Bitcoin Mechanics

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Course website: https://verigu.github.io/6998Fall2025/

Bitcoin

Bitcoin: A Peer-to-Peer Electronic Cash System

Satoshi Nakamoto
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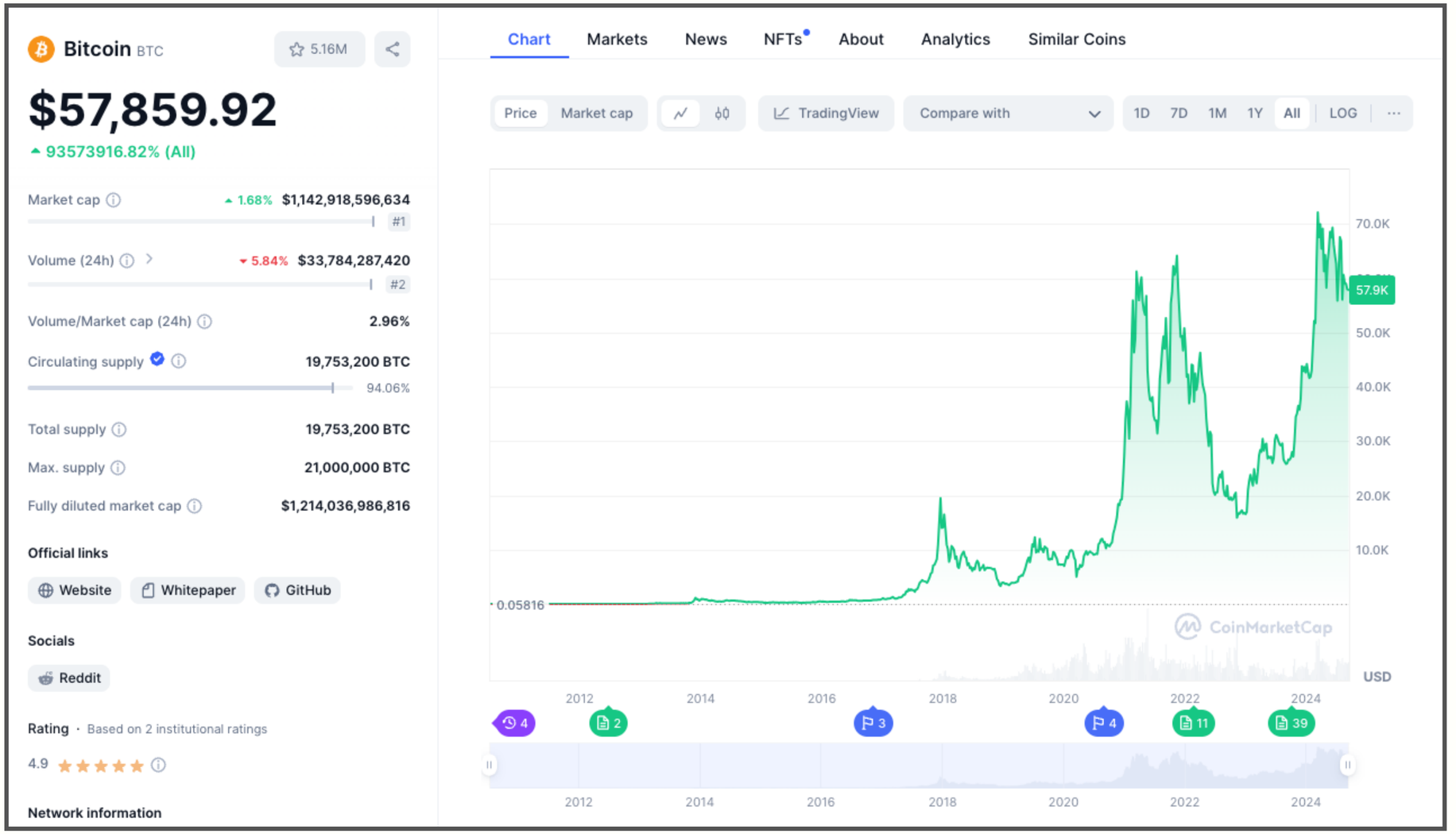
www.bitcoin.org

Abstract. A purely peer-to-peer version of electronic cash would allow online payments to be sent directly from one party to another without going through a financial institution. Digital signatures provide part of the solution, but the main benefits are lost if a trusted third party is still required to prevent double-spending. We propose a solution to the double-spending problem using a peer-to-peer network. The network timestamps transactions by hashing them into an ongoing chain of hash-based proof-of-work, forming a record that cannot be changed without redoing the proof-of-work. The longest chain not only serves as proof of the sequence of events witnessed, but proof that it came from the largest pool of CPU power. As long as a majority of CPU power is controlled by nodes that are not cooperating to attack the network, they'll generate the longest chain and outpace attackers. The network itself requires minimal structure. Messages are broadcast on a best effort basis, and nodes can leave and rejoin the network at will, accepting the longest

Bitcoin MarketCap (2024.Sept)



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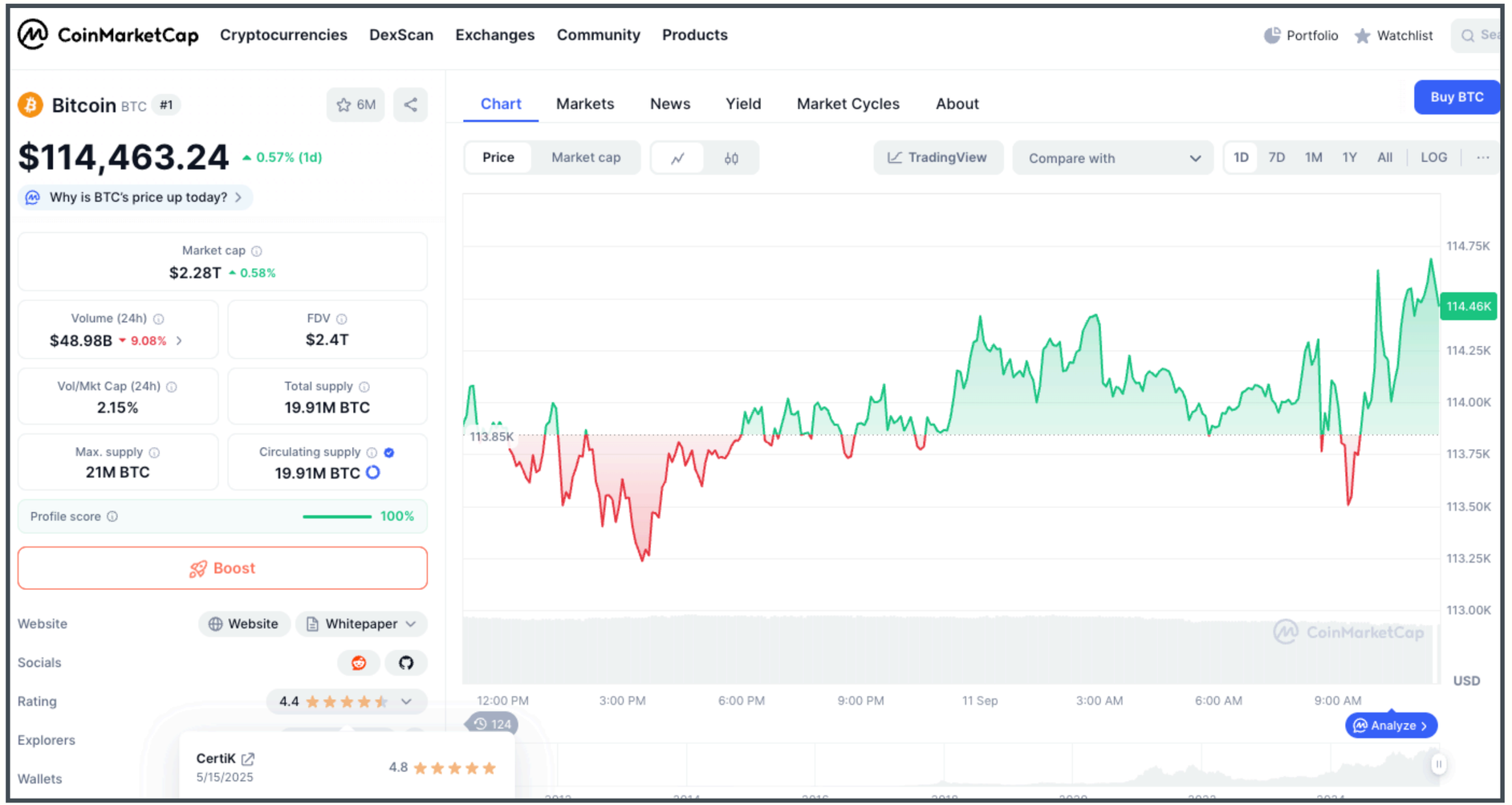
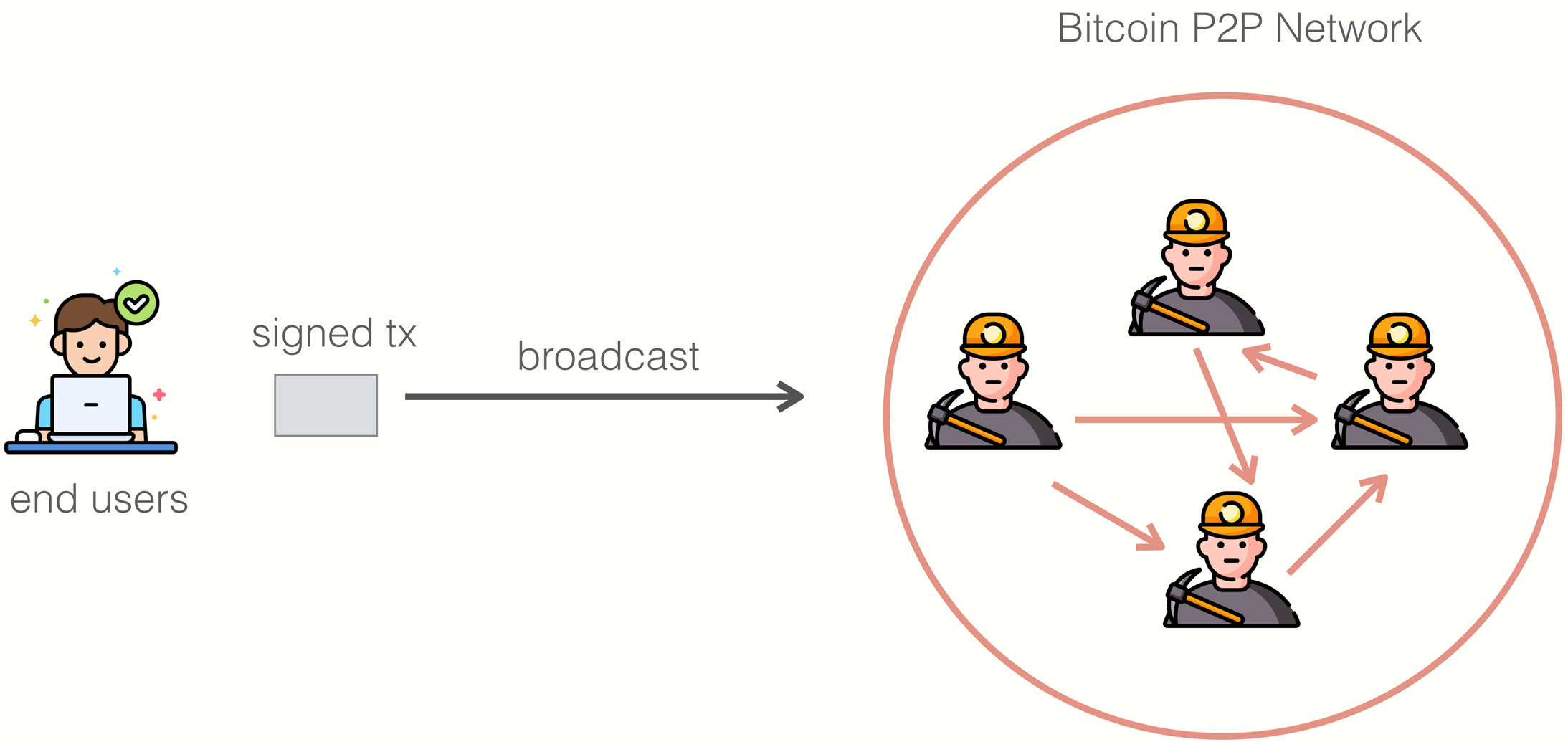


