**Problem 2 - UTXO Management in Wallets**

Part 1

Let’s assume Alice is a legitimate user of Moonbase. Since Moonbase handles millions of transactions, normally it is likely there will be at least one UTXO that has a value greater than Alice’s withdrawal amount. In this scenario, the described protocol works appropriately. In the scenario where a malicious actor with a high balance in Moonbase (let’s call her Eve) decides she wants Alice’s legitimate withdrawals of money to be denied, Eve can mount a DoS attack by withdrawing money in multiple transactions, each withdrawal at an amount greater than Alice’s desired withdrawal amount, until there are no UTXOs of sufficient value available to fund further transactions. If Eve can complete these withdrawals sufficiently in advance of Alice’s withdrawal request, Moonbase’s supply of UTXOs that are able fund Alice’s withdrawal UTXO will be depleted. Alice will not be able to withdraw any more money until another user deposits more than Alice’s desired withdrawal amount (in a single transaction).

In order to prevent DoS attacks in this protocol, Moonbase should fund single withdrawals with an aggregate of input UTXOs. For example, consider the following pseudocode to fund a withdrawal of withdrawal\_amt:

funding\_set = { } # initialize an empty set of UTXOs used to fund the withdrawal

U <--- Randomly choose a UTXO from the pool of UTXOs

funding\_set.add( (U, U.value) )

while sum(funding\_set.values) < withdrawal\_amt:

U <--- Randomly choose a UTXO from the pool of UTXOs

funding\_set.add( (U, U.value) )

return funding\_set

Here, we randomly add UTXOs to our input until their aggregate value exceeds the withdrawal amount. By combining UTXOs, as long as Alice’s withdrawal request is less than the total holdings of Moonbase (regardless of how the holdings are split up between UTXOs), Moonbase will be able to fund Alice’s withdrawal. Further, in order to mount a DoS attack, Eve will now need to own a portion of the Moonbase holdings with value roughly no less than the total aggregate value of Moonbase holdings minus Alice’s withdrawal amount. Although not insurmountable, this is significantly more difficult to accomplish.

Part 2:

In order to reduce the number of UTXOs in the database, one strategy is to change the protocol to use the maximum number of UTXOs as possible. We can move in this direction by utilizing the same protocol outlined above, but instead of aggregating a random set of UTXOs until their aggregate value matches or exceeds the withdrawal value, we combine the smallest-valued UTXO in existence with progressively larger-valued UTXOs until the aggregate value of this set of UTXOs matches or exceeds the withdrawal value. This protocol would significantly slow down the system as you would need to do near-continuous sort operations, and there might be certain points where you pointlessly combine two UTXOs (i.e. you want to spend [$5](https://www.messenger.com/t/cameron.boroumand.9) but the only UTXOs are [$1](https://www.messenger.com/t/cameron.boroumand.9) and $15); nevertheless, the protocol maximizes the number of UTXOs used in each transaction, while guaranteeing the same protections as the protocol outlined previously.