

# Lecture 0 - History and Relevance of Cryptocurrency Technologies

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Note: This lecture is based on Princeton University's BTC-Tech: Bitcoin and Cryptocurrency Technologies Spring 2015 course.

## Cryptocurrency

- a digital currency in which cryptographic techniques are used to regulate the generation of units of currency and verify the transfer of funds
- cryptography : mathematical side of secure communication
- frequently operated independently of central authority, but not necessarily
- bank : term for central authority

## Basic Modes of Trade

- Barter - Simple, requires coordination
- Credit - Transferable obligations, requires introduction of risk
- Cash - Universally exchangeable, requires bootstrapping, anonymous
- Digital desirable for convenience

## Digital Credit

- Two Types:
  - Direct e.g. Amazon
  - Indirect e.g. PayPal
- Initially, sharing credit card details to unknown vendors over insecure channel seen as crazy
- FirstVirtual, 1994. Purely virtual office. Buyers enroll, provide credit card details. Buyer contacts seller. Seller contacts FirstVirtual, who contacts Buyer to confirm transaction.
- Secure Electronic Transaction, 1996. Communications protocol from VISA, MasterCard, private companies. Buyer and Seller agree on transaction. Buyer encrypts credit card info, transaction details, sends to Seller. Seller sends own view of transaction details, plus Buyer's encrypted information, to intermediary. Intermediary decrypts, confirms transaction.

# Digital Cash

- Three types
  - Commodity - value in themselves e.g. gold, silver, salt
  - Representative - claim on commodity e.g. redeemable for gold, silver
  - Fiat - declared by government to be redeemable for services and goods e.g. Dollar, Euro
- Advantages to Credit
  - No risk
  - Decentralized : central authorities frequently aren't transparent/democratic, manipulate monetary policy with adverse economic effects
  - Anonymous (somewhat)
- Two Key Problems
  - Authentication i.e. no one other than person A can spend person A's money
  - Double Spending i.e. person A cannot spend money multiple times
- David Chaum's Blind Signatures, 1983. Digital Signatures. Idea: Bank issues notes with serial numbers. Sellers check with bank to confirm that notes are not being double spent before confirming transactions.
  - Chaum's contribution: when new note issued, recipient chooses serial number. Keeps number hidden from bank, and bank signs ("blind signature")
- Chaum, Fiat, Naor, 1988. Offline electronic cash. Allow double spending, focus on detecting. Every serial number is encoded. Each time coin is spent, recipient requires you to decode random subset and keeps a record. Still hides identity. When recipients go to bank to redeem notes, high probability that two random subsets will together decode your identity.
- Okamoto and Ohta allowed subdividing coins using Merkle trees
- Cypherpunks (community of activists advocating widespread use of strong cryptography as a route to social and political change) tried lots of versions