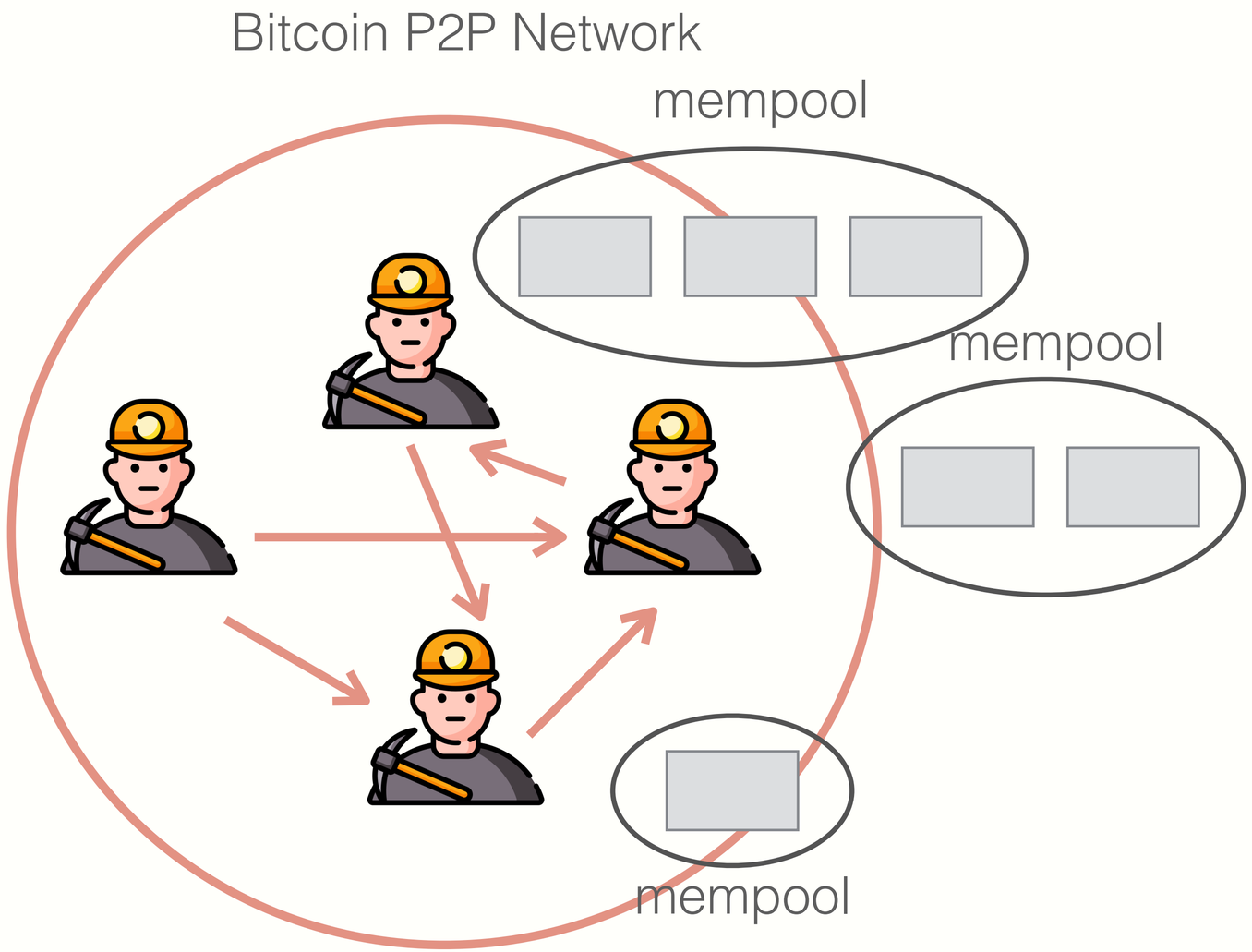
1 Bitcoin Network Overview

Bitcoin Network



Bitcoin Network

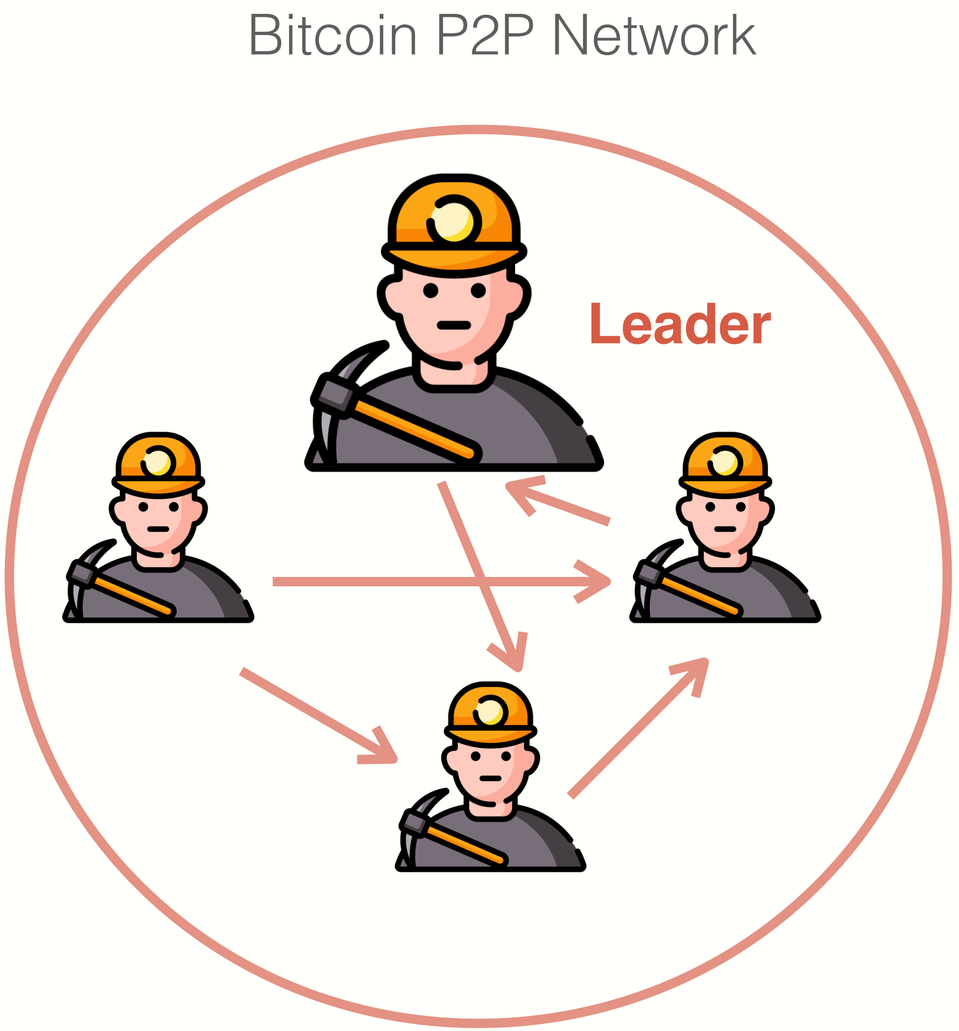
- Miners broadcast received Tx
- Every miner
  - Validates Tx
  - Stores them in its mempool



Bitcoin Network

Every 10 minutes:

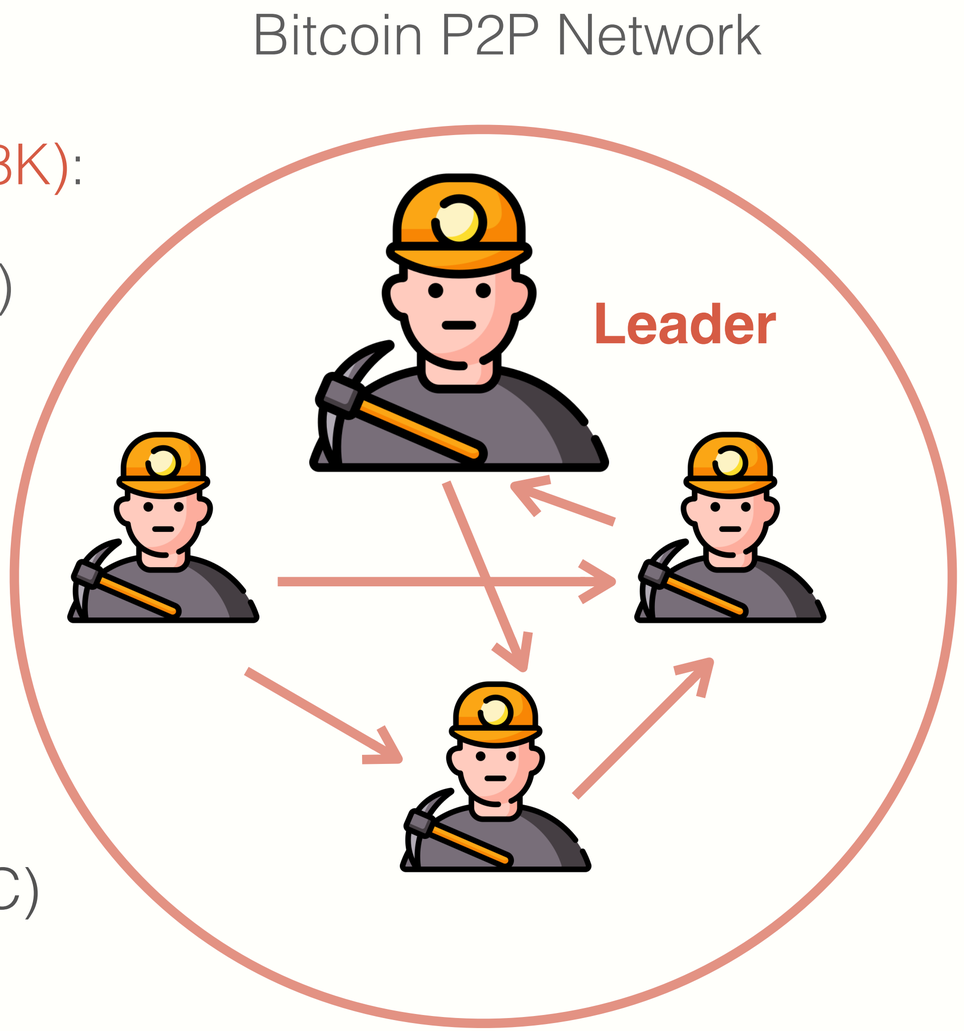
- Miners create candidate blocks from Tx in its mempool
- A miner is selected (how?) and broadcasts it to P2P network
- All minters validate new block



