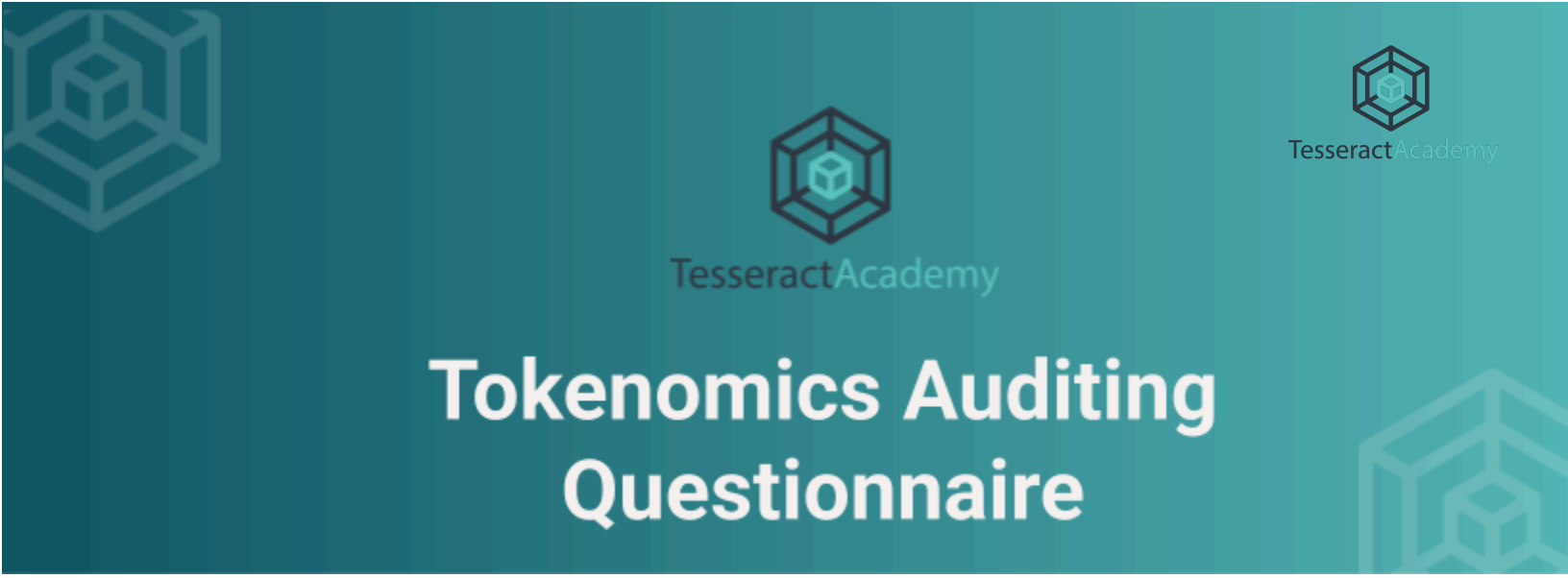


A tokenomics audit has the same goal as any other industry audit (e.g., accounting). The auditor must assess a project's viability while also suggesting potential improvements. The ultimate goal is to provide an independent opinion on whether or not a token economy is viable. In other words, to convince an informed but skeptical reader that the properties and claims of a project are true in light of current and foreseeable world conditions.

The variety of options available to founding teams when designing token economies frequently leaves them with more questions than answers. Even determining whether the token economy design is robust can be difficult. Furthermore, a blockchain project must convince not only its founders but also potential investors. As a result, innovative crypto-projects frequently create interesting narratives for themselves, but they are not always viable. We have already seen how poor token economy design can harm projects and their communities. Every blockchain project should be required to audit its ecosystem in order to mitigate potential risks.

Tokenomics Auditing Framework

Business-Token Interaction

1) Do tokens improve the current business model?
2) Does the project have blockchain-based utilities?
3) Can the protocol utility generate demand?
4) Is demand purely generated by speculative utilities?

Structural Analysis

1) CASH FLOW

    How the protocol captures value?
    Is captured value enough to sustain the economy? Captured value — (expenses, incentives + other) = net positive
    Does money stay in the token economy, or is there pressure to immediately sell?

2) INCENTIVES

   Are incentives properly aligned between the economic agents?

   Are incentives distribution sustainable? Are incentives distributed using speculative mechanisms?

   Do users create value by interacting with the protocol? (not necessarily a financial value)

3) DEMAND DRIVERS

   Are there levers the economy can use to influence the demand?

   Do the demand drivers depend on controllable factors or uncontrollable factors? An example of an uncontrollable factor is simply conditions.

   Do they depend on entities that generate real economic value or more on internal or speculative factors, e.g. expected token appreciation because of rewards?

4) GOVERNANCE

   Is the decision-power structure clear?

   Governance model analysis:

   i) Can a majority take over?

   ii) Can governance cause sticky points? For e.g. votes need to take place, but no one is voting

   iii) Other

5) EMPIRICAL PROOF

   Has there been proof that the crypto primitives used in the project can work successfully?

Tokens Allocation

1) Is allocation design well thought out?
2) Does the allocation try to reward economic agents for value created/work put in?
3) Does the allocation favor pump-and-dumps?
4) Does it provide unnecessarily large stakes to certain actors?
5) Does the distribution avoid creating unnecessary sell pressure?

Economic Risks and Stress Tests

1) Edge scenarios overview.
2) Has the project identified potential risks and emergency mechanisms to mitigate or solve them? Are incentives used to fight those risks?
3) Is protocol exposed to 3rd party economic dependencies?
4) How exposed to shocks is the token? Can a shock collapse or disturb the protocol?
5) Does the token appreciate when simulated? If the objective of the token is to provide a peg or some other functionality, then this question can be ignored.
6) Does the system have feedback loops, which could accelerate a crash (e.g. the Terra/Luna case)

Other Observations

1) Token Model suggestions and improvements

