Discussion of
Some Economics of Private Digital Currency
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\footnote{The views presented here do not necessarily reflect those of the Federal Reserve of Chicago or the Federal Reserve System.}
Private Digital Currencies

- why do they exist?
- could they become a threat for state currencies?
  - would the issuer want to make them fully convertible?
- model is used to analyze these questions
- focus of paper is on *particular* form of digital currency
Platforms and Time

- platform is owned by a profit-maximizer
- platform-owner derives revenue from time spent by users
- users get utility from time spent on platform
- time has an opportunity cost (wage)
  - higher-wage earners spend less time
- allow users to increase marginal utility of time spent with enhancements
  - enhancements can be bought with time or money
  - high-wage earners will buy with money, low-wage earners with time
- time spent increases
Cashing out

- allow users to sell enhancements back to platform (outward convertibility)
  - equivalent to increasing the wage for low types
  - effect is to reduce their direct usage
- but the earning activity may be profitable for the platform
- hiring housewives to stare at Facebook ads could be profitable, if wage paid to them < return on ads
- of course the advertisers would wise up and demand lower fees
Comments

- virtue of model:
  - focus on opportunity cost of platform activity
  - enhancements can be seen as price discrimination between high and low-wage earners
- not addressed: making the credits transferable between users
  - key question if these credits are to become a medium of exchange
  - much confusion on this point:
    - BCE survey classifies frequent-flyer miles as virtual currency
    - they are really quantity discounts storable over time
Transferable Credits

- suppose FB credits are made transferable
- sellers of goods and services offer them for FB credits: why?
  - convenient form of payment
  - somehow customers with this form of payment are more attractive
  - marketing?
- what does platform-owners earn from the use of credits as medium of exchange?
  - advertising revenue
  - old-style counterpart: suppose banks issue notes with ads on them
Platforms and Currencies

- platform: “A platform is a business, mechanism or institution that brings together two or more distinct parties (or more generally, groups) for their eventual mutual gain”
- broad enough to encompass many things!
- could currencies emerge from platforms?
  - currency: medium of exchange for a wide array of goods and services
  - the platform-based currency would have to offer particular convenience
  - more likely to occur when it was designed for that purpose
  - Bitcoin (”platform” only in the broadest sense), Ripple