

Have you ever wondered what makes a cryptocurrency or digital asset more valuable than the other or have a high volume in the crypto market? Take a look at Bitcoin and Ripple. The value of one Bitcoin is about \$50,000 today, whereas a Ripple is barely a dollar. Why do we see this huge price range? This is where the idea of tokenomics comes into the limelight.

## Understanding the concept

Tokenomics is coined from two words; “Token” and “Economics”. It refers to the science behind allocating tokens to incentivize users to utilize that token – essential to building a vibrant token community that drives adoption, and sometimes removal from a network.

Tokenomics covers a cryptocurrency's token metrics, answering the questions of **Distribution**, **Functionality**, **Purpose**, and **Utilization**.

The cap of a coin or token places a major role in understanding the tokenomics of a project. This could either be a hard or a soft cap. A hard cap represents the number of tokens required to fully launch a project. A soft cap is used to determine the number of tokens required for the project to go live.

Different projects take different approaches. Some projects can include tokens held in reserve which can be added into the ecosystem at a later point, as a way to promote growth or to pay for system maintenance.

In recent time, FTX Crypto Derivative Exchange burned over \$6.4 million worth of its native token; \$FTT to help regulate the coin's value in the marketplace. The act of burning happens when a token is sent to an unknown wallet address.

## Tokenomics in live-action

The Bitcoin protocol was designed so that a steady stream of tokens can enter the network. After a block has been successfully validated by a ‘miner’, they receive newly minted bitcoins as a reward. The number of tokens rewarded eventually “halves” over time. This is called bitcoin

halving; which stops too many bitcoins from entering the network at any one time.

For the Ethereum Network, Tokens are continually distributed by block rewards. During its Initial coin Offering (I.C.O) in 2014, about 7million Ether to help kick-start mainstream adoption. There is currently no hard cap on Ether, meaning that the token supply can continue to grow as the network expands.

## **Conclusion**

Tokenomics is the least criteria you should put in mind before investing in any cryptocurrency. Beyond understanding its concepts, traders and investors should also take care to analyze the qualitative aspects of any token project before making an investment decision.