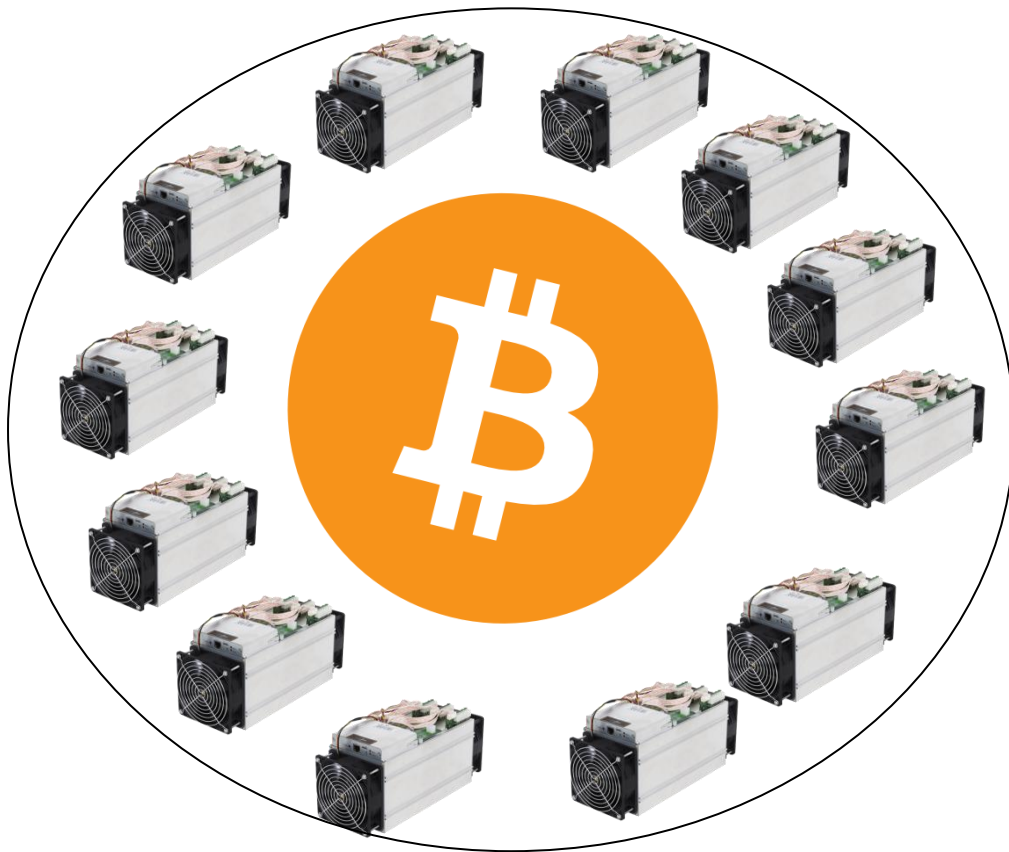


A Simple Bitcoin Market Model v1.1



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Executive Summary

The network fixes the production price $c(t)$ of the bitcoins (BTC)

$$c(t) \approx \mu H_{R(t)} / B_R \text{ in } \$ / BTC$$

H_R is the quantity of hashes needed for the production of B_R (12,5 BTC in 2017) bitcoins.

μ is a physical factor (in \$/hash) relying on the rig technology.

$$\mu = (R_A / \beta + 8,76 \cdot 10^3 P_E E_C) / 31,536 \cdot 10^6 \text{ in } \$ / hash$$

R_A = Rig Amortization (in \$/year/rig)	600
P_E = Power Efficiency (in Joule per Giga Hash per second)	0,1
E_C = Energy Cost (in \$/KWh)	0,15
B_R = Block Reward (inBTC)	12,5
β is the number of hashes produced by a rig (in THs)	14

$$h(t) = \beta r(t) \text{ in Tera Hash per second - THs}$$

where $r(t)$ is the number of rigs, $h(t)$ the hashrate i.e. the number of hashes produced by the rigs' park every second. The market valorization $v(t)$ is defined as:

$$v(t) = m c(t) \text{ in } \$ / BTC$$

Where m is the *market valorization factor*. The market price is:

$$p(t) = c(t) (1 + m) \text{ in } \$ / BTC \text{ with } m \geq -1$$

The rigs make money if the market valorization factor (m) is positive. The profit in \$ per second and per rig is :

$$Profit / s / rig = m \beta \mu$$

We assume that the number of rigs $r(t)$ increases with the miners' gain $g(t)$ (expressed in \$) according to a constant $k \geq 0$ factor .

