

# Dynamic Contribution Scoring: A Formal Model for Incentive Mechanisms in Decentralized Systems

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## Abstract

Incentive mechanisms play a pivotal role in the functionality and sustainability of decentralized systems, where participants contribute to various activities such as governance, staking, transaction processing, and referrals. Designing effective incentive structures that align individual motivations with collective goals remains a key challenge in decentralized ecosystems. This paper introduces the *Dynamic Contribution Score (DCS)*, a comprehensive mathematical framework for systematically evaluating participant contributions and penalties across diverse dimensions of activity. The DCS framework is defined as a linear functional over activity vectors, employing advanced tools from linear algebra, optimization theory, and game theory to ensure robust theoretical foundations.

Key properties of the DCS model, including linearity, monotonicity, and penalty dominance, are rigorously formalized and proven, ensuring that the framework aligns incentives effectively with desired system objectives. The paper also explores significant extensions to the model, such as the incorporation of time-dependent weights, stochastic systems, and non-linear dynamics, enabling its adaptability to complex and evolving decentralized environments. These extensions ensure that the framework can accommodate dynamic priorities and behaviors within the system.

The proposed DCS framework is situated within the broader context of incentive mechanisms commonly utilized in blockchain systems. By addressing the limitations of traditional scoring and reward schemes, this framework highlights its potential to design more equitable, transparent, and resilient incentive structures. The findings of this research contribute to the development of decentralized systems that are not only mathematically sound but also practically relevant, supporting their long-term growth and stability.

## 1 Introduction

In decentralized systems, incentivizing participants to act in ways that promote overall system health is a core challenge. Mechanisms such as staking, governance participation, transaction processing, and referrals reward participants for their contributions. Simultaneously,

penalties discourage malicious or counterproductive behaviors. Designing incentive schemes that balance these competing objectives is a critical problem in fields such as blockchain technology, cryptoeconomics, and mechanism design.

This paper introduces a novel scoring framework, the *Dynamic Contribution Score (DCS)*, which evaluates participant contributions and penalties using a mathematically rigorous, linear model. The DCS formula is defined as:

$$\text{DCS}(t) = \alpha \cdot Tx(t) + \beta \cdot Stake(t) + \gamma \cdot Gov(t) + \delta \cdot Referral(t) - \epsilon \cdot Penalty(t),$$

where  $Tx(t)$ ,  $Stake(t)$ ,  $Gov(t)$ ,  $Referral(t)$ , and  $Penalty(t)$  represent time-dependent participant activities, and  $\alpha, \beta, \gamma, \delta, \epsilon > 0$  are weights reflecting the relative importance of each component.

This framework extends beyond traditional reward mechanisms by providing a structured, flexible, and extensible mathematical model. Key properties of the DCS formula, such as linearity, monotonicity, and penalty dominance, ensure that it aligns incentives effectively. Extensions to the model allow for time-varying weights, stochastic contributions, and strategic participant behavior.

## 1.1 Motivation and Context

Decentralized systems, particularly blockchain-based platforms, rely on participant behavior to maintain functionality and security. Examples include:

- **Proof-of-Stake (PoS) systems:** Participants are rewarded based on the amount of cryptocurrency staked, ensuring security and consensus.
- **Governance participation:** Voting systems encourage stakeholders to actively contribute to decision-making processes.
- **Referral systems:** Incentivizing user growth through rewards for participant referrals.

While many existing mechanisms focus on specific aspects of contribution or penalty structures, they often lack a unified framework for analyzing and optimizing incentives holistically. This paper addresses this gap by introducing the DCS as a general-purpose scoring mechanism.

## 1.2 Contributions of the Paper

This paper makes the following contributions:

1. **Formal Model:** The DCS is presented as a linear functional over a vector space of participant activities. This abstraction facilitates rigorous mathematical analysis and lays the foundation for extensions.
2. **Theoretical Insights:** Properties such as linearity, monotonicity, and penalty dominance are formally proved, ensuring that the model aligns participant incentives with system goals.

3. **Extensions:** The paper explores advanced variations of the model, including time-dependent weights, stochastic dynamics, and strategic behavior.
4. **Comparative Analysis:** The DCS framework is situated within the broader literature on incentive mechanisms, highlighting its advantages and potential applications in blockchain systems.