Bitcoin Network

Selected leader is paid 3.125 BTC ($178K):

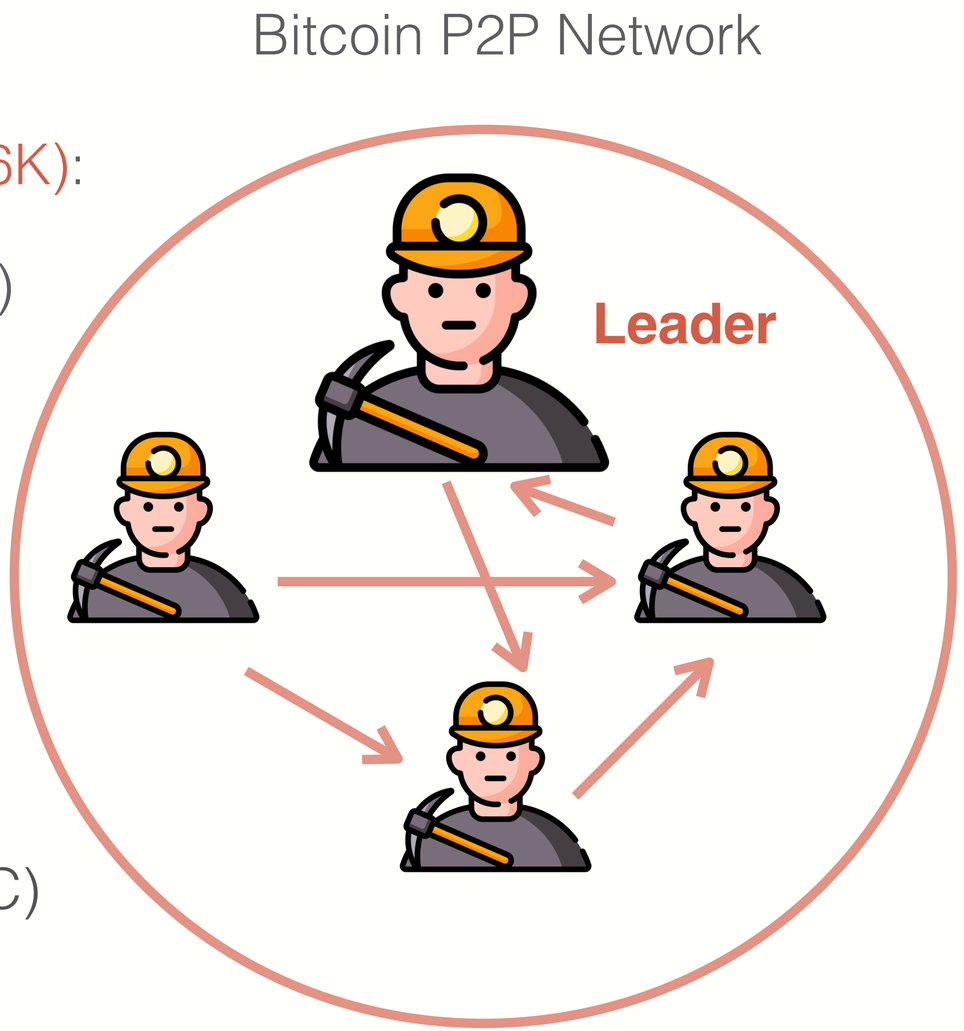
- In coinbase Tx (first Tx in the block)
- Only way new BTC is created
- Block reward halves every 4 years
  - Now: 3.125 BTC
  - Initially: 50 BTC ($3M)
  - Max: 21M BTC (now 19.75M BTC)



Bitcoin Network

Selected leader is paid 3.125 BTC ($356K):

- In coinbase Tx (first Tx in the block)
- Only way new BTC is created
- Block reward halves every 4 years
  - Now: 3.125 BTC
  - Initially: 50 BTC ($7M)
  - Max: 21M BTC (now 19.91M BTC)



Properties

Persistence

- To remove a block, need to convince 51% of mining power

Liveness

- To block a Tx from being posted, need to convince 51% of mining power

2 Bitcoin Blockchain

Bitcoin Blockchain: a sequence of block headers

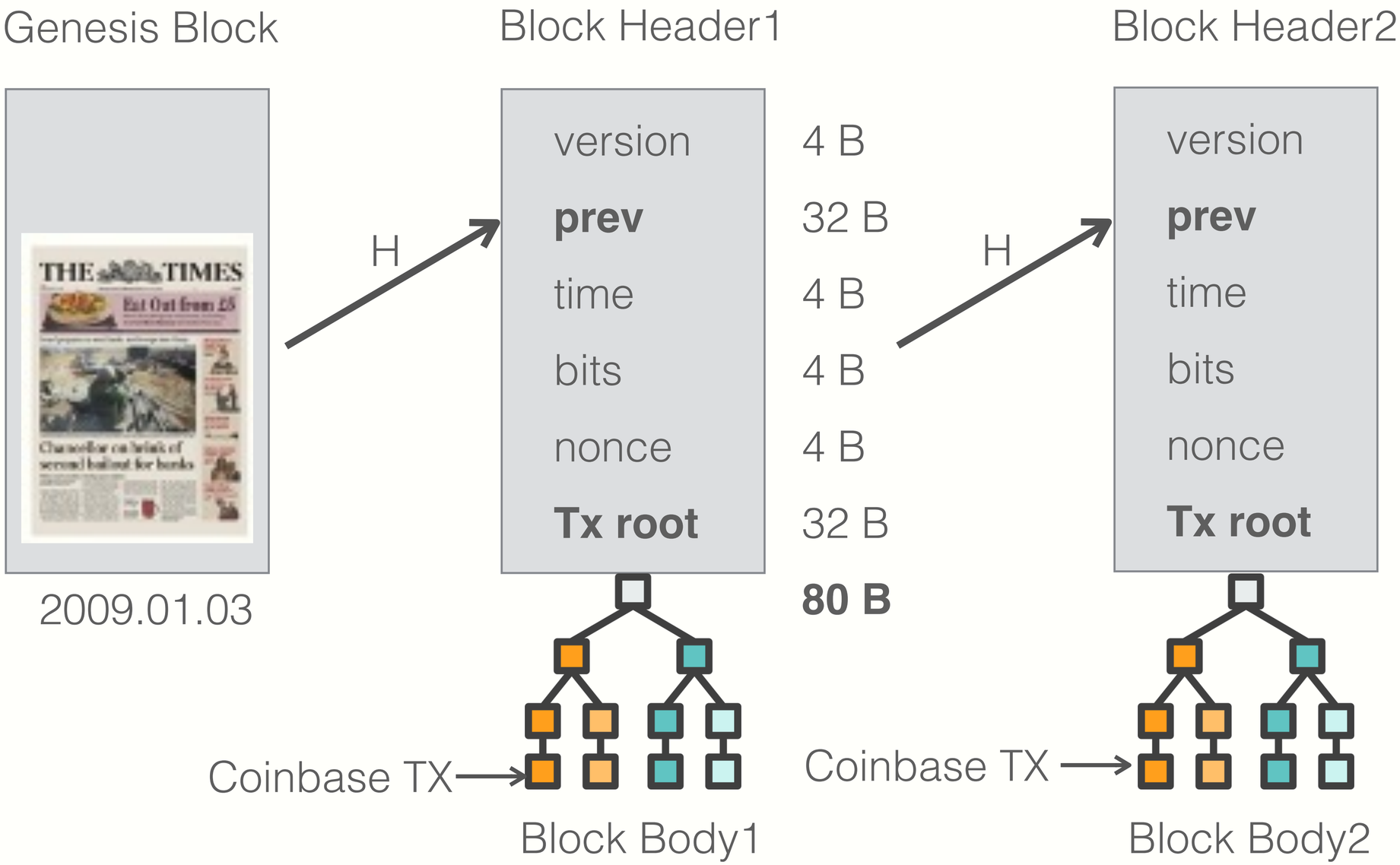
Genesis Block

2009.01.03

The Times 03/Jan/2009 Chancellor on brink of second bailout for banks.