$$r(t) - r(to) = k (g(t) - g(to)) \text{ k in } \$^{-1}$$

Where k is the *market incitement factor*. We deduce from these hypotheses that the number of rigs increases/decreases exponentially according to the sign of m .

$$r(t) = r(to) e^{\lambda (t-to)}$$

with $\lambda = m k \beta \mu$ in s^{-1}

Furthermore when the valorization m is positive the hashrate $h(t)$, the cost $c(t)$, the market price $p(t)$, and the valorization $v(t)$ increase exponentially.

$$\begin{aligned} h(t) &= h(to) e^{\lambda (t-to)} \\ c(t) &= c(to) e^{\lambda (t-to)} \\ p(t) &= (1 + m) c(to) e^{\lambda (t-to)} \\ v(t) &= m c(to) e^{\lambda (t-to)} \end{aligned}$$

When the valorization m is negative, the rigs lose money, their number decreases; λ is negative, and consequently the hashrate decreases. The network lowers the production price $c(t)$. The market price $p(t)$ decreases until the valorization becomes positive again.

The growth limit is induced by the energy consumption, which relies on the rigs number. At this point the k factor will be null, implying a null value of λ , and therefore :

$$\begin{aligned} r(t) &= r(to) \\ h(t) &= h(to) \\ c(t) &= c(to) \\ p(t) &= (1 + m(t)) c(to) \\ v(t) &= m(t) c(to) \end{aligned}$$

The bitcoin production rate

The bitcoin production rate is a constant (for example 12,5 BTC every 10 minutes), the number $b(t)$ of bitcoins increases linearly with the time.

$$b(t) - b(t_0) = \alpha(t - t_0)$$

$$(1) \frac{db}{dt} = \alpha \text{ in BTC/s}$$

For example:

$$\alpha = 12,5 \text{ BTC} / 600\text{s} = 2,083 \cdot 10^{-2} \text{ BTC/s}$$

The hash rate



The hash rate $h(t)$ (in THs = *Tera Hash per second*) is proportional to the number of rigs $r(t)$.

$$(2) h(t) = \beta r(t) \text{ in THs}$$

for example $\beta = 14 \text{ THs}$ (figure from the AntminerS9 rig)

The production cost

The production cost $c(t)$ (in \$/BTC) is proportional to the hash rate $h(t)$.

$$(3) c(t) = \gamma h(t) \text{ in \$/BTC}$$

$$(3a) \gamma = (R_A \beta + 8,76 \cdot 10^3 P_E E_C) / BTC_Year \text{ in } \$/BTC /THs$$

R_A = Rig amortization (\$/year/rig)

P_E = Power Efficiency (Joule per Giga Hash per second)

E_C = Energy Cost (\$/KWh)

B_R = Block Reward (BTC)

BTC_year = number of bitcoins produced per year

R_A = 600 \$/year, AntminerS9 1800 \$, with 3 years amortization,

P_E = 0,1 J/GHs, AntminerS9, (0,1 Joule per Giga Hash per second).

E_C = 0,15 \$/KWh

B_R = 12,5 BTC block reward every 10 minutes

$BTC_year = B_R \times 144 \times 365 = 12.5 \times 144 \times 365$

$$\gamma = (600/144 + 8,76 \cdot 10^3 \times 0,1 \times 0,15) / (12.5 \times 144 \times 365)$$

$$\gamma = (42,9 + 131,4) / 657000 = 2,7 \cdot 10^{-4} \$/BTC /THs$$

For example with a hash rate of $12 \cdot 10^6$ THs the cost per bitcoin is :

$$c(t) = 2,7 \cdot 10^{-4} \times 12 \cdot 10^6 = 3240 \$ / BTC$$

Remark1: Defining the μ constant

$$(3b) \gamma = (R_A/\beta + 8,76 \cdot 10^3 P_E E_C) / (\alpha \cdot 31,536 \cdot 10^6)$$

$$(3c) \gamma = \mu / \alpha$$

$$(3d) \mu = (R_A/\beta + 8,76 \cdot 10^3 P_E E_C) / 31,536 \cdot 10^6$$

$$(3e) c(t) = \mu h(t) / \alpha$$

For example:

$$\mu = (42,9 + 131,4) / 31,536 \cdot 10^6 = 5,53 \cdot 10^{-6}$$

Remark2: About the Bitcoin network constraint

The network fixes a given quantity of hashes H_R in order to release B_R bitcoins.