### 1.3 Structure of the Paper

The remainder of this paper is organized as follows:

- **Section 2:** Reviews related work on incentive mechanisms and mathematical foundations.
- **Section 3:** Formalizes the DCS framework using linear algebra and optimization theory.
- **Section 4:** Presents rigorous proofs of key properties and explores advanced extensions.
- **Section 5:** Discusses practical implications and potential applications in decentralized systems.
- **Section 6:** Concludes with a summary of findings and directions for future research.

## 2 Related Work

Incentive mechanisms are a cornerstone of decentralized systems, ensuring that participant actions align with system objectives. This section reviews prior work in incentive design, highlighting contributions in cryptoeconomics, mechanism design, and mathematical frameworks for scoring and rewards.

### 2.1 Incentive Mechanisms in Decentralized Systems

The success of blockchain and decentralized platforms relies heavily on well-designed incentive structures. Key examples include:

**Proof-of-Stake (PoS) Consensus:** PoS protocols [9, 5] incentivize participants to lock a portion of their cryptocurrency holdings (stake) in exchange for rewards. The reward distribution is typically proportional to the stake, ensuring that participants have a vested interest in network security. However, simplistic reward formulas may lead to centralization or diminish small-stake participation [2].

**Governance Models:** Blockchain-based governance systems [12, 6] encourage stakeholders to vote on critical decisions. Incentive structures often include governance tokens, which grant proportional voting power. Ensuring active participation while avoiding collusion or apathy remains a key challenge.

**Referral and Growth Incentives:** Referral mechanisms, as implemented in platforms like Brave [3] and Helium [4], reward users for onboarding new participants. While these mechanisms drive adoption, they often lack mechanisms to discourage fraudulent referrals, a problem addressed by incorporating penalties into scoring systems.

These mechanisms demonstrate the necessity of balancing positive contributions with penalties to achieve sustainable participation.

## 2.2 Mathematical Foundations of Incentive Mechanisms

Incentive mechanisms often rely on mathematical tools for design and analysis:

**Mechanism Design:** As a subfield of game theory, mechanism design focuses on creating systems where participants, acting in their self-interest, achieve socially desirable outcomes [7]. Key concepts include incentive compatibility and individual rationality. The DCS framework borrows from these principles, ensuring alignment between participant contributions and system rewards.

**Scoring Functions and Reward Models:** Scoring systems have been used to evaluate performance and distribute rewards in various settings, including reputation systems [10] and decentralized finance (DeFi) platforms [11]. Linear scoring models are particularly popular due to their simplicity and interpretability. The DCS extends this tradition by incorporating penalties directly into the scoring function.

**Optimization and Equilibrium Analysis:** Optimization techniques are central to designing scoring models that maximize participant utility while minimizing system costs [1]. In decentralized systems, equilibrium analysis ensures that no participant can improve their outcome unilaterally, a property crucial for stability [8].

## 2.3 Comparative Analysis and Positioning of DCS

Compared to existing models, the Dynamic Contribution Score (DCS) framework provides several advantages:

- **Unified Framework:** While existing systems often focus on specific contributions (e.g., staking or referrals), DCS integrates multiple components into a single scoring mechanism.
- **Incorporation of Penalties:** Many reward systems overlook the role of penalties in discouraging undesirable behavior. By explicitly subtracting penalties, DCS ensures fairness and accountability.
- **Extensibility:** The linear structure of DCS serves as a foundation for extensions, including time-varying weights, stochastic dynamics, and strategic behavior modeling.

The DCS framework builds on insights from cryptoeconomics, game theory, and optimization, offering a versatile tool for designing incentive mechanisms in decentralized systems. In the next section, we formalize the DCS model, providing a rigorous mathematical foundation.

### 3 Formal Model

In this section, we formalize the Dynamic Contribution Score (DCS) within the context of a blockchain network. The DCS serves as a scoring mechanism to evaluate participant contributions and penalties, providing incentives for desirable behavior while disincentivizing malicious or negligent actions. We define the mathematical framework, assumptions, and key properties of the model.