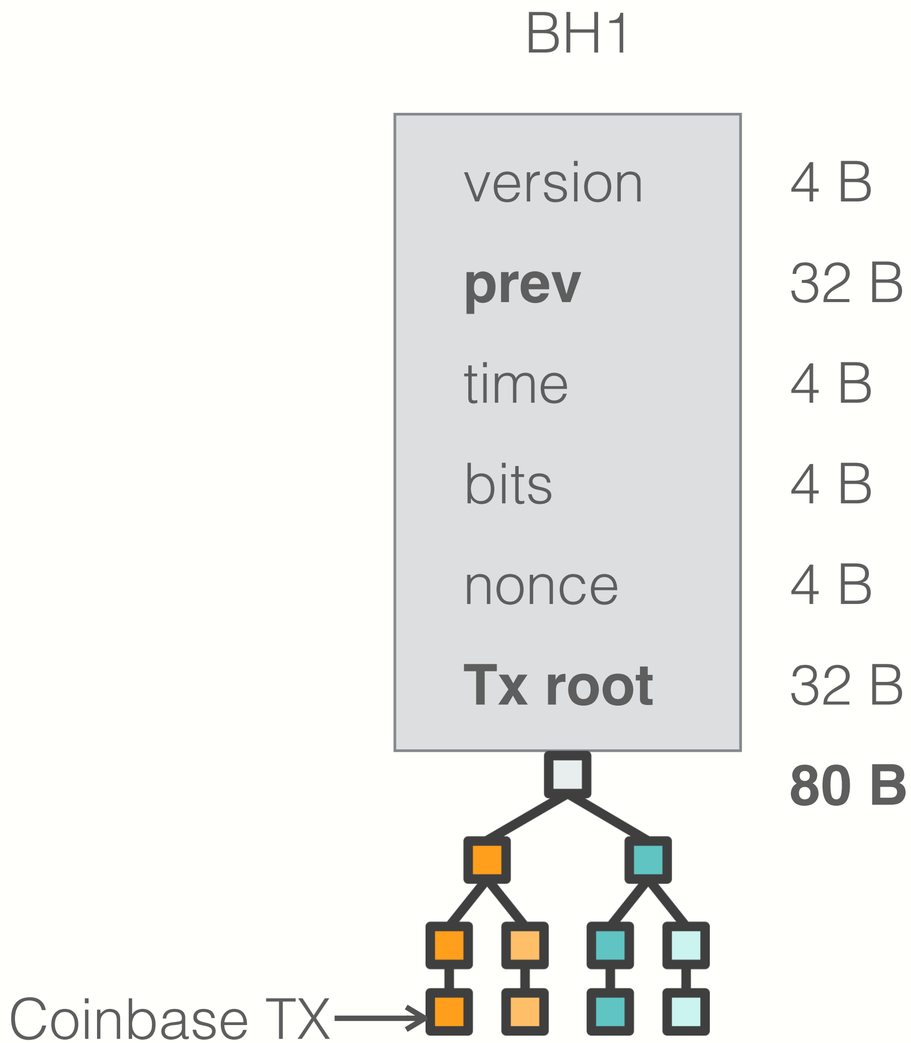
— The Bitcoin Genesis Block

Bitcoin Blockchain: a sequence of block headers

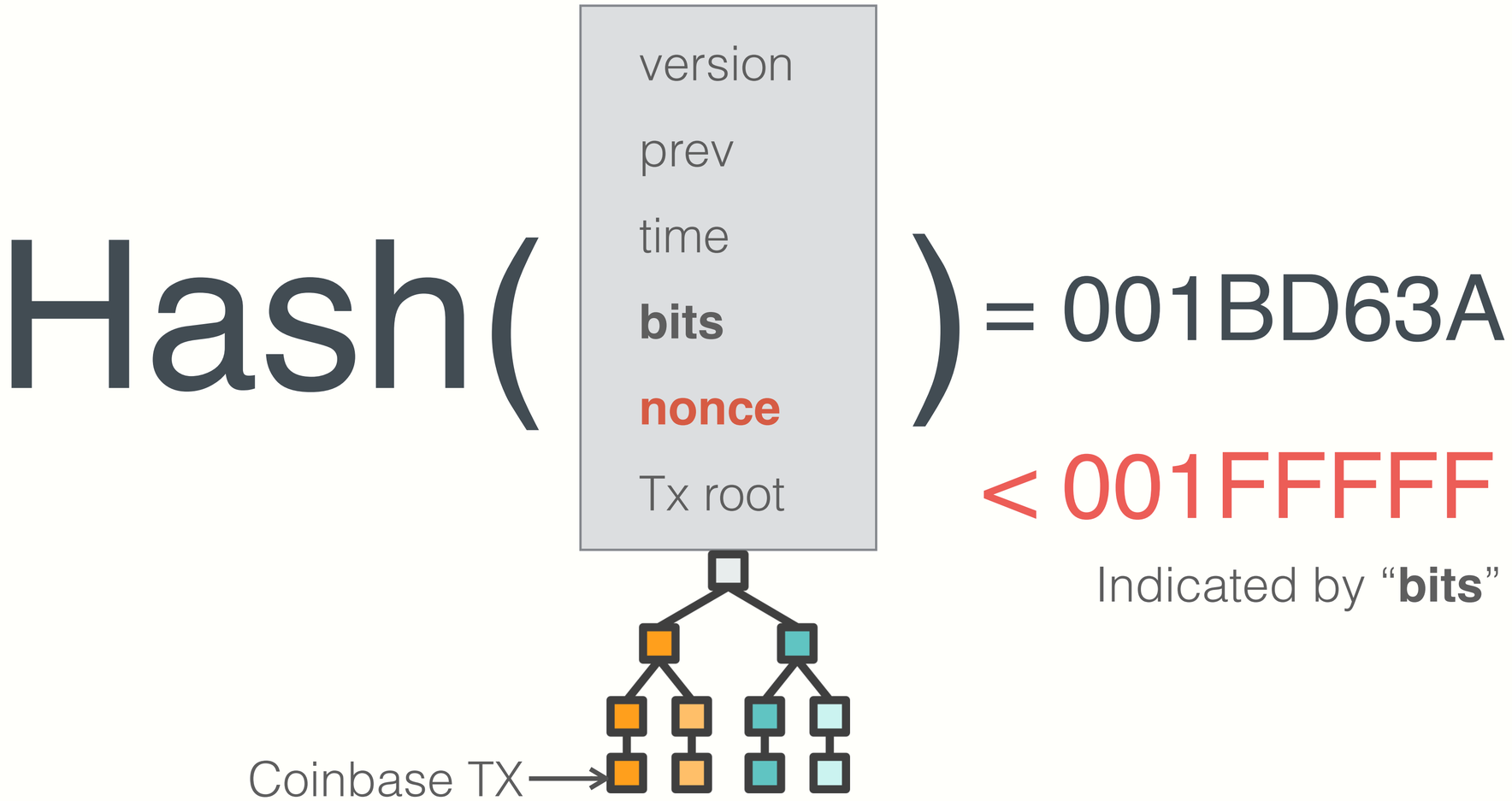


Bitcoin Blockchain: a sequence of block headers

- **time**: time miner assembled the block. Self reported. (block rejected if too far in past or future)
- **bits**: proof of work difficulty
  nonce: proof of work solution
- **Merkle tree**: payer can give a short proof that Tx is in the block



Bitcoin Blockchain: a sequence of block headers

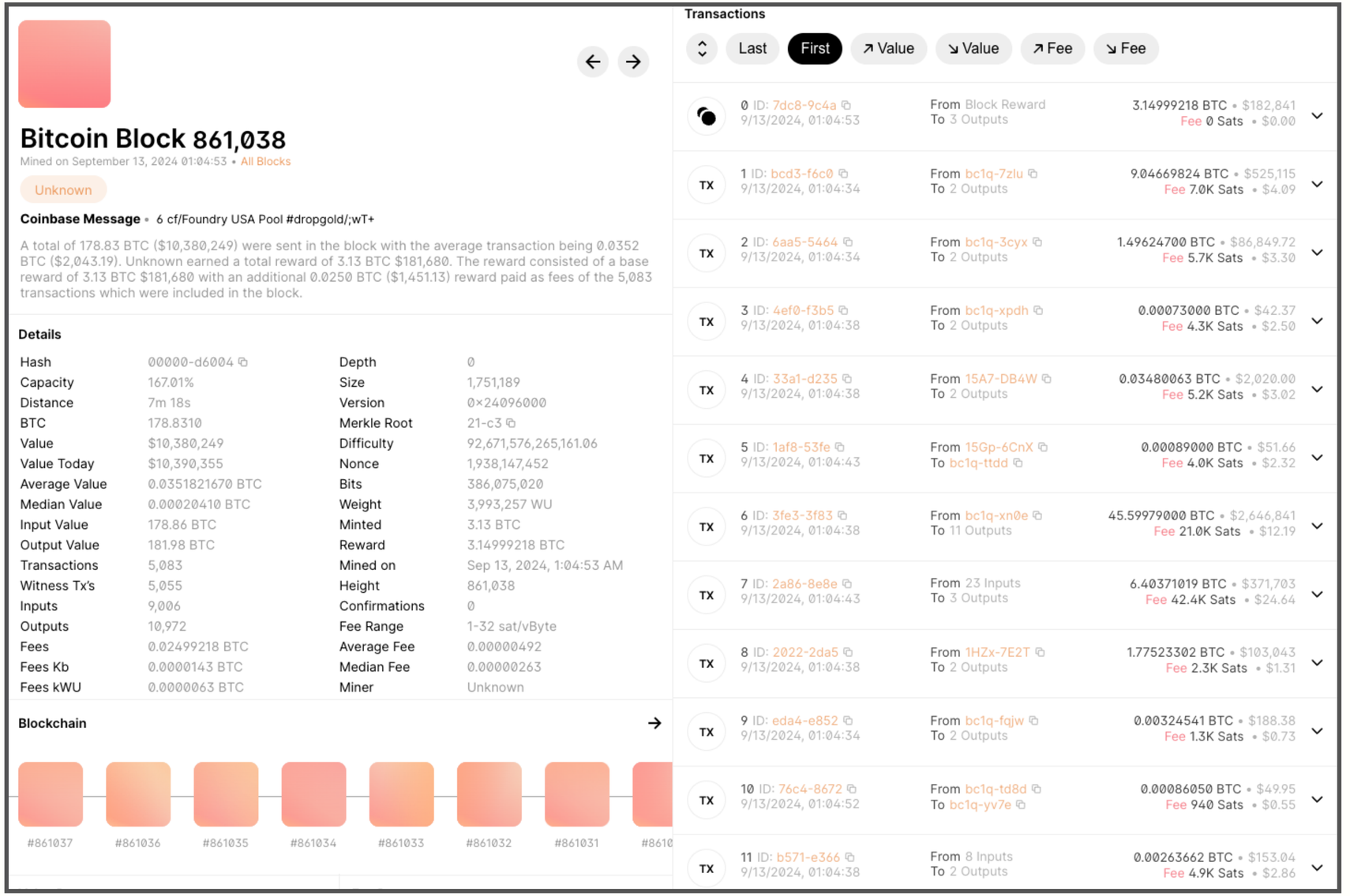


An example

Latest BTC Blocks

Number	Hash	Miner	Mined	Tx Count	Nonce	Fill	Size	Total Sent	Total Fees
861038	0000-6004	Unknown	4m 14s	5,083	1,938,147,452	167.01%	1,751,189 Bytes	179 BTC	0.02BTC
861037	0000-64a9	Unknown	3m 50s	2,936	946,255,157	156.28%	1,638,749 Bytes	11,348 BTC	0.05BTC
861036	0000-7ee2	Unknown	14m 39s	2,523	1,189,082,422	128.27%	1,345,018 Bytes	5,300 BTC	0.07BTC
861035	0000-4e28	Unknown	31m 32s	3,593	990,773,456	175.96%	1,845,061 Bytes	1,916 BTC	0.03BTC
861034	0000-bd5b	Unknown	35m 22s	6,653	3,783,151,264	166.12%	1,741,905 Bytes	501 BTC	0.03BTC
861033	0000-4911	Unknown	36m 41s	3,323	484,403,155	152.82%	1,602,385 Bytes	4,552 BTC	0.07BTC
861032	0000-0caa	Unknown	53m 17s	5,743	1,801,898,394	159.15%	1,668,853 Bytes	1,474 BTC	0.04BTC
861031	0000-af5f	Unknown	1h 0m 6s	3,925	4,010,927,724	155.24%	1,627,790 Bytes	16,393 BTC	0.04BTC

An example



Bitcoin Block 861,038

Mined on September 13, 2024 01:04:53 • All Blocks

Unknown

Coinbase Message • 6 cf/Foundry USA Pool #dropgold/;wT+

A total of 178.83 BTC ($10,380,249) were sent in the block with the average transaction being 0.0352 BTC ($2,043.19). Unknown earned a total reward of 3.13 BTC $181,680. The reward consisted of a base reward of 3.13 BTC $181,680 with an additional 0.0250 BTC ($1,451.13) reward paid as fees of the 5,083 transactions which were included in the block.

