This is my fourth comment on bitcoin. The first one was put at SR-CboeBZX-2018-040 on 08/13/2018, the second at SR-NYSEArca-2017-139 on 08/16/2018, and the third at SR-CboeBZX-2018-001 on 08/17/2018.

My comments have been on “intrinsic value” all the time. The purpose for this writing is why it is so important to talk about intrinsic value. I mean we need to talk about it, because people of the highest authority in the field of money does not talk about it satisfactorily.

For example, Modern Money Mechanics reads:

"Intrinsically, a dollar bill is just a piece of paper, deposits merely book entries. Coins do have some intrinsic value as metal, but generally far less than their face value. What, then, makes these instruments - checks, paper money, and coins - acceptable at face value in payment of all debts and for other monetary uses? Mainly, it is the confidence people have that they will be able to exchange such money for other financial assets and for real goods and services whenever they choose to do so."

The paragraph quoted starts with “intrinsically,” so it seems that the author of this booklet believes USD does not have intrinsic value. She used the word “merely” in front of “book entries.” When you deposit your money in a bank, however, the bank enters the information in their book to mean they owe you that amount. It is no way a “mere” thing. I strongly doubt that this author really knew the meaning of intrinsic value.

Things are changing. One Federal Reserve person has recently presented a clue to amending above quoted part of Modern Money Mechanics so that every reader can understand the intrinsic value of USD. In Randal K Quarles’s speech of 11/30/2017, I find:

"In the U.S. payment system, digital currencies are a niche product that sometimes garners large headlines. But from the standpoint of analysis, the "currency" or asset at the center of some of these systems is not backed by other secure assets, has no intrinsic value, is not the liability of a regulated banking institution, and in leading cases, is not the liability of any institution at all. Indeed, how to treat and define this new asset is complicated.”

We can infer clearly from his statement “not the liability of a regulated banking institution” that USD is a debt instrument. Intrinsic value of a debt instrument is the present value of all future repayment of principal and interest. We calculate the present value with the amount of principal, due dates and interest rate(s). Risk level is also a factor, but it is already calculated into interest rate(s). USD, as a descendant of 1861 Demand Note, does not bear any interest. The due date of USD, like the Demand Note, is “right now.” It is realistic, because we can pay tax with it any time. Therefore, the present value of USD is its face value, when it is assumed that the ultimate debtor US government deserves zero interest rate.

Mr. Quarles’s statement quoted above can be developed into the preceding paragraph, and eventually an overhaul of Modern Money Mechanics, where quantity theory of money should be thoroughly abandoned. In this era of note money, price level commands quantity of money, not vice versa. Money, a debt instrument, is not a “thing” of which quantity means something. Nobody cares the total amount of promissory notes, and the same should go with note money. The value of money comes from the credibility of the issuing government, not the quantity. What has happened since the first Quantitative Easing has sufficiently backed this.

When intrinsic value of USD is made clear and quantity theory of money has completely gone, it is not difficult to understand the nature of bitcoin. Bitcoin creator(s) assumed that USD had no intrinsic value so something with no intrinsic value could be money. This is wrong. They clumsily relied on quantity theory of money in support of their belief in the future prices of bitcoin. This is wrong. Bitcoin is just a certificate of expense having no similarity to money or gold. The current prices are from confusion, as with the pieces of the blue sky that contributed to the Great Depression.