

## **Proof of Work (PoW) and Proof of Stake (PoS) explained :**

Cryptocurrencies can be mined by 2 different types of algorithms:

1. Proof of Work (PoW) or
2. Proof of Stake (PoS)

The Proof of Work is the original way you may know it from Bitcoin. In Proof of Work, the coins are mined using the “mining” process. Participants are rewarded for solving cryptographic tasks. This requires a lot of time and energy. That is why this approach is often criticized.

With the Proof of Stake, shares of a cryptocurrency are held in a wallet and blocked. This process is called “staking”\*. Anyone can take part in this and freeze their cryptocurrencies on a crypto exchange for a certain period of time. For example 1 day, 30 days or 90 days.

The shares that are then frozen validate transactions on the blockchain and investors are rewarded for having their shares frozen with “rewards” similar to interest. Proof of Stake is used by e.g. Cardano. Ethereum just moved from Proof of Work to Proof of Stake with Ethereum 2.0.

\*See video - what is staking