When $\int_{t_0}^t h(t)dt = H_R$ the network creates B_R bitcoins.

And the approximate α value is : $\alpha \approx B_R / (t - t_0) = B_R / \Delta T$

Let's assume a small variation of $h(t)$ around t :

$$H_R \approx h(t) \Delta T$$

$$(3f) \quad c(t) \approx \mu H_R / B_R$$

$$(3g) \quad c(t) \approx \mu h(t) \Delta T / B_R \approx \mu h(t) / \alpha$$

For small variation of the hashrate, we assume the equation (3e) remains valid.

Market Price and Valorization

The market price $p(t)$ is equal to the sum of production cost ($c(t)$) and the market valorization $v(t)$.

$$(4) \quad p(t) = c(t) + v(t) \text{ in } \$/\text{BTC}$$

We assume that the market valorization $v(t)$ is proportional to the cost $c(t)$:

$$(5) \quad v(t) = m c(t) \text{ in } \$/\text{BTC}$$

Where m is the *market valorization factor*. From(4)(5)

$$(5a) \quad p(t) = c(t) (1 + m) \text{ in } \$/\text{BTC}$$

m is usually positive, but a negative value could be possible with the constraint $m \geq -1$

From the bitcoin price history let's assume $m=1$ (i.e. the valorization is equal to the cost).

For example with a hash rate of $12 \cdot 10^6$ THs the valorization per bitcoin is :

$$v(t) = m c(t) = 3240 \$ / \text{BTC}, \text{ and } p(t) = 6480\$$$

Number of rigs

We can write the miners' gain dg (\$) during a time dt as :

$$(6) dg = v(t) db \quad \text{in \$}$$

And therefore :

$$(7) \frac{dg}{dt} = v(t) \frac{db}{dt} = \alpha v(t)$$

We assume that the interest for mining is proportional to the miners' gain $g(t)$, which implies an increase of rigs.

$$(7a) r(t) - r(to) = k(g(t) - g(to))$$

$$(8) \frac{dr}{dg} = k \quad \text{in } \$^{-1}$$

Where k is a positive constant, the *market incitement factor* ($k \geq 0$).

The variation of r is negative if the variation of g is negative.

When $\Delta g = 1/k$ \$, a new rig ($\Delta r = 1$) is added to the bitcoin network.

From (8) and (7) we get

$$(9) \frac{dr}{dt} = k \frac{dg}{dt} = k \alpha v(t)$$

and thereafter from (5) (3) (2)

$$(10) \frac{dr}{dt} = k \alpha \beta \gamma m r(t)$$

The Bitcoin Market

This relation (9) works even if α is not constant :

$$(10a) \frac{dr}{dt} = k \beta \alpha(t) \gamma(t) m r(t) = k \beta \mu m r(t)$$

let's define:

$$(10b) \lambda = k \alpha \beta \gamma m \quad \text{in s}^{-1}$$

$$(10c) \lambda = m k \beta \mu \quad \text{in s}^{-1}$$

$$(10e) \frac{dr}{dt} = \lambda r(t)$$

The λ parameter is not dependant from α (bitcoin rate production, i.e. the block mining rate).

Therefore :

$$(11) r(t) = r(to) e^{\lambda (t-to)}$$

$$(12) h(t) = h(to) e^{\lambda (t-to)}$$

$$(13) c(t) = c(to) e^{\lambda (t-to)}$$

$$(14) p(t) = (1 + m) c(to) e^{\lambda (t-to)}$$

$$(15) v(t) = m c(to) e^{\lambda (t-to)}$$

Growth Limit

We believe that the growth limit is induced by the energy consumption, which relies on the rigs number.

