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Bitcoin

History



Bitcoin History

Lesson 5

Now that we've gone through the introductory lessons, we should offer a more thorough history of Bitcoin. On October 31, 2008, Satoshi Nakamoto authored "Bitcoin: A Peer-to-Peer Electronic Cash System." He published his white paper on a platform known as "The Cryptography Mailing List." Once the innovators got onboard, other early adopters began spreading the concept of a peer-to-peer cash system.

The cryptocurrency became popular for a number of reasons, including:

- » The world was deep in a recession, or financial crisis in 2008. With Bitcoin, Satoshi proposed a decentralized system that did not rely upon government authorities to oversee transactions.
- » Many people did not trust the government or large financial institutions. Bitcoin provided an alternative asset class that seemed more reliable.
- » Blockchain technology and the proof-of-work mechanism ensured unique, secure, and irreversible transactions.
- » The blockchain ledger was public. Once a transaction got recorded on the blockchain, no one person could alter or delete the transaction. Any

change to the blockchain required consensus, which provided a high level of security for each transaction.

- » Bitcoin could reduce the transaction fees that financial institutions charged.
- » The system would only have 21 million Bitcoins, and those coins got released gradually over time through mining and earned in fees paid by users sending around their Bitcoins.
- » A miner was a person, or group using specialized hardware and software to validate transactions on the blockchain. By resolving complex mathematical equations, they provided “proof of work,” which validated a transaction.
- » In exchange for their work, the miners got rewarded with an allocation of new Bitcoin. Since the Bitcoin blockchain was decentralized, anyone with knowledge and the appropriate computer equipment could mine Bitcoin.
- » Approximately every four years (after every 210,000 blocks), a “halving” event took place. The halving resulted in fewer coins being available for miners who verified block transactions. The halving was a part of Bitcoin’s design to control inflation and create scarcity. Historically, it has led to an increase in value for the Bitcoin asset class.
 - » During the first four years, 2009 until 2012, miners could earn 50 Bitcoins per block.
 - » On November 28, 2012, the first halving took place. Miners got 25 Bitcoin for verifying transactions.
 - » On July 9, 2016, another halving took place, reducing the reward to 12.5 Bitcoins per block.
 - » On May 11, 2020, another halving took place, reducing the reward to 6.25 Bitcoins for verifying transactions.
 - » After the next halving, anticipated to take place in mid April 2024, miners would receive 3.125 Bitcoin per block that they verify.
 - » The halvings would continue to reduce the number of Bitcoins that miners received in exchange for their work. These halvings would take place approximately every four years, until approximately 2140, when all 21 million Bitcoins would be in circulation.
- » Historically, with a combination of halving and the finite supply of Bitcoin, the scarcity drove the value of Bitcoin higher.

- » The limit of 21 million Bitcoins was hard-coded into the Bitcoin protocol, and this fixed supply cap was one of the fundamental principles upon which Satoshi built Bitcoin. Several mechanisms and aspects of the Bitcoin network, or blockchain, worked together to prevent more Bitcoins from being mined or added beyond the limit.
- » Think of Bitcoin as being part of a blockchain on a decentralized network requiring consensus from a majority of people on the blockchain. The “consensus mechanism” provided a strong economic incentive to limit the supply to 21 million Bitcoin. It differed from a centralized network, where a government, or a powerful force, could manipulate supply, causing inflation or deflation.

Network Goes Live (2009):

In January, 2009, Satoshi “mined” the first block of Bitcoin. Bitcoin enthusiasts referred to that first mining by Satoshi as “Block 0.” In the early days, a small community of cryptography enthusiasts, programmers, and early adopters began “mining” for crypto.

Early Transactions Exchanges—2010:

By 2010, the early miners had begun to accumulate Bitcoins. The first commercial transaction occurred when a programmer, Laszlo Hanyecz, offered 10,000 Bitcoins to anyone who would deliver two pizzas.

Entrepreneurs then began building exchanges. One exchange, BitcoinMarket.com began operations in March 2010. Other exchanges then opened, providing opportunities for traders to buy and sell Bitcoin. Although the Bitcoin blockchain was secure because of consensus, the exchanges could be vulnerable to hacking because of their own inadequate security controls. The exchanges could get hacked, but Bitcoin would not get hacked. The only way to permanently secure Bitcoin would be through cold storage, which I’ll describe in the next lesson.

Price Volatility and Increased Interest—2013:

As more people became aware of Bitcoin, demand for owning the cryptocurrency increased. Prices began to rise for a combination of reasons, including: Fear of missing out (FOMO), scarcity, “halving” (which limited the supply), and more media attention.

Building Infrastructure and Awareness—2017:

As people became more aware of cryptocurrency and blockchain technolo-

gy, entrepreneurs began building a more robust infrastructure. People created more efficient exchanges, and pathways to invest in cryptocurrency. The Bitcoin price skyrocketed, reaching a high of more than \$68,000 per coin. High-profile investors and businesses became Bitcoin enthusiasts. Institutional investors became interested, and regulatory agencies began assessing cryptocurrency as a viable investment-grade product. Others began to consider Bitcoin as a hedge against inflation, and termed it “digital gold” because of its scarcity—with only a maximum of 21 million Bitcoins ever being possible.

In the next lesson, I’ll offer a glossary of terms, which may improve knowledge for course participants.

Investment:

As in the previous lesson, I’ll continue to show how I’m using my growing knowledge of cryptocurrency to make it a part of my long-term investment strategy. After making my first two purchases, I continued to dollar-cost average my way into the next purchase. I set a goal of putting between 5 and 10 percent of my total net worth into Bitcoin or other cryptocurrencies, but I intended to make the buys gradually.

On February 2, 2024, at 11:54 am, I saw that the price of Bitcoin had dropped again, to \$43,473.42. That drop prompted me to jump back into the market and purchase a second Bitcoin. I purchased 1 BTC for a total cost of \$44,445.57, inclusive of the higher Coinbase fee of \$978.15 (2.25% of the Bitcoin’s price).

- » Total investment in BTC at end of day, February 2, 2024: \$89,160.02
- » Total holdings: 2 BTC
- » Total value: \$86,946.84
- » Gain or Loss: -\$2,213.18

Despite the dropping price, in time, I believed that market factors, including scarcity and the increased demand from institutional investors would lead to higher prices. I made a commitment to hold this asset as a store of value for at least five years.

Disclaimer:

For full transparency, I am not an investment advisor. Our nonprofit, Prison Professors, offers these lessons for the singular purpose of helping people learn more about the digital economy. I provide information on my personal invest-

ments to show that even a person who served 26 years can participate in the digital economy. I am an investor and a speculator, understanding the risks. No one should invest in any asset class without a strategy and a plan, as shown through our introductory course: Preparing for Success after Prison. Always develop an understanding of investment risks—especially with cryptocurrency.

Critical Thinking Questions:

If you're willing to participate in our advocacy efforts for reforms that will allow people to work toward earning freedom, please provide your responses to the following questions:

1. In what ways would you say that concepts such as a decentralized network, distributed ledger, or blockchain compares to a centralized system, like government-controlled fiat currency?
2. In what ways would buying crypto from exchanges like Coinbase differ from buying crypto from Exchange Traded Funds?
3. Given the new government approval of Bitcoin as an asset class, how do you anticipate corporate America, or other municipalities will respond to the market over time?

Advocacy Initiative:

Please share your story and responses through the manner that works best for you:

1. Send through email to Interns@PrisonProfessorsTalent.com
Subject line: Digital Economy Course
2. Send through regular mail:
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- » Lesson 5: Digital Economy: Bitcoin History
- » Lesson 6: Digital Economy: Terms