#### 3.1 Definitions and Assumptions

Let the vector of participant activities and penalties at time  $t$  be:

$$\mathbf{x}(t) = \begin{bmatrix} Tx(t) \\ Stake(t) \\ Gov(t) \\ Referral(t) \\ Penalty(t) \end{bmatrix} \in \mathbb{R}^5,$$

where:

- $Tx(t)$ : The number or value of transactions validated by the participant.
- $Stake(t)$ : The amount of tokens staked in the network.
- $Gov(t)$ : The level of governance participation (e.g., votes cast or proposals submitted).
- $Referral(t)$ : The number of new participants referred to the network.
- $Penalty(t)$ : The penalties incurred due to violations of protocol rules.

The associated weight vector is:

$$\mathbf{w} = \begin{bmatrix} \alpha \\ \beta \\ \gamma \\ \delta \\ -\epsilon \end{bmatrix} \in \mathbb{R}^5,$$

where  $\alpha, \beta, \gamma, \delta, \epsilon > 0$  are policy parameters determined by the blockchain protocol to reflect the relative importance of each activity. The Dynamic Contribution Score is then defined as:

$$DCS(t) = \mathbf{w}^\top \mathbf{x}(t) = \alpha \cdot Tx(t) + \beta \cdot Stake(t) + \gamma \cdot Gov(t) + \delta \cdot Referral(t) - \epsilon \cdot Penalty(t).$$

### 3.2 Key Properties of the DCS

**3.2.1 Linearity of the DCS Formula** **Claim:** The DCS formula is linear with respect to  $\mathbf{x}(t)$ .

**Proof:** The DCS is expressed as the inner product of two vectors:

$$DCS(t) = \mathbf{w}^\top \mathbf{x}(t).$$

Linear transformations preserve additivity and homogeneity. For any  $\mathbf{x}_1, \mathbf{x}_2 \in \mathbb{R}^5$  and scalar  $c \in \mathbb{R}$ :

$$\begin{aligned} \mathbf{w}^\top (\mathbf{x}_1 + \mathbf{x}_2) &= \mathbf{w}^\top \mathbf{x}_1 + \mathbf{w}^\top \mathbf{x}_2, \\ \mathbf{w}^\top (c\mathbf{x}_1) &= c \cdot \mathbf{w}^\top \mathbf{x}_1. \end{aligned}$$

Thus,  $DCS(t)$  is a linear functional. This ensures that contributions and penalties scale predictably under addition or scalar multiplication, making the scoring mechanism interpretable and transparent.

**3.2.2 Incentive Alignment for Positive Contributions** **Claim:** Increasing positively weighted blockchain activities—such as  $Tx(t)$ ,  $Stake(t)$ ,  $Gov(t)$ , or  $Referral(t)$ —strictly increases  $DCS(t)$ .

**Proof:** Since  $\alpha, \beta, \gamma, \delta > 0$ , the partial derivatives of  $DCS(t)$  with respect to these components are:

$$\begin{aligned} \frac{\partial DCS}{\partial Tx(t)} &= \alpha > 0, & \frac{\partial DCS}{\partial Stake(t)} &= \beta > 0, \\ \frac{\partial DCS}{\partial Gov(t)} &= \gamma > 0, & \frac{\partial DCS}{\partial Referral(t)} &= \delta > 0. \end{aligned}$$

Hence, any increase in these activities results in a positive change in  $DCS(t)$ . For example, increasing  $Tx(t)$  by  $\Delta Tx > 0$  yields:

$$\Delta DCS = \alpha \cdot \Delta Tx > 0.$$

This ensures that participants are economically incentivized to engage in actions beneficial to the network.

**3.2.3 Penalty Application for Negative Contributions** **Claim:** Penalties reduce  $DCS(t)$ , ensuring misbehavior is economically costly.

**Proof:** For the penalty component, we have:

$$\frac{\partial DCS}{\partial Penalty(t)} = -\epsilon < 0.$$

Thus, any increase in  $Penalty(t)$  decreases the overall score. For a penalty increment  $\Delta Penalty(t) > 0$ :

$$\Delta DCS = -\epsilon \cdot \Delta Penalty(t) < 0.$$

This mechanism enforces accountability and aligns participant behavior with the protocol's rules.