Details

Hash	00000-d6004	Depth	0
Capacity	167.01%	Size	1,751,189
Distance	7m 18s	Version	0×24096000
BTC	178.8310	Merkle Root	21-c3
Value	$10,380,249	Difficulty	92,671,576,265,161.06
Value Today	$10,390,355	Nonce	1,938,147,452
Average Value	0.0351821670 BTC	Bits	386,075,020
Median Value	0.00020410 BTC	Weight	3,993,257 WU
Input Value	178.86 BTC	Minted	3.13 BTC
Output Value	181.98 BTC	Reward	3.14999218 BTC
Transactions	5,083	Mined on	Sep 13, 2024, 1:04:53 AM
Witness Tx's	5,055	Height	861,038
Inputs	9,006	Confirmations	0
Outputs	10,972	Fee Range	1-32 sat/vByte
Fees	0.02499218 BTC	Average Fee	0.00000492
Fees Kb	0.0000143 BTC	Median Fee	0.00000263
Fees kWU	0.0000063 BTC	Miner	Unknown

Blockchain

#861037 #861036 #861035 #861034 #861033 #861032 #861031 #8610

Transactions

Last | First | ↗ Value | ↘ Value | ↗ Fee | ↘ Fee

0	ID: 7dc8-9c4a 9/13/2024, 01:04:53	From Block Reward To 3 Outputs	3.14999218 BTC • $182,841 Fee 0 Sats • $0.00
TX	1 ID: bcd3-f6c0 9/13/2024, 01:04:34	From bc1q-7zlu To 2 Outputs	9.04669824 BTC • $525,115 Fee 7.0K Sats • $4.09
TX	2 ID: 6aa5-5464 9/13/2024, 01:04:34	From bc1q-3cyx To 2 Outputs	1.49624700 BTC • $86,849.72 Fee 5.7K Sats • $3.30
TX	3 ID: 4ef0-f3b5 9/13/2024, 01:04:38	From bc1q-xpdh To 2 Outputs	0.00073000 BTC • $42.37 Fee 4.3K Sats • $2.50
TX	4 ID: 33a1-d235 9/13/2024, 01:04:38	From 15A7-DB4W To 2 Outputs	0.03480063 BTC • $2,020.00 Fee 5.2K Sats • $3.02
TX	5 ID: 1af8-53fe 9/13/2024, 01:04:43	From 15Gp-6CnX To bc1q-ttdd	0.00089000 BTC • $51.66 Fee 4.0K Sats • $2.32
TX	6 ID: 3fe3-3f83 9/13/2024, 01:04:38	From bc1q-xn0e To 11 Outputs	45.59979000 BTC • $2,646,841 Fee 21.0K Sats • $12.19
TX	7 ID: 2a86-8e8e 9/13/2024, 01:04:43	From 23 Inputs To 3 Outputs	6.40371019 BTC • $371,703 Fee 42.4K Sats • $24.64
TX	8 ID: 2022-2da5 9/13/2024, 01:04:38	From 1HZx-7E2T To 2 Outputs	1.77523302 BTC • $103,043 Fee 2.3K Sats • $1.31
TX	9 ID: eda4-e852 9/13/2024, 01:04:34	From bc1q-fqjw To 2 Outputs	0.00324541 BTC • $188.38 Fee 1.3K Sats • $0.73
TX	10 ID: 76c4-8672 9/13/2024, 01:04:52	From bc1q-td8d To bc1q-yv7e	0.00086050 BTC • $49.95 Fee 940 Sats • $0.55
TX	11 ID: b571-e366 9/13/2024, 01:04:38	From 8 Inputs To 2 Outputs	0.00263662 BTC • $153.04 Fee 4.9K Sats • $2.86

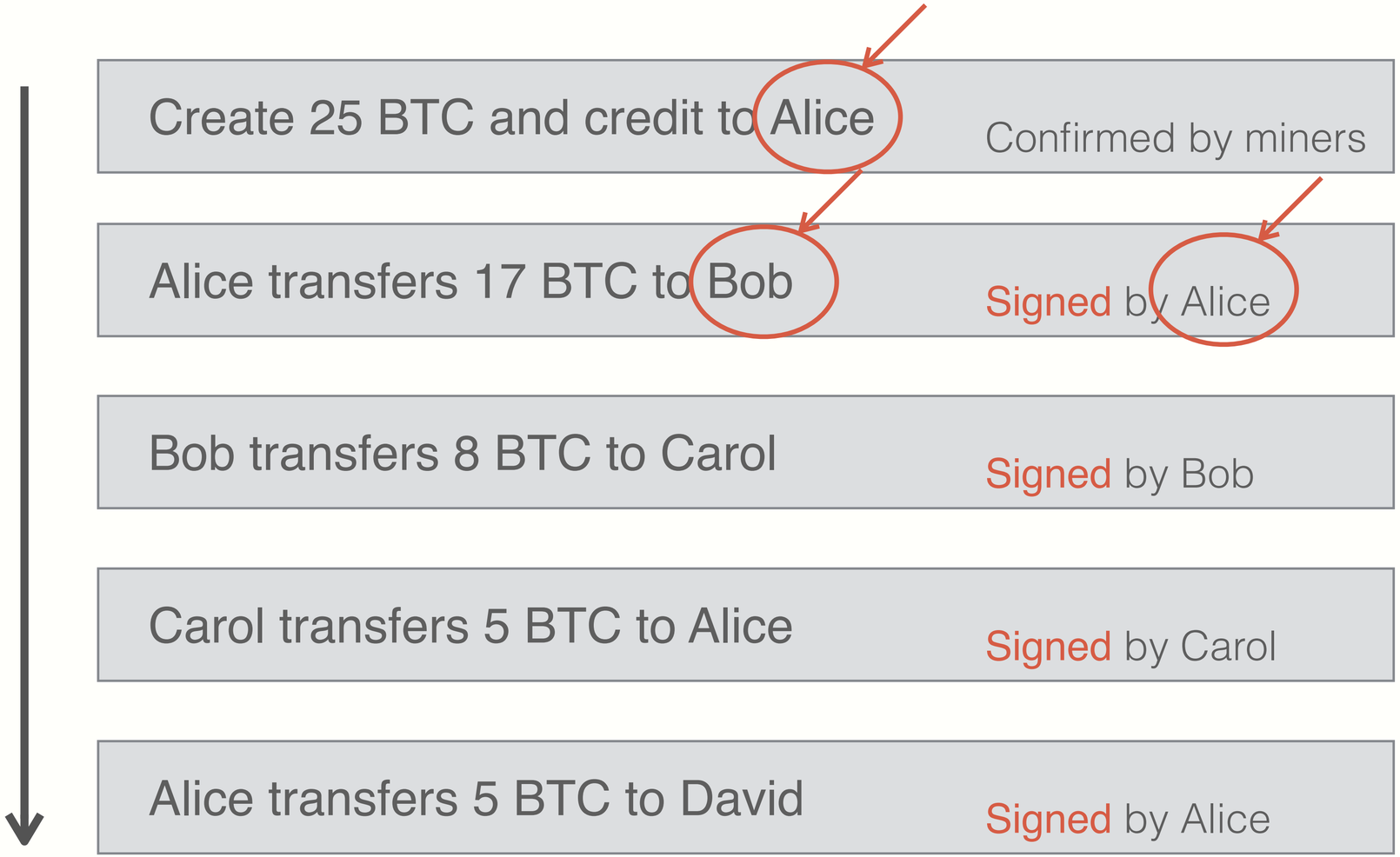
3 Bitcoin Transactions

Bitcoins exist as records of Bitcoin transactions

We define a bitcoin as **a chain of digital signatures**. Each owner transfers bitcoin to the next by digitally signing a hash of the previous transaction and the public key of the next owner and adding these to the end of the coin. A payee can verify the signatures to verify the chain of ownership.

— Satoshi Nakamoto

Bitcoins exist as records of Bitcoin transactions



Is this valid?

