

# NFTs and Cryptocurrency

## Why They Are Changing How the World Does Business

By Bart Galvin

**D**igital assets such as Bitcoin and non-fungible tokens (NFTs) are transforming global capital markets and the art world, with market capitalization reaching \$2 trillion and digital artworks packaged through NFTs regularly selling for millions of dollars. As these assets gain prominence in the marketplace, it is increasingly important to understand why these assets appeal to investors, how they represent value, and how they function under the hood.

### NFTs and Digital Art

NFTs have exploded in popularity in the past year, with notable examples like CryptoPunks, which are collectible, algorithmically generated pixel artworks, as well as the works of Mike Winkelmann (known professionally as Beeple), who recently sold a piece of NFT art at a Christie's auction for \$69 million.

An NFT is a unique digital token representing an interest in something else, which could be a piece of art, a share of stock, a stream of royalties, or even, in the case of Unisocks, entitlement to a physical pair of socks. NFTs are 'non-fungible' because, unlike cryptocurrencies, they aren't interchangeable — your NFT corresponds to the specific entitlement or right to the underlying thing.

The eye-popping price tags of many digital-art NFTs poses the question: what exactly are you buying when you purchase an NFT? In its most basic form, an NFT is simply verifiable proof that you are the purchaser of whatever the NFT represents. But the devil is in the details. The rights granted by an NFT are entirely up its creator, so some NFTs have strict terms and conditions that prohibit exhibitions or commercial use of the art, while others might grant you the copyright in the work.

### Cryptocurrency and the Rise of Bitcoin

Bitcoin has been the most prominent cryptocurrency since its introduction in 2008, but many other cryptocurrencies exist, such as Ethereum, an important part of many 'smart contracts,' and Tether, which is pegged to the value of the U.S. dollar. Bitcoin accounts for about half of global cryptocurrency market capitalization.



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At the end of March, the price of one Bitcoin was approximately \$60,000. Unlike a cryptocurrency like Tether, the value of Bitcoin can fluctuate wildly. Indeed, it has increased tenfold in the past year, dwarfing its previous peak of \$17,000 in December 2017. The value of Bitcoin is determined almost entirely by what purchasers believe it is worth, and investors speculate on that value, driving price fluctuations. These price fluctuations can have a snowball effect, whereby widespread speculation in Bitcoin that drives the price upward can lead investors to believe Bitcoin will be adopted more widely, leading to further speculation that its value will increase.

### Why Do People Care?

Cryptocurrencies and NFTs represent a fundamentally new way of transact-

ing. The reason is in the revolutionary qualities of their underlying technology: the 'blockchain.' A blockchain can be thought of as a tamper-resistant digital store of data, constructed using computer cryptography and distributed among participants over the internet. Here's what makes the blockchain special, and why people are jumping on board.

First, the blockchain allows parties to transact without intermediaries. No banks or clearinghouses are needed

to execute or verify transactions since the underlying technology ensures that transfers are reliable, practically irreversible, and publicly verifiable.

Second, blockchain transactions are not limited by jurisdictional or national boundaries. The transaction's terms are dictated by computer code, not local law. Perhaps more importantly, the code is self-enforcing, which limits opportunistic behavior. Parties do not need to appeal to the judicial system to enforce an agreement because it happens automatically.

Third, blockchains are not subject to a central point of control or a central point of failure. Blockchains work by interconnecting users running the same software over a peer-to-peer network on the internet. No one party controls the blockchain. All new transactions are shared over the network, and they become final only

when a majority of users determines that the transaction is valid. If a user doesn't own the digital asset they're trying to transfer, or tries to transfer it twice, the transaction will be rejected.

Fourth, blockchain transactions are publicly visible and verifiable. A blockchain serves as a ledger of transactions and all the transactions that came before them, allowing anyone to view and verify the trail of activity occurring over the network.

Fifth, blockchains allow parties to transact pseudonymously (not quite anonymously), without needing to trust

or even know each other. All you need to know is your counterparty's digital address or 'wallet.' And because transactions are practically irreversible and verified by the consensus of the network, the opportunities for fraud are heavily curtailed.

## **The Future of Blockchain Technologies**

In the world of blockchain technology, Bitcoin and digital-art NFTs are the tip of the iceberg. There are already countless blockchain-based technologies, and new

ones are invented every day. The blockchain is highly flexible and has tremendous untapped potential for consumer transactions, private contracts, corporate structuring, securities and derivatives, and even public administration. If your business is not using the blockchain yet, it's only a matter of time. ♦

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