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How to give economic value to a Cryptocurrency?

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A cryptocurrency is a digital currency and a digital currency is an economic asset "NOT TANGIBLE", so if it is something not real, not physical as at present there are cryptocurrencies that can have a very high economic value, a clear example and the best known is Bitcoin that in the month of February 2021 is around $50,000 dollars for Bitcoin and the most amazing thing is that when it was presented and running this digital monetary exchange system a Bitcoin in 2009 had a value of $ 0 dollars, then as it has come to have this price, many people do not see a logic of how it took its current value this cryptocurrency called Bitcoin.

The universal utopian answer may be simple, a cryptocurrency has its value based on what it offers to the investor, if there is interest in a tangible or non-tangible good with certain unique characteristics, the human being will desire it and will put a price for having it, but we better go into detail with more fundamentals to answer how and why a cryptocurrency takes a value.

The first thing we must know is that any cryptocurrency or "Digital Currency" is a good or economic asset "NOT TANGIBLE" you can not touch it at the beginning, it is only a software or program made by a person or group of people who give unique characteristics to the software in order to exchange a result generated by one or more computers and this result has a property with economic value.

Let's remember a bit of history at the beginning Bitcoin in its beginnings was worth nothing, that is to say it had a value of $0 zero, this normally happens when a new cryptocurrency is created, it has no value.

When someone develops, introduces and launches a cryptocurrency on the financial market, its value is usually zero. Let's see what is the way for a cryptocurrency to reach some minimum or maximum value.

It should also be clarified that in the world of cryptocurrencies not all are cryptocurrencies, some are called Tokens, without going into much detail to differentiate these, for practical purposes the two perform the same basic functions at an economic level. We say this because currently there are thousands of people who invest in tokens, believing that they are cryptocurrencies because these tokens behave like cryptocurrencies and have a value established by their characteristics and history of what they offer.

If you want to know the difference in detail you can consult our article that defines "Difference between Cryptocurrency and Token":

https://github.com/bankoin/OOwiki/blob/main/ES%20-%20Diferencia%20en%20Criptomoneda%20y%20Token.pdf

Let's continue with the main reason for this article, how to give value to a cryptocurrency, there are several fundamental points and we will name some of them, however, we must first understand "why" a cryptocurrency is created, what needs there may be to do so and who can do it.

A cryptocurrency is created in order to finance some technological initiative that solves a generic financial problem mainly, there may be thousands of reasons, but all meet a common purpose, create digital money or create financial capital, no matter the project, innovation or the result all cryptocurrencies are created to accumulate wealth to be used to finance endless activities, processes, projects, movements or simply ensure wealth depending on global economic circumstances, for example in our days the Pandemic we live make all financial markets normal physical currencies (dollar, euro, pound, peso, etc..) are highly unstable due to the pandemic there is uncertainty in the markets and investors what they want most is not to have uncertainty, the Bitcoin by not depending on any body that controls it or country has been a refuge for such investors the main reason that has risen suddenly the value of Bitcoin.

The initial value is based on some of the following points, they are not the only ones, but they are what any cryptocurrency must have in order to have a minimum probability of success to at least get out of absolute zero in terms of its economic value.

A cryptocurrency project must comply with one or more of the following points.

- It must propose a completely disruptive innovative solution or project so that people are interested in it, **VERY** important it must provoke "interest", "desire to have it". For example, Bitcoin proposed from the beginning an innovative economic transfer system with the aim of removing third party "banks" to reduce response times and charges that could be excessive. Other cryptocurrencies offer other innovations that can solve real world problems.

- It must have a defined long-term goal, a well-defined objective or business plan, this is fundamental, normally at the beginning of any initiative to launch a cryptocurrency, it must accumulate followers who talk about it and logically investors, who will evaluate the seriousness of this, at a financial level in the short, medium and long term.

- A cryptocurrency is more interesting, logically if it is more secure, which means that if the cryptocurrency has a backing from recognised companies or some kind of cash escrow agreement that supports investing in it, open people who are interested in it. An example of a cryptocurrency with an economic backing is Tether.