Bitcoins exist as records of Bitcoin transactions

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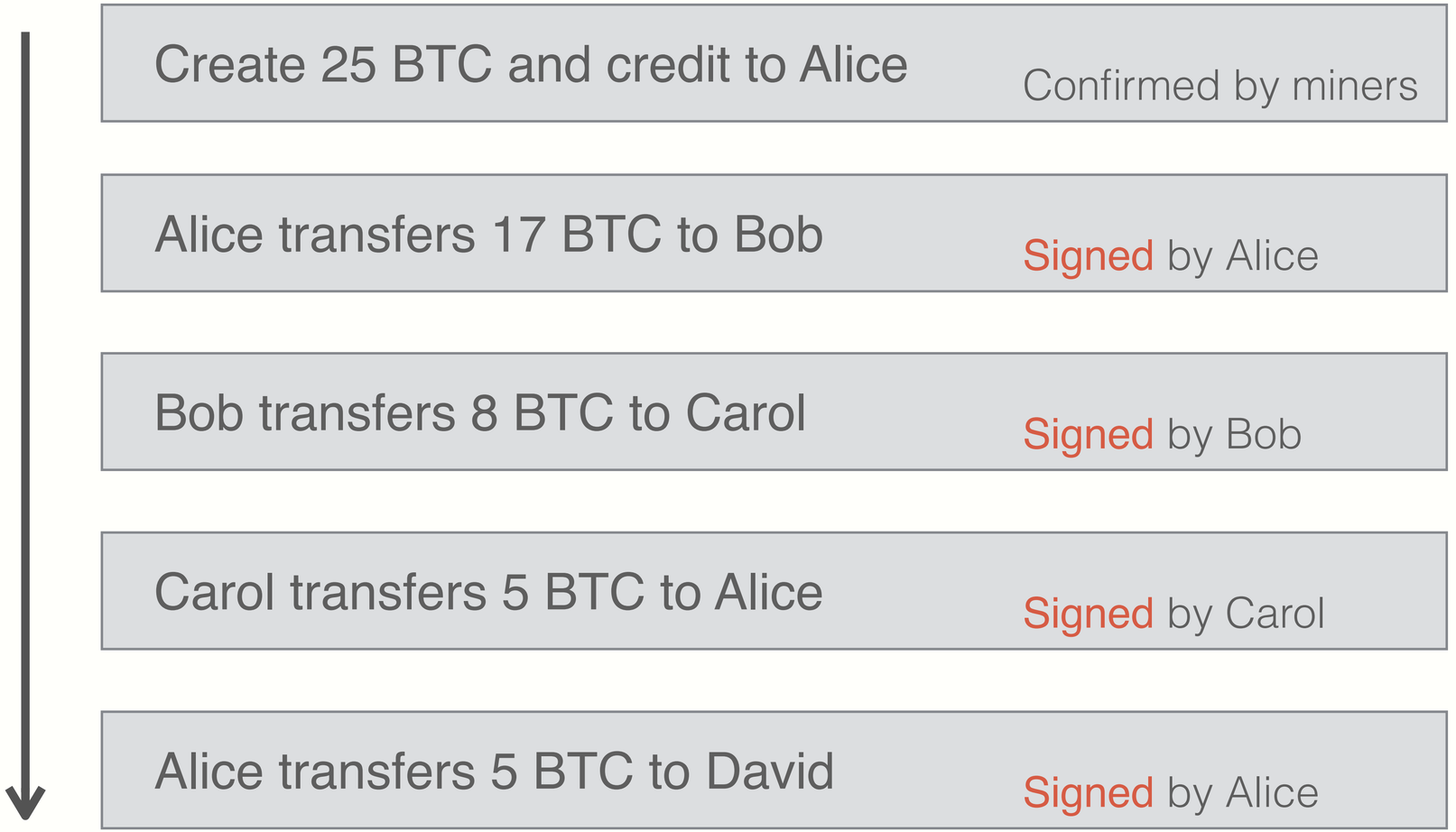
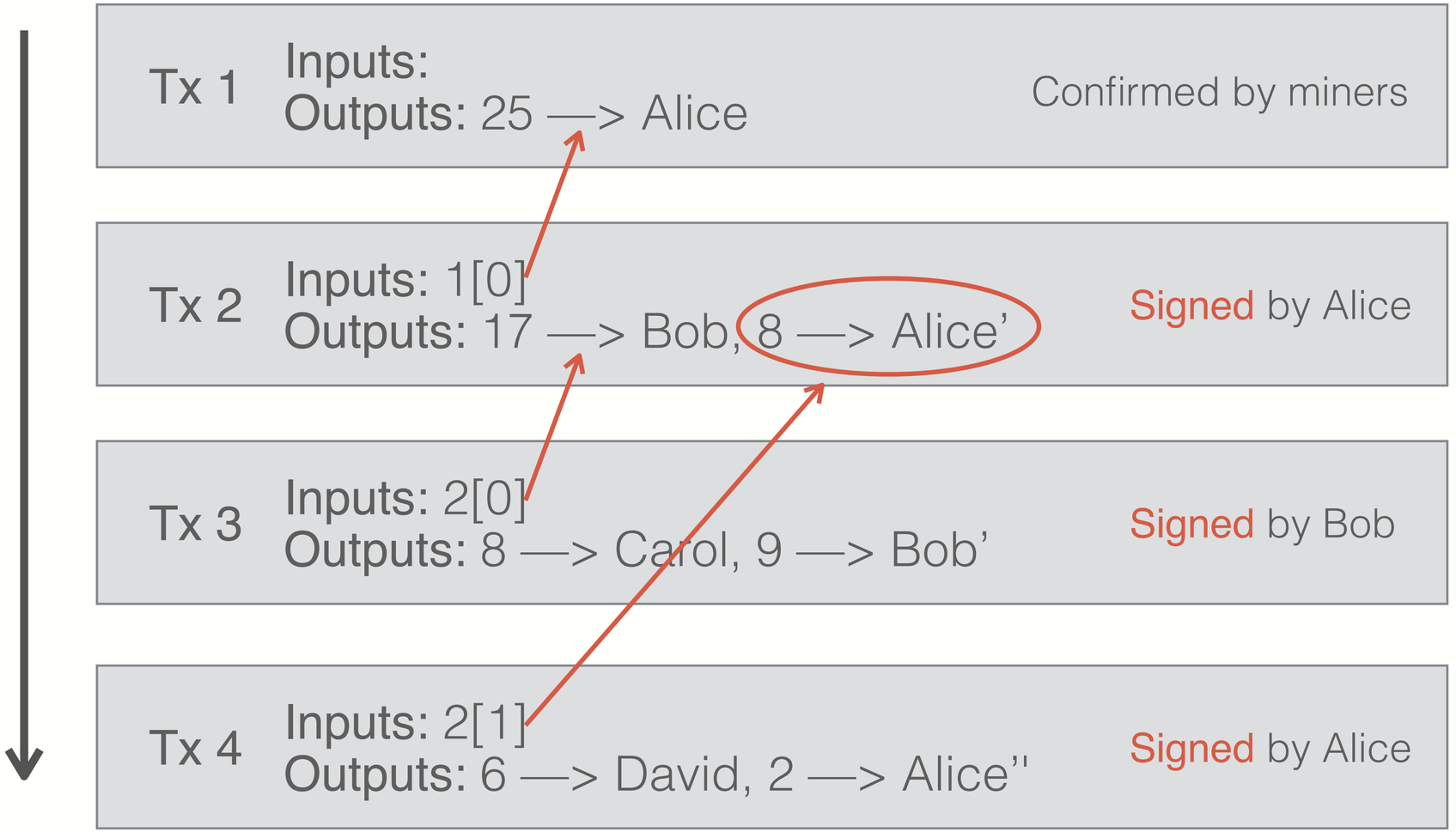
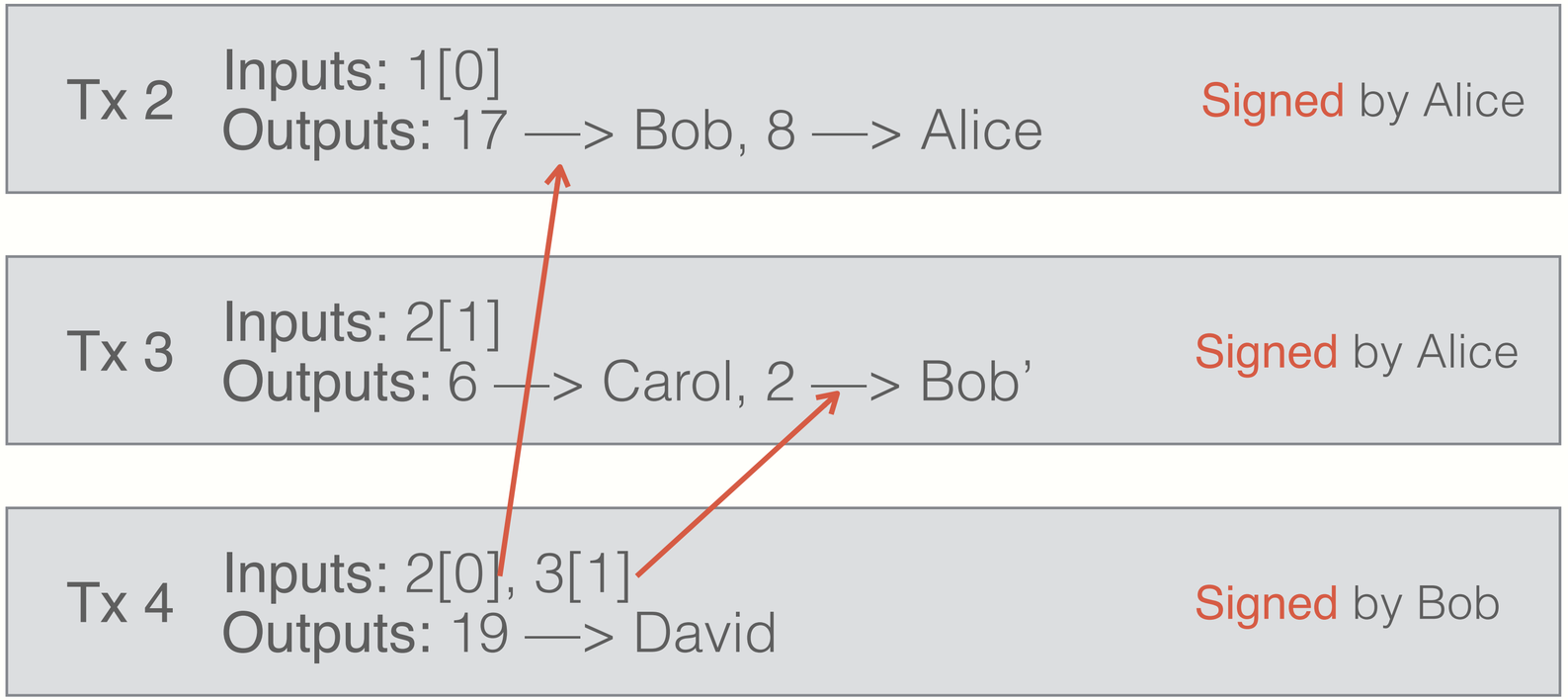


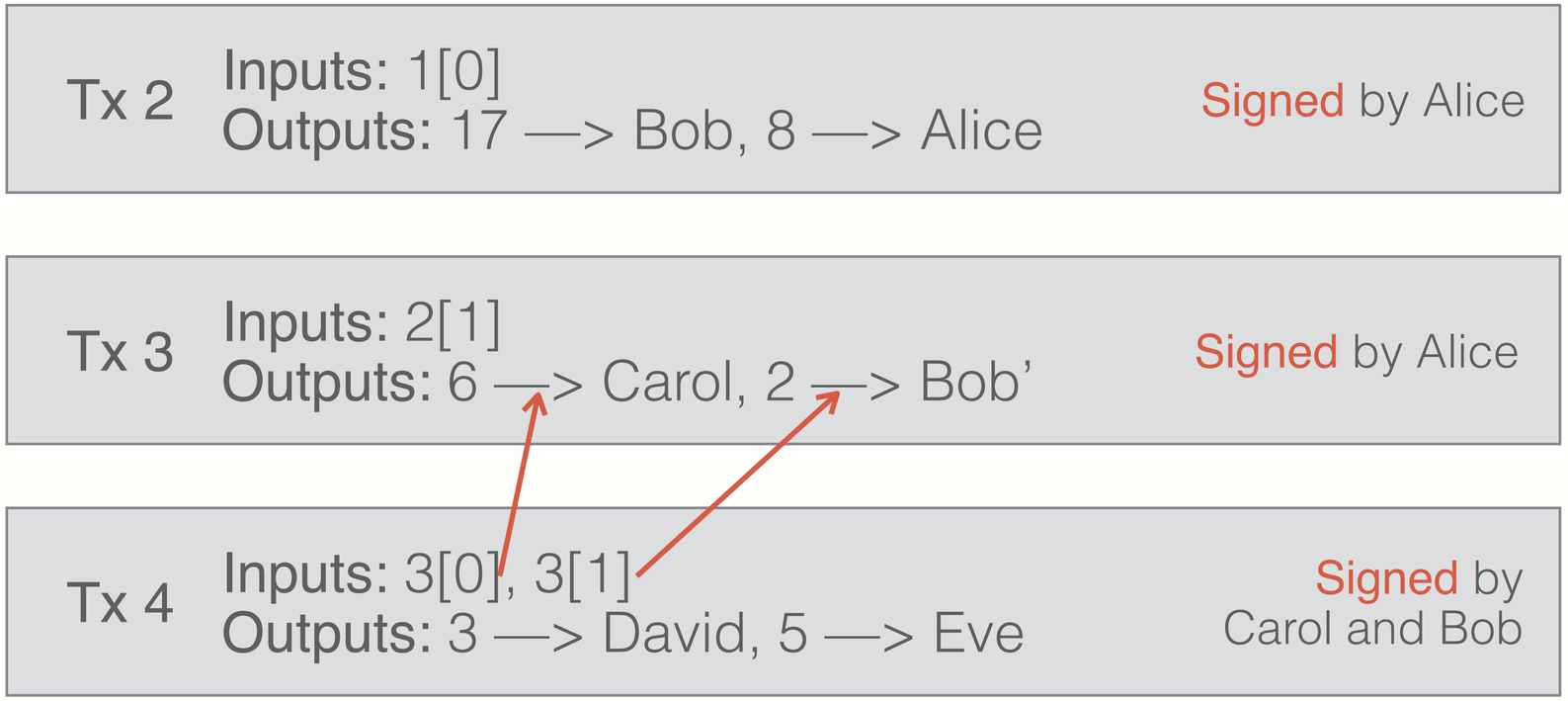
Bitcoins exist as records of Bitcoin transactions