At this point the k factor will be null, implying a null value of λ , and therefore :

$$\begin{aligned}r(t) &= r(to) \\h(t) &= h(to) \\c(t) &= c(to) \\p(t) &= (1 + m(t)) c(to) \\v(t) &= m(t) c(to)\end{aligned}$$

Negative valorization

$$(16) \ v(t) = m \ c(to) \ e^{\lambda (t-to)}$$

When the valorization $v(t)$ is negative ($m < 0$) the λ parameter is negative. The number of working rigs decreases, and so the mining costs. The block mining rate decreases. Therefore after a few $1/\lambda$ the valorization reaches a null value, the system crashes. Likely the bitcoin network will fix a difficulty and therefore a hash rate leading to a null valorization ($m=0$) before the crash.

We obviously believe that m is not a constant over the time, $m(t) = f(t)$.

The Rig profit

Given $h(t)$ and $p(t)$ we can retrieve:

$$\begin{aligned}c(t) &= \gamma \ h(t) \\v(t) &= p(t) - \gamma \ h(t) = m \ c(t) \\r(t) &= \frac{1}{\beta} \ h(t)\end{aligned}$$

The profit per rig remains constant $v(t)/r(t) = \text{constant}$ (in \$/BTC).

$$(17) v(t)/r(t) = m \beta \gamma$$

The profit per rig in \$

The profit in \$ per rig and per year is written as:

$$(18) BTC_Year v(t)/r(t) = m \beta (R_A/\beta + 8,76 \cdot 10^3 P_E E_C)$$

For example :

$$BTC_Year v(t)/r(t) = 14 \times (42,9 + 131,4) = 2440 \$ /rig/year$$

Estimation of the k factor

Every $\tau = \ln(2) / \lambda$ the profit doubles

Let's assume $\tau = 4 \text{ months}$ (x8 every year)

$$\lambda = 0,7 / (3600 \times 24 \times 365/3) = 6,66 \cdot 10^{-8}$$

$$k = \frac{\lambda}{\alpha \beta \gamma m} = 6,66 \cdot 10^{-8} / (2,083 \cdot 10^{-2} \times 14 \times 2,7 \cdot 10^{-4} \times 1)$$

$$k = 8,46 \cdot 10^{-4} \$^{-1}$$

One rig is added to the bitcoin network every $(1/k)$ 1182 \$ profit

If we assume k is a constant

$$1/\lambda = 1 / m k \alpha \beta \gamma = 174 \text{ days} / m$$

A miner keep bitcoin strategy

A rig produces $\alpha/r(t)$ bitcoin per second.

The benefit (in \$/s) is $m/(1+m) p(t) \alpha/r(t)$

The benefit in BTC/s is $m/(1+m) \alpha/r(t)$

If the miner keeps the benefit in bitcoin, it will benefit from the market price increase. His benefit after a time T is therefore :

$$(19) \quad b(T) = p(t) \frac{m}{m+1} \alpha \int_0^T 1/r(t) dt$$

$$(20) \quad b(T) = \frac{p(to)}{r(to)} \frac{m}{1+m} \alpha \lambda^{-1} (e^{\lambda T} - 1)$$

For example :

$$r(to) = h(to)/14 = 12 \cdot 10^6 / 14 = 860,000 \text{ rigs}$$

$$p(to) = 6480 \$$$

$$1/\lambda = 174 \text{ days}$$

$$\alpha = 657000/365 \text{ days}$$

$$b(T(\text{days})) = p(to) \frac{m}{1+m} 0,37 (e^{T/174} - 1)$$

Checking the profit rig lemma

From (7) and (15), we get:

$$\int_{t_0}^t dg = g(t) - g(t_0) = \alpha \int_{t_0}^t v(t) dt$$

$$g(t) - g(t_0) = \frac{\alpha}{\lambda} v(t_0) (e^{\lambda(t-t_0)} - 1)$$

From (11) :

$$g(t) - g(t_0) = \frac{\alpha}{\lambda} \frac{v(t_0)}{r(t_0)} (r(t) - r(t_0))$$

From (5) (3) (2)

$$v(t_0) = m \beta \gamma r(t_0)$$

Therefore from (10)

$$g(t) - g(t_0) = \frac{m \alpha \beta \gamma}{\lambda} (r(t) - r(t_0))$$

$$g(t) - g(t_0) = \frac{1}{k} (r(t) - r(t_0))$$

$$r(t) - r(t_0) = k (g(t) - g(t_0))$$

Which gives again (8)