**3.2.4 Balancing Contributions and Penalties** **Claim:** Sufficiently large penalties can outweigh positive contributions, ensuring fairness and security.

**Proof:** The DCS is given by:

$$DCS(t) = \alpha \cdot Tx(t) + \beta \cdot Stake(t) + \gamma \cdot Gov(t) + \delta \cdot Referral(t) - \epsilon \cdot Penalty(t).$$

If penalties become sufficiently large, the negative term dominates:

$$\epsilon \cdot Penalty(t) > \alpha \cdot Tx(t) + \beta \cdot Stake(t) + \gamma \cdot Gov(t) + \delta \cdot Referral(t).$$

This ensures that no amount of prior positive contributions can compensate for severe violations, maintaining network integrity.

### 3.3 Incentive Optimization

Participants maximize their  $DCS(t)$  by increasing positively weighted actions ( $Tx, Stake, Gov, Referral$ ) and avoiding penalties ( $Penalty(t)$ ). Formally, the optimization problem is:

$$\max_{\mathbf{x}(t)} \mathbf{w}^\top \mathbf{x}(t),$$

subject to network constraints. This ensures that the scoring mechanism aligns participant incentives with the network's long-term goals.

## 4 Results

In this section, we present rigorous results based on the formalization of the Dynamic Contribution Score (DCS). We prove key properties, introduce advanced extensions, and analyze their implications for decentralized systems.

### 4.1 Theoretical Results

**4.1.1 Theorem 1: Linearity of the DCS Formula** **Theorem 1.** The DCS formula is a linear functional over the vector of participant activities and penalties:

$$DCS(t) = \mathbf{w}^\top \mathbf{x}(t).$$

**Proof.** By definition:

$$DCS(t) = \alpha \cdot Tx(t) + \beta \cdot Stake(t) + \gamma \cdot Gov(t) + \delta \cdot Referral(t) - \epsilon \cdot Penalty(t).$$

Rewriting in vector form:

$$DCS(t) = \mathbf{w}^\top \mathbf{x}(t),$$

where:

$$\mathbf{w} = [\alpha \quad \beta \quad \gamma \quad \delta \quad -\epsilon]^\top, \quad \mathbf{x}(t) = [Tx(t) \quad Stake(t) \quad Gov(t) \quad Referral(t) \quad Penalty(t)]^\top.$$

Linearity follows directly from the properties of inner products:

$$\mathbf{w}^\top (\mathbf{x}_1 + \mathbf{x}_2) = \mathbf{w}^\top \mathbf{x}_1 + \mathbf{w}^\top \mathbf{x}_2,$$

$$\mathbf{w}^\top (c\mathbf{x}) = c(\mathbf{w}^\top \mathbf{x}), \quad \forall c \in \mathbb{R}.$$

This completes the proof. □

**4.1.2 Theorem 2: Incentive Alignment for Positive Contributions** **Theorem 2.**  $DCS(t)$  strictly increases when any positively weighted activity ( $Tx$ ,  $Stake$ ,  $Gov$ ,  $Referral$ ) increases, assuming penalties remain constant.

**Proof.** Let  $\mathbf{w} = [\alpha, \beta, \gamma, \delta, -\epsilon]^\top$ , where  $\alpha, \beta, \gamma, \delta > 0$  and  $-\epsilon < 0$ . The partial derivatives of  $DCS(t)$  with respect to each activity are:

$$\begin{aligned} \frac{\partial DCS}{\partial Tx(t)} &= \alpha > 0, & \frac{\partial DCS}{\partial Stake(t)} &= \beta > 0, \\ \frac{\partial DCS}{\partial Gov(t)} &= \gamma > 0, & \frac{\partial DCS}{\partial Referral(t)} &= \delta > 0. \end{aligned}$$

Thus, an increase in any positively weighted activity strictly increases  $DCS(t)$ .  $\square$

**4.1.3 Theorem 3: Penalty Dominance** **Theorem 3.** For sufficiently large penalties,  $DCS(t) < 0$ , regardless of positive contributions.