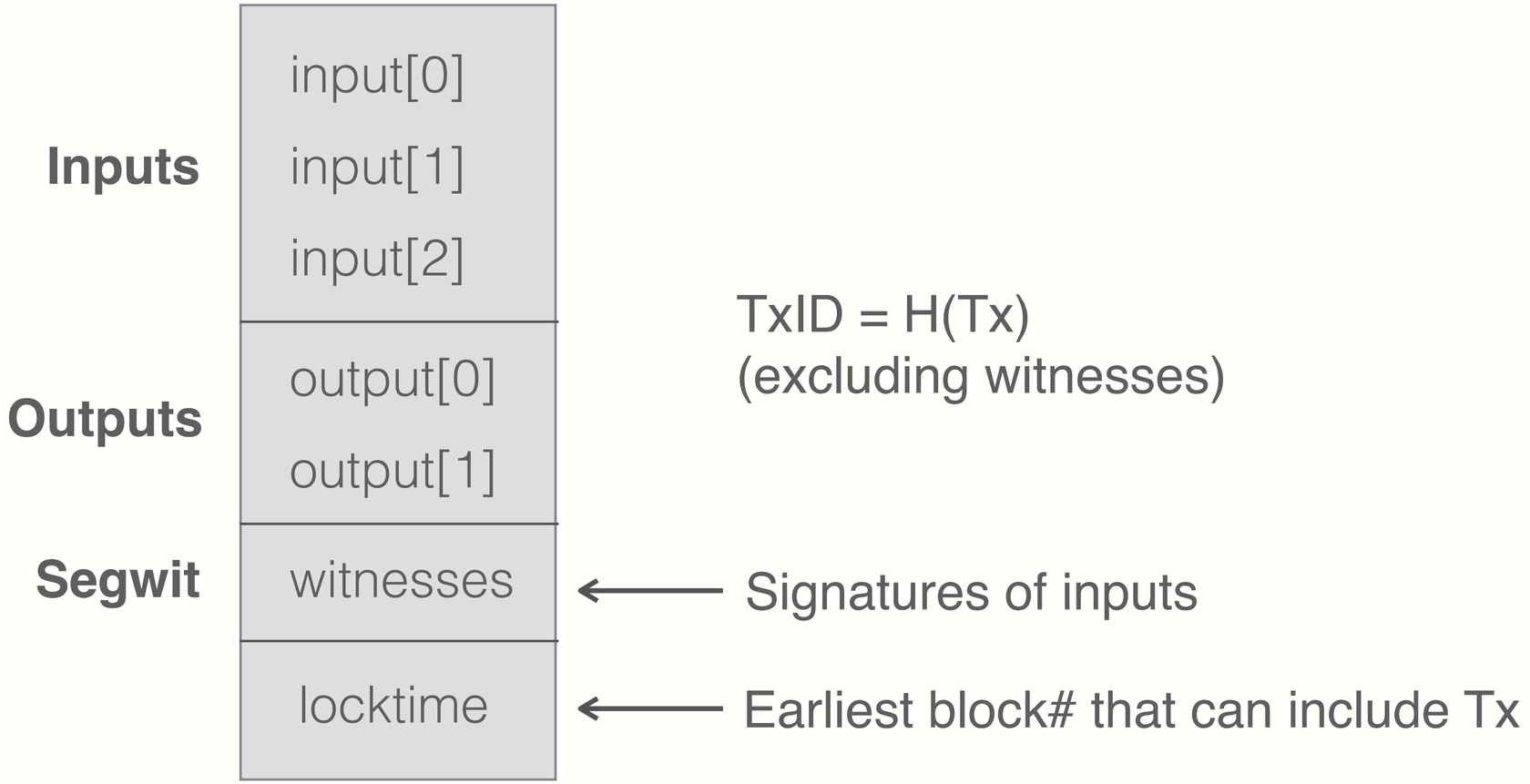
Merging Value



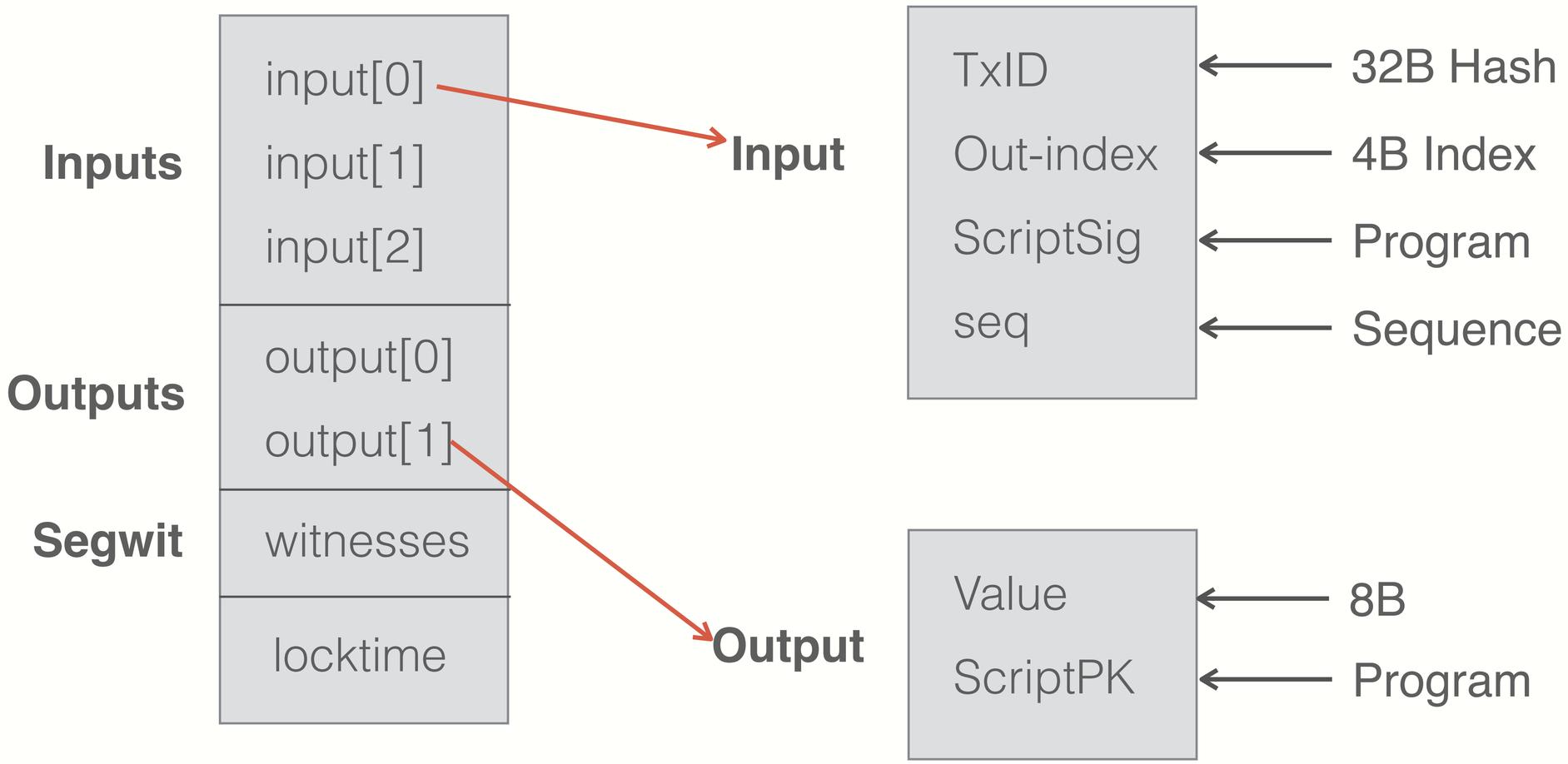
Joint Payment



Transaction Structure



Transaction Structure



Example


Tx 2
Inputs: 1[0]
Outputs: 17 —> Bob, 8 —> Alice'
Signed by Alice
Tx 3
Inputs: 2[0]
Outputs: 8 —> Carol, 9 —> Bob'
Signed by Bob

