

7

Decentralized

Finance



Decentralized Finance

Lesson 7

I missed many income and wealth-creating opportunities when I got out of prison because I didn't have a good understanding of the digital economy. For example, I didn't take the initiative to understand the concept of blockchain until Ryan began volunteering with our nonprofit. With hopes of opening opportunities teaching what I'm learning, I'll do my best to break down the concept of blockchain into simple, relatable terms.

Imagine that you conduct many transactions with lots of people. You record all transactions in your notebook. On each page of the notebook, you detail every trade or transaction, including the date, time, quantity, and value of the trade. Your notebook is your record, your storage of information.

Now, imagine that you shared a copy of your notebook with every person in your community. For the sake of this exercise, imagine that everyone and anyone would have a real-time, up-to-date copy of your notebook. If you make a new trade, or transaction, all the notebooks get updated simultaneously. These records would always be in alignment.

Blockchain works similarly to this community-shared notebook but in a digital format. It's a digital ledger. The blockchain technology records and

distributes information, and once it exists, no one can copy or alter it. The digital ledger creates a foundation of trust and transparency for online transactions.

Key Features of Blockchain

Decentralization

Unlike a single notebook owned by one person, the blockchain is like having thousands of notebooks distributed across a network of computers. No single person or entity controls these notebooks. Instead, everyone in the network owns the information collectively.

Transparency and Security

Every transaction on the blockchain is visible to everyone in the network, making it transparent. It's as if everyone can see what's written in everyone else's notebooks at any time. However, once a transaction is recorded, no one can alter it, ensuring the information is secure and trustworthy.

Consensus Mechanism

Before anyone can add a new transaction to the notebook (blockchain), the majority of people in the community must agree (or reach a consensus) that the transaction is valid. This prevents fraud and errors. Rather than having a single person or entity, or centralized government to say that a trade occurred, the community verifies each transaction.

Immutability

Once the blockchain records a transaction, no one can change or delete it. It's like writing in the notebook with permanent ink. This ensures the integrity of the transaction history, as no one can go back and alter the records.

In essence, blockchain is a revolutionary way of keeping records that are transparent, secure, and decentralized. It's like a community-managed ledger that doesn't rely on any central authority, making it a powerful tool for ensuring fairness and trust in digital interactions. Whether it's for transferring money, proving ownership, or recording contracts, blockchain provides a way to conduct transactions with confidence and transparency.

Besides using the term blockchain, the digital economy also uses synonymous terms such as decentralized network, distributed ledger, DeFi. All of them contrast with centralized networks, such as governments that issue various forms of government-controlled currency.

Fiat Currency:

The US dollar is an example of fiat currency. Other examples include the Japanese yen or the British pound. When governments issue fiat currencies, they do not back those currencies by any type of physical commodity, such as gold or silver. Instead, people trust in the value of fiat currency because the government tells people it's valuable.

Fiat currency has some key characteristics, including:

Government Backing

The full faith and credit of the government backs fiat currency. Fiat differs from a commodity-based currency, which would have a value that corresponds with the commodity, such as gold. Valuing money means that we trust in the government that backs it with laws and regulatory frameworks.

Legal Tender

The government declares that fiat money is legal tender, meaning that others can accept money as a form of payment within the country for all debts, public and private. This legal status supports its use for transactions, taxes, and repayment of debt.

No Intrinsic Value

Unlike commodities such as gold or silver, fiat money doesn't have any intrinsic value. A \$100 bill only has symbolic value because the government declares it valuable, and people accept the bill based on what the government says about its value. It doesn't cost any more to create a \$100 bill than a \$1 bill, but the government tells us one bill is more valuable than the other. Since people have confidence in the stability of the government and its economy, they feel confident that a \$100 bill will always buy more than a \$1 bill—but both bills are only pieces of paper with green ink.

Controlled Supply

The nation's central bank, or monetary authority, controls the supply of fiat currency. If it needs more money in circulation, the government can print more money. By controlling the supply of money, the government exists as a centralized authority that influences interest rates and economic variables like inflation, employment, and the rate of economic growth.

Monetary Policy:

Fiat currencies give governments flexibility to manage their economies. They can always print more money or withdraw money from circulation to

address economic issues. If the government relied upon a fixed commodity—like gold—to back the value of money, it would not be able to manipulate the currency system so easily. In that case, the government would store a value of gold that would correspond to the amount of money in circulation. Rather than relying upon gold, however, the government's word backs the value of fiat currency, and to the extent that citizens trust in the government's word, the fiat currency has value.

Many people who've had experience dealing with the government, however, may not have much trust in the government, or in its ability to keep the government from taking people's fiat currency.

Inflation and Deflation:

Since the government can adjust the supply of fiat money at will, fiat currency can become more or less valuable. With inflation, the value of money decreases due to an increase in supply or drop in demand. For example, if the government wants to provide welfare to people or businesses, it can print money and give it away. During the economic crisis of 2008, the government printed money to bail out banks that were on the verge of failure; during the pandemic, the government printed money and gave it to people. When the government prints and distributes money, it makes the value of fiat currency less valuable, causing prices to inflate.

The government can also stop printing money, which can cause deflation, making money more valuable, which would lead to a decrease in prices for commodities—or things we can touch, like cars, houses, or food.

Investment:

On February 12, 2024, at 12:57 pm, the price of Bitcoin rose to \$50,701.97. With reports of billions of dollars flowing into Exchange Traded Funds (ETC) for BTC, and the upcoming halving, I added to my portfolio. I understood the price could drop, but believing that macro events in the world lead to higher prices over time, I purchased another full Bitcoin. With the Coinbase fee of \$1,140.79, the total cost of the acquisition was \$51,842.76.

- » Total investment in BTC at end of day, February 2, 2024: \$165,447.03
- » Total holdings: 3.5 BTC
- » Total value: \$177,456.90
- » Gain or Loss: \$12,009.87

The value of my holdings surpassed the total amount that I had paid by \$12,009.87.

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 investments 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:

What reasons would you attribute to the volatile nature of Bitcoin?
What advantages or disadvantages do you see with fiat currency?
In what ways does inflation influence a person's savings account?

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:
Prison Professors
% Digital Economy Course
32565 Golden Lantern, Suite B-1026
Dana Point, CA 92629
3. Send through the Edovo tablet
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- » Lesson 8: Understanding Ethereum