

## Extrinsic value

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4. Assets having only extrinsic value.
  - Fiat Money
  - Cryptocurrencies
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## Assets with Extrinsic Value

Almost all assets serve as stores of value: at least part of their value lies in the possibility of selling them later to obtain consumption goods or other assets.

The market price of some assets seems to reflect *much* more value than can be gained by holding the asset forever or using it up. For example, the intrinsic value of dollars (fiat money) is essentially zero.

To understand the pricing of such assets, it is important to understand the sources of extrinsic value.

## Sources of Extrinsic Value

Historical acceptance of intrinsic value.  
Historical price stability.  
Homogeneity and measurability.  
Convenience as a medium of exchange: easily portable, transferable, verifiable, divisible.  
Widely accepted as a medium of exchange.  
Easy to protect from theft and/or insurable.  
Laws require its use for certain purposes or interfere with similar use of other assets.  
Holdings or transactions can be concealed.  
Absence of potential substitutes with similar qualities.  
Faith in limited supply.

## Comparisons of Intrinsic Value

Dollars (fiat money): none.

Bitcoin (cryptocurrency): none.

Gold: considerable.

Excellent physical properties:

- Most malleable and ductile of all metals.
- Very resistant to corrosion.
- Third best electrical conductor, among all metals.
- Color is beautiful and unique among metals.

=> Useful for jewelry, electronics, decoration.

## Gold -- Extrinsic Value

Good intrinsic properties as a store of value and medium of exchange:

- Durable, does not corrode or deteriorate.
- Its high price implies that a small amount of gold can store much value.
- Easy to work into coinage.
- Easy to identify and verify.
- Inherently limited supply.

A long continuous history as a store of value (*thousands* of years),

## Comparisons of Extrinsic Value

	Dollars	Bitcoin	Gold
Historical acceptance of extrinsic value.	+		++
Historical price stability.	++		+
Homogeneity and measurability.	++	++	++
Convenience as a medium of exchange: portable, transferable, verifiable, divisible.	++	+	+
Widely accepted as medium of exchange.	++	+	

## Comparisons of Extrinsic Value (2)

	Dollars	Bitcoin	Gold
Easy to store securely or insurably.	++	+	+
Holdings or transactions can be concealed.	+	++	++
Absence of potential substitutes.	+		++
Legal support for use.	++		
Faith in limited supply.	+	++	++

## How the government provides legal support for the dollar

Taxes must be paid in dollars.

The government prohibits or discourages other forms of payment (e.g. casino tokens).

Physical dollars are hard to counterfeit.

Transfers are transparent and enforceable.

Regulation and insurance of the banking system helps to prevent the loss or theft of dollars.

The independence of the Federal Reserve creates protections against the excessive printing of money.