

How Bitcoin Becomes Valuable

In this lesson, we will discuss how Bitcoin became a recognized currency.

Value for anything is driven by the balance of its demand and supply.

Anything found in abundance is of no great value. So, in order for something to be valuable, it must be limited in supply. Bitcoin is limited due to the proof-of-work requirement that adds new Bitcoins into the system.

Demand is higher for things people find useful. It could be something useful for two reasons:

1. In terms of the actual utility it provides.

- For example, cars provide a transportation utility.
- Bitcoin provides instant value transfer facilities which is not found in traditional currencies.

2. In terms of the satisfaction it brings.

- For example, people like to have diamonds for physiological satisfaction. Crystals are just as comparable in terms of utility.
- Decoration pieces - aesthetic satisfaction.

A supply-demand balance makes Bitcoin a valuable and desirable currency.

It's nothing physical. It's just a digital, immutable, trustable log of transfer transactions. But all these properties give it great utility and therefore value!

It's important to keep in mind that money doesn't really exist. 'Moneyness' is a property. This property of moneyness is held by fiat currency (legal tender whose value is backed by the government that issued it) and bills due to the State Bank (trusted authority) that promises to hold its value. This 'moneyness' is in anything that we deem valuable and therefore can be used as a unit of account, a store of value, or a medium of exchange.

Bitcoin has these properties of ‘moneyiness’ making it a valuable asset.

- It allows you to store value
- It allows you to consume value (better than fiat)
- It allows you to exchange value (better than fiat)

In the next chapter, we will discuss the concepts of HyperLedger Fabric.