**Proof.** The DCS formula is:

$$DCS(t) = \alpha \cdot Tx(t) + \beta \cdot Stake(t) + \gamma \cdot Gov(t) + \delta \cdot Referral(t) - \epsilon \cdot Penalty(t).$$

Assume that positive contributions are bounded by a constant  $M > 0$ , such that:

$$\alpha \cdot Tx(t) + \beta \cdot Stake(t) + \gamma \cdot Gov(t) + \delta \cdot Referral(t) \leq M.$$

If  $\epsilon \cdot Penalty(t) > M$ , then:

$$DCS(t) = M - \epsilon \cdot Penalty(t) < 0.$$

This ensures that penalties can dominate positive contributions if large enough.  $\square$

**4.1.4 Corollary: Optimal Strategy for Maximizing DCS** **Corollary.** Participants maximize  $DCS(t)$  by increasing  $Tx(t)$ ,  $Stake(t)$ ,  $Gov(t)$ , and  $Referral(t)$  while minimizing  $Penalty(t)$ .

**Proof.** The optimization problem is:

$$\max_{\mathbf{x}(t)} DCS(t) = \mathbf{w}^\top \mathbf{x}(t).$$

Since  $\alpha, \beta, \gamma, \delta > 0$  and  $-\epsilon < 0$ , the gradient points in the direction of increasing  $Tx$ ,  $Stake$ ,  $Gov$ ,  $Referral$  and decreasing  $Penalty$ . Participants maximize their score by aligning with these gradients.  $\square$

## 4.2 Extensions to the Model

**4.2.1 Time-Dependent Weights** In practice, the importance of each activity may vary over time. Let the weight vector be time-dependent:

$$\mathbf{w}(t) = \begin{bmatrix} \alpha(t) \\ \beta(t) \\ \gamma(t) \\ \delta(t) \\ -\epsilon(t) \end{bmatrix}.$$



The DCS becomes:

$$DCS(t) = \mathbf{w}(t)^\top \mathbf{x}(t).$$

**Implications:** 1. Time-dependent weights can prioritize certain activities at different stages of the network (e.g., incentivizing referrals during initial growth phases or governance participation during upgrades). 2. The scoring function can adapt dynamically to reflect evolving protocol goals.

*4.2.2 Stochastic Dynamics* Consider  $\mathbf{x}(t)$  as a stochastic process to model uncertainty in participant behavior. Let  $\mathbf{x}(t)$  have a probability distribution  $P(\mathbf{x})$ . The expected DCS is:

$$\mathbb{E}[DCS(t)] = \mathbb{E}[\mathbf{w}^\top \mathbf{x}(t)] = \mathbf{w}^\top \mathbb{E}[\mathbf{x}(t)].$$

**Implications:** 1. Stochastic modeling captures real-world unpredictability (e.g., validator downtime, variable governance activity). 2. Risk-aware policies can be designed using the variance of  $DCS(t)$ :

$$\text{Var}[DCS(t)] = \mathbf{w}^\top \text{Cov}(\mathbf{x}(t)) \mathbf{w}.$$

*4.2.3 Non-Linear Modifications* In some cases, activities may exhibit diminishing returns or synergies. The DCS can be extended to a quadratic form:

$$DCS(t) = \mathbf{w}^\top \mathbf{x}(t) + \mathbf{x}(t)^\top Q \mathbf{x}(t),$$

where  $Q \in \mathbb{R}^{5 \times 5}$  encodes non-linear interactions (e.g., penalties that increase quadratically with severity).

**Implications:** 1. Synergies between activities (e.g., governance and staking) can be explicitly modeled. 2. Non-linear penalties impose harsher consequences for severe violations.

### 4.3 Empirical Validation and Simulations

Simulation studies can evaluate the behavior of  $DCS(t)$  under different parameter settings and participant strategies. Key questions include:

- How do participants adapt their strategies to maximize  $DCS(t)$ ?
- How do time-dependent weights affect network dynamics over time?
- What is the impact of stochastic penalties on participant reliability?

Future work will implement simulations on blockchain testnets to validate these theoretical insights.

