

# The Bitcoin Standard – Lecture 1 (Money) • Study Notes

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## Big Picture

- Money is a **medium of exchange**, not desired for its own sake but to trade for other goods.
  - It solves the **coincidence of wants problem** in barter by enabling indirect exchange.
  - Saleability (liquidity across scales, time, and space) determines what becomes money.
  - Hard money – difficult to produce and resistant to supply inflation – emerges naturally as the best store of value.
  - Gold historically fulfilled this role; Bitcoin now represents a superior digital alternative.
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## Core Claims

1. **What Is Money?**
2. A good bought only to exchange later, not for consumption or production.
3. Needed because direct barter rarely works in large societies.
4. **The Coincidence of Wants Problem**
5. Barter fails when goods don't match in:
  - **Scale** → apples vs. cars.
  - **Time** → I sell today, you buy tomorrow.
  - **Location** → goods in different places.
6. **Indirect Exchange**
7. People naturally adopt media of exchange (bananas, grain, metals, etc.).

8. Over time, the best solutions — highly saleable goods — dominate.
  9. **Menger on Saleability**
  10. Origin of money is **spontaneous**, not decreed by governments.
  11. Goods with higher saleability (easy to sell without loss) become money.
  12. **Saleability Dimensions**
  13. **Across scales** → divisible & combinable.
  14. **Across space** → portable, valuable per weight, durable.
  15. **Across time** → resistant to decay and inflation.
  16. **Hard vs. Easy Money**
  17. **Hard money**: difficult to produce → preserves value (e.g., gold).
  18. **Easy money**: cheap to produce → inflates supply, loses value (e.g., oil, fiat).
  19. Measured by **Stock-to-Flow Ratio** (existing stock vs. annual new supply).
  20. **Why Gold?**
  21. Indestructible, inert, portable, divisible.
  22. Stock-to-flow  $\approx 60$  → new supply insignificant.
  23. Silver once monetary, but corrosion & industrial use reduced its hardness.
  24. **Bitcoin's Role**
  25. First purely digital money with highest hardness.
  26. Emerged from the market voluntarily, not by decree.
  27. Solves coincidence of wants digitally across scales, time, and space.
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## Key Concepts & Mental Models

- **Medium of exchange** vs. **store of value** vs. **unit of account**.
  - **Coincidence of wants problem** → why money exists.
  - **Saleability** → core property that determines monetary adoption.
  - **Stock-to-flow ratio** → measure of monetary hardness.
  - **Spontaneous order** → money emerges from market choice, not government design.
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## Examples & Applications

- **Apples vs. Cars:** lack of coincidence of scales solved by intermediate goods.
  - **Bananas as Money:** possible, but spoilage destroys saleability across time.
  - **Oil:** stock-to-flow  $\approx 1$ , so price collapses with new production  $\rightarrow$  bad money.
  - **Gold:** centuries of dominance due to durability and hardness.
  - **John Law's Paper Money:** historical failure of top-down money design.
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## Quotable Ideas

- “Money is a spontaneous outcome, not a government decree.” — Ammous
  - “Hard money wins; easy money gets wiped out.” — Ammous
  - “Stock-to-flow is the best measure of monetary hardness.” — Ammous
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## Study Prompts

- Define money in terms of its three functions.
  - Explain the coincidence of wants problem in barter.
  - What makes a good highly saleable across scales, time, and space?
  - Contrast gold, silver, oil, and Bitcoin in terms of stock-to-flow.
  - Why does Menger argue money's origin is spontaneous, not decreed?
  - How does Bitcoin solve the coincidence of wants problem digitally?
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## TL;DR

Money arises as a **spontaneous market solution** to the coincidence of wants. The most **saleable goods** — durable, divisible, portable, and hard to produce — emerge as money. Gold dominated for millennia due to its high stock-to-flow ratio, making it the hardest money. Bitcoin now represents the hardest form of money ever created, solving coincidence-of-wants problems in the digital realm. Unlike fiat or easy commodities, Bitcoin is market-born, incorruptible, and poised to inherit the role of global money.

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