- It must give confidence to anyone who is interested in buying it, one of the ways is to know that if something unexpected happens there will be channels to communicate directly, it is like the Call Center of a bank, this is usually nowadays through trusted social networks such as LinkendIn.

- It must have the following indispensable elements at its launch, a website, a document describing the project in detail, commonly called WhitePaper, a development team, and legal registration of the company behind the cryptocurrency.

- It must be registered on reliable and reputable exchanges. Exchanges are internet sites where cryptocurrencies are advertised so that anyone in the world can buy them.

- It should clearly indicate the terms and conditions of operation at international and local level (legal framework where it will be launched or distributed in case of any restriction in any country).

- Announce it in order to publicise it on official sites such as bitcointalk.org or coinmarketcap.com where the proposal will be analysed by experts in the field.

- Another fundamental point is the number of coins that will be produced, in terms of "digital", not physical, the basic rule is to know what market the cryptocurrency is oriented, if you make a production in large volumes, you may want to reach everyone, if a limited production is made, it is possibly oriented to a niche of selected buyers or investors. The value of a digital asset is like any physical good, if it is scarce and has unique characteristics in the market it will be desired, so it is possible that its value will increase, on the contrary, if a good is produced in large quantities and is not unique people will lose interest, simple human nature (supply-demand) of any financial market.

- And above all be very clear about how, where and how the amount of capital that will be obtained in the purchase and sale of the cryptocurrency will be used, again everything is based on the "CREDIBILITY" that it is not a fraud or just a project without a goal, this will be seen by the potential investor.

All of the above and what gives value to a cryptocurrency is based on a single word "CONFIDENCE" to the potential investor, telling people "WHY" they should buy that crypto-asset. The above serves to create what we call "LIQUIDITY" in the cryptocurrency financial market, liquidity is having enough players to buy and sell, to create the supply-demand dynamics, this is how the value of a coin starts, however, it is only the beginning, other parameters are the signals you give to investors (long-term security).

A cryptocurrency is bought because of the desire to have it, so the person who invests will get, let's return to the case of Bitcoin, it is currently desired not because it is the best technological option but because it is the first one that had the technological innovation to transfer an economic value. The main innovations that Bitcoin has and that all current cryptocurrencies and tokens have inherited are:

a) Direct one-to-one transfer of economic assets, eliminating intermediaries such as traditional banks and saving third party commissions.

b) Have complete security of anonymity, as you can open an account (address) at any time, without the formalities and requirements of traditional banking.

c) It is not controlled by a central financial organisation or a country (it is a decentralised economy), the control is held by the 9,700 computers distributed all over the world and growing, it is a decentralised control that acts by consensus of all the nodes.

d) Optimal time to apply transactions in the case of Bitcoin in minutes averages 10 minutes, in other cryptocurrencies such as the second most important one called Ethereum its transactions are reflected in an average of 10 to 15 seconds.

e) Availability 24 hours a day, 365 days a year, due to the availability of nodes in the Bitcoin network (9,700 nodes or computers scattered around the world).

For example, Ethereum is another cryptocurrency the second most important worldwide, its greatest achievement is again technological innovation called "smart contracts" which is the same as smart programs, these programs are developed to help and facilitate various tasks in real life in different sectors: insurance, customs, logistics, government, financial and others. Finally, anyone can decide to make a cryptocurrency or token, however, not everyone can make it grow in today's cryptocurrency world.

Creating a cryptocurrency is a complete project that lasts between 4 months to 12 months or longer depending on the desired scope, these projects are commonly known as ICO (Initial Coin Offering). Creating a digital currency at the software level is only a percentage of the project, areas of Marketing, Legal, Design and Programming are needed.

Between 80% and 90% of the digital currencies that are created end up as souvenirs as they usually do not take into account core issues such as the above to increase their chances of success.

At OOwiki.com and Bankoin.org we develop ICO projects for all types of private and public sectors, with proven projects and experience.