example demonstrates that relying on trust within agreements can lead to fraudulent activities and broken promises.

With smart contracts, we can eliminate the need for trust. A smart contract is an agreement or a set of instructions that are deployed on a decentralized blockchain. Once deployed, it cannot be altered, it automatically executes, and everyone can see its terms.

Imagine if McDonald’s Monopoly game was operated on a blockchain through a smart contract. The fraudulent activities would have been impossible due to the immutable, decentralized, and transparent.

**Banking and Trust:**

Traditional banks have sometimes failed to keep the promise of safeguarding people’s money, as seen during the Great Depression. Blockchain and smart contracts can ensure transparency and execute automated solvency checks, preventing the bank from becoming insolvent.

The core of blockchain and smart contracts lies in creating a trustless system where agreements are transparent, unchangeable, and executed without human intervention. This technology holds the potential to revolutionize industries and everyday agreements by ensuring honesty and fairness.

**Financial Markets Access:**

Centralized bodies, like traditional exchanges, have the power to restrict access to financial markets. This was evident when Robinhood restricted trading on certain assets in 2021. With decentralized exchanges like Uniswap, there is no central authority that can alter or limit market access. This introduces fairness and openness to the financial markets.

**To Summarize:**

1. Traditional Agreements: Require trust in a centralized entity.

2. Smart Contracts: Transparent, decentralized, and tamper-proof.

In a scenario where you have to choose, smart contracts are an obvious choice as they cannot be manipulated or altered in anyone’s favor.

Smart contracts are the solution to minimizing the reliance on trust based systems that have historically failed us time and time again.

**Under the Hood:**

Smart contracts are relatively new, but have already started transforming various markets. They do this by representing ‘promises’ as code on the blockchain. This code is executed by a decentralized collective, such that no single entity can alter the agreement in any way! The agreement and it’s terms are public knowledge and will automatically execute without human intervention.

More industries are adopting smart contracts and blockchain due to the numerous advantages they offer. This results in trust-minimized agreements or what can be simply termed as unbreakable promises.

**Beyond Trust Minimization:**

It is important to note that blockchain, smart contracts, and cryptocurrencies are not just about trust-minimized agreements. They offer security benefits, uptime advantages, execution speed, and much more.

**Caution: Not All Are Equal:**

However, beware of platforms that claim to be decentralized but are not in practice. An example from 2022 is the `SBF’s FTX platform`. It presented itself as a Web3 platform, but was essentially a traditional Web2 company using cryptocurrency without the benefits of smart contracts.

As an emerging developer or user in this space, it’s important to discern between legitimate projects and those that aren’t contributing to the ethos of Web3. I want you to be successful, but I want you to be successful because you’re creating value. Platforms like `FTX` were pretending to bring value to the space and leeching value from it.

**Wrap Up:**

What we’ve learnt is that traditional contracts or agreements between parties are almost always trust based. Trust based agreements come with inherent flaws and the potential of broken agreements, the conseequences of which we’ve seen throughout history – The Great Depression, Monopoly Lottery, Robin Hood etc.

Blockchain technology and smart contracts solve these problems by introducing fairness, transparency and immutability to promises. These attributes of smart contracts assure that trust isn’t required and we can be certain that an agreement will be executed as described 100% of the time.

Lastly, it’s important to note that there are several actors, such as `FTX` which \_pretend\_ to embody the ideologies of Web3, but are really centralized entities looking to extract value from the system, be aware of these.