

Economics of Bitcoin

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Background

- Software developer/sysadmin
 - Network security, online payments
- Since almost 3 years economic research of Bitcoin, primarily “Austrian School of Economics”
- **Master's thesis** (Vienna University of Economics and Business, under Univ. Doz. Mag. Dr. Peter R. Haiss)
- Blog: <http://www.economicsofbitcoin.com>
- I complain on the internet and people started to think that I'm an economist

What is money?

- Mainstream: 3 Functions
 - Medium of exchange
 - Store of value
 - Unit of account
 - (Standard for deferred payments)
- “Austrians”
 - Generally accepted medium of exchange
 - Other functions derived from it
 - Sometimes use the Unit of account function as relevant

Whhat is Bitcoin?

- Not generally accepted medium of exchange
- Not used for economic calculation
- However these are late stages of evolution
- Bitcoin is useful even if it did not reach this stage yet
 - “money or nothing” fallacy

History of Bitcoin (economic view)

- Bitcoin starts
- Price emerges → a good
- Exchanges emerge → liquid good
- Pizza sold → medium of exchange
- ? → money
 - Generally accepted?
 - Unit of account for economic calculation?

Microeconomic view

- Reduction of transaction costs → utility
 - “economic sacrifices”
- Trade can happen in situations where it was previously impossible or unprofitable
 - Fast and cheap
 - Counterparty risk
 - Principal-Agent Problem
 - Risk of fraud (push vs. pull, identity theft)
 - Globally uniform

Macroeconomic view

- Inelastic monetary base
- (probably) monetary base = money supply
 - Separation of credit and money
 - No monetary policy (in the final stages), no bailouts
- Falling prices, “Deflation”
 - Not to confuse with the bust phase of the economic cycle
 - (mainstream misrepresentation) Not currency collapse, but economic collapse

Thanks!

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