As we move onto this lecture I want to start discussing more about what gives cryptocurrencies value, which naturally means discussing token economics with you. It’s simply the layer which sits perfectly upon cryptoeconomics in this ecosystem. Albeit, they are different not the same just so you’re aware.

Token economics concerns itself with essentially the economy of tokens in the ecosystem; cryptocurrencies, initial coin offerings, security token offerings and so on.

When we talk about cryptoeconomics we are referring to the structure of incentives embedded to ensure the creation, transaction, and overall validation of a cryptocurrency is successful. In the case of Bitcoin, the cryptoeconomics of this is crafted in a way which ensures miners have an incentive to mine even once all coins have been created.

Whereas if we flip this and look at tokennomics we would just focus on the layer above the token, so the application of it. Therefore ensuring the token in question can and is used within its ecosystem as intended. So from that you can gather how cryptoeconomics and tokenomics differ, yet have similarities in many ways as well. Let's dive deeper into tokenomics now!

So to begin with tokenomics doesn’t have one clear definition as it’s such a new area, if you speak to three different people I’m sure all three would give you a different definition. Therefore in this part of the guide, we’re going to explain each aspect of tokenomics.

1. Purpose Of Token

In the very initial stages of the whole ICO boom projects were raising millions of dollars with no actual product to show for it, but even in this short space of time the landscape has changed. People who pre-purchase tokens i.e. invest, want to know the use for it.

2. Utility Of Your Token

When the first step is clear with the purpose of your token, this point links in perfectly which is all about the utility of your token. The token of a project needs to be clearly defined in regards to its use; when will it be used, how will it be used, who will use it and so on.

Even if you go to great lengths to define the utility, people may not use it if the demand to use it isn’t strong enough. If that happens you’ll then have a large amount of speculators holding your coin in the hopes it increases in value, and the utilisation will suffer hurting adoption.

3. Function Of Your Token

Many believe the only use case for crypto’s is money famously due to Bitcoin, but there is a vast amount of uses available for crypto’s. Whether that is security tokens, voting rights, micro payments and much more. However in order for this to succeed, the tokenomics must be thoroughly studied beforehand to ensure it suits the use case.

4. Distribution Of Tokens

Due to the way many projects approach ICOs (basically as a cash cow), they tend to ruin the distribution of their tokens from the get go devaluing their project.

So many projects ignore this aspect as they don’t truly understand tokenomics. Much more thought should go into this such as; when will tokens be put into circulation, how many tokens will be initially released, how does distribution of tokens impact utilisation and so on.

Remember that fiat currencies aren’t capped in their supply and released at once, tokens should look at this as an example when exploring the tokenomic theory for their project.

5. Value Of Tokens

This is the sole thing most projects tend to focus on, rather than everything surrounding it. Now in a traditional offering placing a value upon shares is pretty straightforward, as there’s an underlying value there which can be assessed.

However in the crypto world things aren’t so straightforward. A lot of the value comes from the intangibles rather than tangibles such as; how good the team is, past successes etc.

Now if we dive deeper and discuss the valuation of cryptoassets, this is where it gets a little tricky! In a traditional market it’s far easier as there are costs, revenues, profits, losses and so much more. But how is it managed in the crypto-markets? Well let me share the three fundamentals which can help you place value upon cryptoassets.

1. Scarcity

The general rule of thumb is that the cryptocurrencies which are restricted in their creation (basically those which are capped) tend to achieve higher values. As is the case with Bitcoin, in essence there is a race for accumulation with Bitcoin to own as many as you can. So scarcity tends to equal higher values, as it does with any other scarce goods like gold.

2. Demand

Now this point of scarcity may contradict the last point, and it’s about how much demand the coin actually has which can impact the value positively or negatively. In the case of Ethereum it would be positive, as the Ethereum blockchain is generally the blockchain of choice for ICO’s. It’s this demand which is helping to increase the value of Ether drastically.

3. Purpose

This plays a huge role in the value of tokens, there has to be a purpose in order for the token to attain any value. Now purpose is pretty subjective, as what you may find a worthy purpose others may not. But many tokens are built with niches in mind as an example; Monero is created for the privacy conscious. So when investing in ICOs it’s important to be aware of this!

These are the three fundamental factors that must be analysed when fundamentally assessing a coins valuation.

We hope you found that lecture insightful, and now understand how values are placed upon cryptoassets. We’ll see you in our next lecture which is all about the economic impact of altcoins.