## 5 Discussion

The Dynamic Contribution Score (DCS) framework offers a mathematically rigorous and versatile approach to designing incentive mechanisms in decentralized systems. By framing participant contributions and penalties as a linear functional, the model provides transparency, predictability, and adaptability. This section explores the broader implications, potential limitations, and avenues for future work.

## 5.1 Implications for Blockchain Networks

The DCS framework directly addresses several challenges in blockchain-based incentive design:

**Transparency and Predictability:** The linear structure of the DCS formula ensures that participants can easily understand how their actions affect their score. This transparency promotes trust and encourages rational behavior, aligning individual incentives with network goals.

**Flexibility and Extensibility:** The DCS model can be adapted to various use cases by adjusting the weights  $\alpha, \beta, \gamma, \delta, \epsilon$ . For example:

- Early-stage networks may prioritize growth, assigning higher weights to *Referral*( $t$ ).
- Mature networks may emphasize governance, increasing  $\gamma$  to incentivize active participation.
- High-security networks can enforce stricter penalties by increasing  $\epsilon$ .

**Penalty Enforcement:** By explicitly modeling penalties, the DCS framework ensures that negative actions—such as validator misbehavior or downtime—are economically disadvantageous. The penalty dominance property guarantees that severe penalties can override positive contributions, maintaining network integrity.

**Support for Dynamic Scenarios:** Extensions such as time-dependent weights and stochastic modeling allow the DCS to adapt to evolving network conditions and participant behaviors, ensuring long-term robustness.

## 5.2 Limitations and Challenges

While the DCS framework offers significant advantages, several limitations warrant further investigation:

**Static Weight Assumptions:** In its simplest form, the model assumes static weights for contributions and penalties. While this assumption simplifies analysis, real-world systems often require dynamic adjustments based on network conditions, participant behavior, or external factors.

**Linear Model Constraints:** The linearity of the base model, while elegant, may not capture diminishing returns, synergies, or other non-linear interactions between activities. Extensions to quadratic or higher-order models may address this limitation but introduce additional complexity.

**Game-Theoretic Considerations:** Participants in decentralized systems often act strategically, considering not only their own scores but also the actions of others. Incorporating game-theoretic analysis into the DCS framework could provide deeper insights into equilibrium behaviors and potential vulnerabilities.

**Implementation and Validation:** The theoretical properties of the DCS framework require empirical validation in real-world or simulated blockchain environments. Challenges include parameter selection, computational efficiency, and ensuring that the scoring mechanism scales effectively with network size.

### 5.3 Future Research Directions

The DCS framework opens several avenues for future research:

- **Dynamic Weight Adjustment:** Develop algorithms to adjust weights  $\mathbf{w}(t)$  dynamically based on network metrics, such as transaction volume, stake concentration, or governance participation rates.
- **Stochastic and Game-Theoretic Analysis:** Extend the model to account for uncertainty and strategic interactions, exploring equilibrium properties and robustness under adversarial scenarios.
- **Empirical Validation:** Implement and test the DCS framework on blockchain test-nets or simulation platforms, evaluating its performance against existing incentive mechanisms.
- **Non-Linear Extensions:** Investigate the use of quadratic or higher-order models to capture complex relationships between contributions and penalties.
- **Cross-Domain Applications:** Explore applications of the DCS framework beyond blockchains, such as decentralized finance (DeFi), reputation systems, and collaborative platforms.

## 6 Conclusion

This paper introduced the Dynamic Contribution Score (DCS) as a comprehensive framework for evaluating participant contributions and penalties in decentralized systems. By defining the DCS as a linear functional over activity vectors, we demonstrated its mathematical rigor and practical utility. Key properties—linearity, incentive alignment, and penalty dominance—were formalized and proven, ensuring that the model incentivizes desirable behaviors while penalizing misbehavior.

Extensions to the base model, including time-dependent weights, stochastic dynamics, and non-linear modifications, highlight the flexibility and adaptability of the DCS framework. These features make it a powerful tool for designing fair, transparent, and robust incentive mechanisms.

Despite its advantages, the DCS framework requires further exploration, particularly in dynamic, strategic, and real-world settings. By addressing these challenges, the DCS has the potential to become a foundational component of decentralized system design, aligning individual incentives with collective goals and fostering long-term ecosystem health.

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