Example

Tx 2 Inputs: 1[0]
Outputs: 17 —> Bob, 8 —> Alice’
Signed by Alice

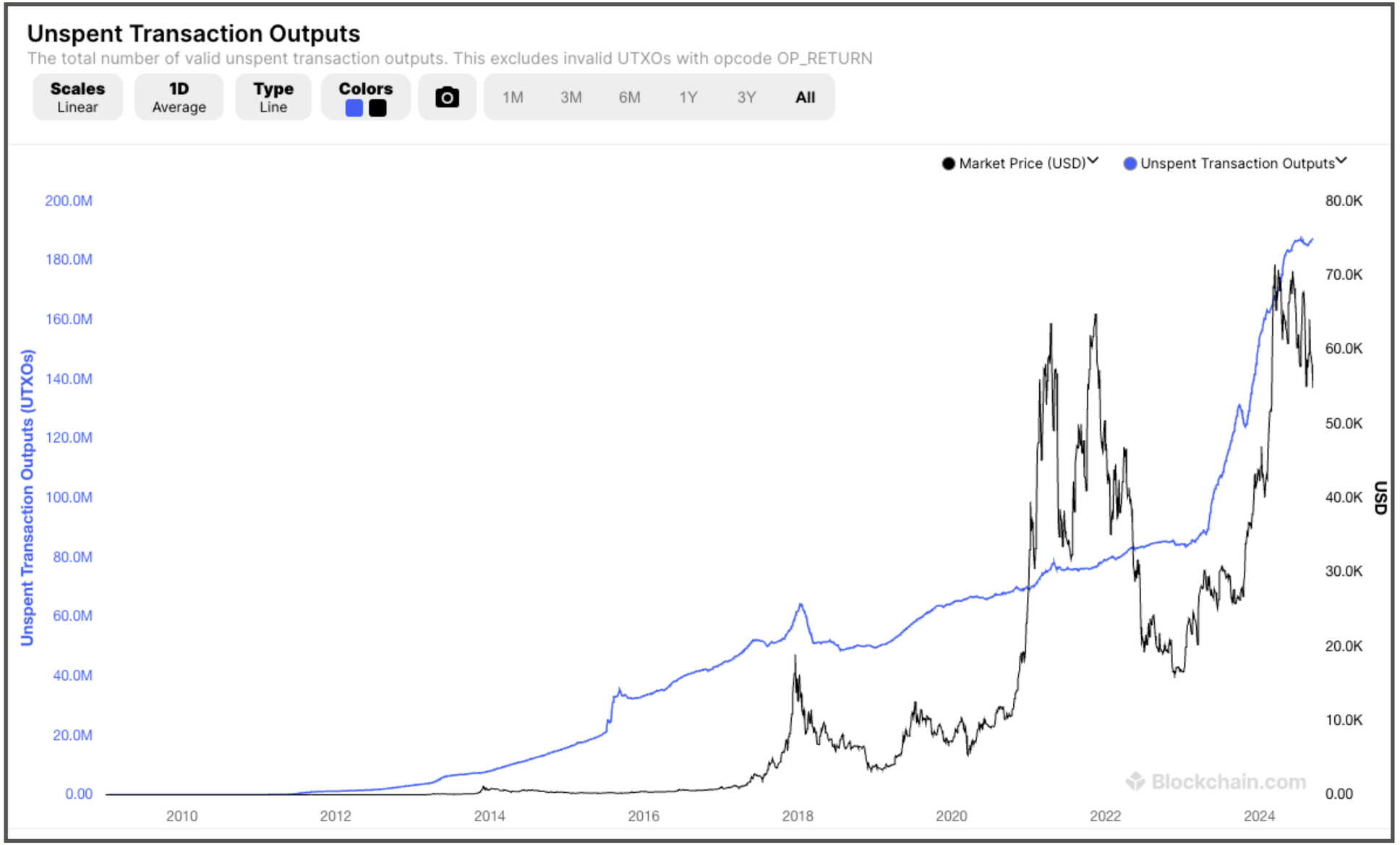
Tx 3 Inputs: 2[0]
Outputs: 8 —> Carol, 9 —> Bob’
Signed by Bob

Validating Transactions

Miners check (for each input):

- The program `ScriptSig | ScriptPK` returns true
- `TxId | Index` is in the current UTXO (unspent TX output) set
- Sum input values >= sum output values

Validating Transactions



4 Bitcoin Script

Example

Value	0.05000000 BTC
Pkscript	OP_DUP OP_HASH160 45b21c8a0cb687d563342b6c729d31dab58e3a4e OP_EQUALVERIFY OP_CHECKSIG
Sigscript	304402205846cace0d73de82dfbdeba4d65b9856d7c1b1730eb401cf4906b2401a69bdc90220589d36d36be64e774c8796b96c011f29768191abeb7f56ba20ffb0351280860c01 03557c228b080703d52d72ead1bd93fc72f45c4ddb4c2b7a20c458e2d069c8dd9e

Bitcoin Script

A stack machine (and a stack-based scripting language) .

Not Turing Complete: no loops

OP codes:

- **OP_TRUE (OP_1), OP_2, .., OP_16**: push x onto stack
- **OP_DUP**: duplicate and push top of stack onto stack
- **Control**:
  - **OP_IF** <statements> **OP_ELSE** <statements> **OP_ENDIF**
  - **OP_VERIFY:** abort and fail if “top = false”
  - **OP_RETURN:** abort and fail
    - What is: “ScriptPK = [**OP_RETURN**, <data>]”

Bitcoin Script

- **OP_EQVERIFY**: pop two items, abort fail if not equal
- **Arithmetic**:
  - **OP_ADD, OP_SUB, OP_AND, …:** pop two items, add, push
- **Crypto**:
  - **OP_HASH256:** pop, hash, push
  - **OP_CHECKSIG:** pop sig, pop pk, verify sig on Tx, push 0 or 1

Example: A Common Script

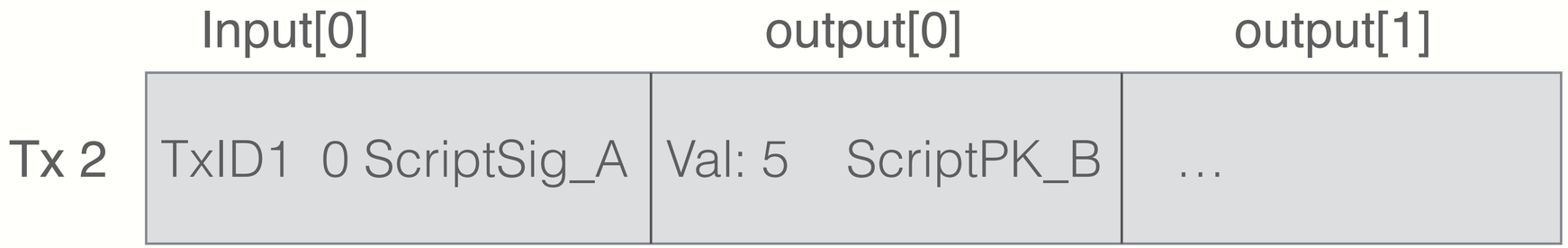
<sig> <pk> **DUP HASH256** <pkhash> **EQVERIFY CHECKSIG**

Stack	
[ ]	Init
[<sig> <pk>]	Push data
[<sig> <pk> <pk>]	**DUP**
[<sig> <pk> <hash>]	**HASH256**
[<sig> <pk> <hash> <pkhash>]	Push data
[<sig> <pk>]	**EQVERIFY**
[1]	**CHECKSIG**

P2PKH (Pay to Public Key Hash)

Alice want to pay Bob 5 BTC

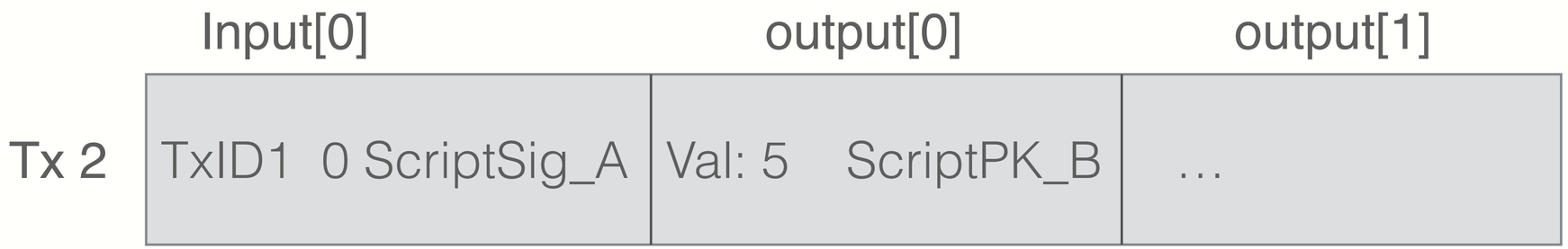
- **Step1**: Bob generates key pair (pk_B, sk_B)
- **Step2**: Bob computes his BTC address as addr_B <— H(pk_B)
- **Step3**: Bob sends addr_b to Alice
- **Step4**: Alice broadcasts TX:



ScriptPK_B = **DUP HASH256** < addr_B > **EQVERIFY CHECKSIG**

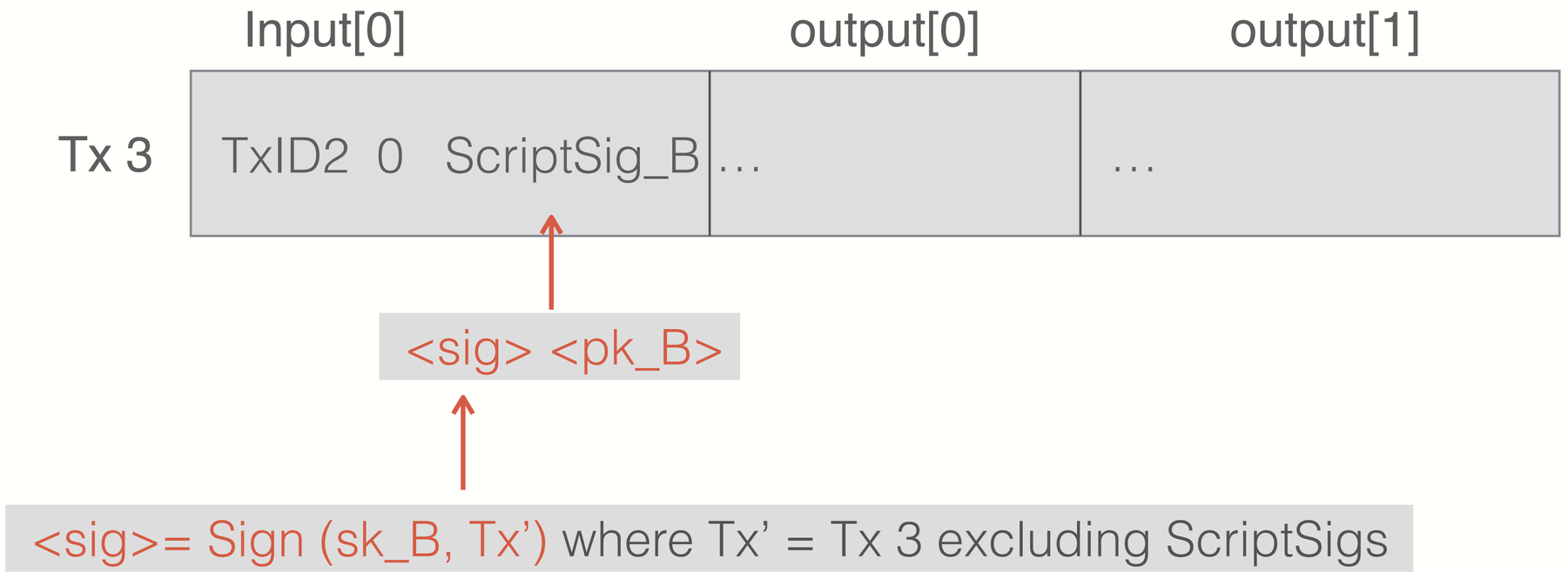
P2PKH (Pay to Public Key Hash)

Input contains ScriptSig_A, i.e., Alice's signature of **Tx 2**, such that information in outputs cannot be modified by miners.



P2PKH (Pay to Public Key Hash)

Later, when Bob wants to spend his UTXO, he creates **Tx 3**



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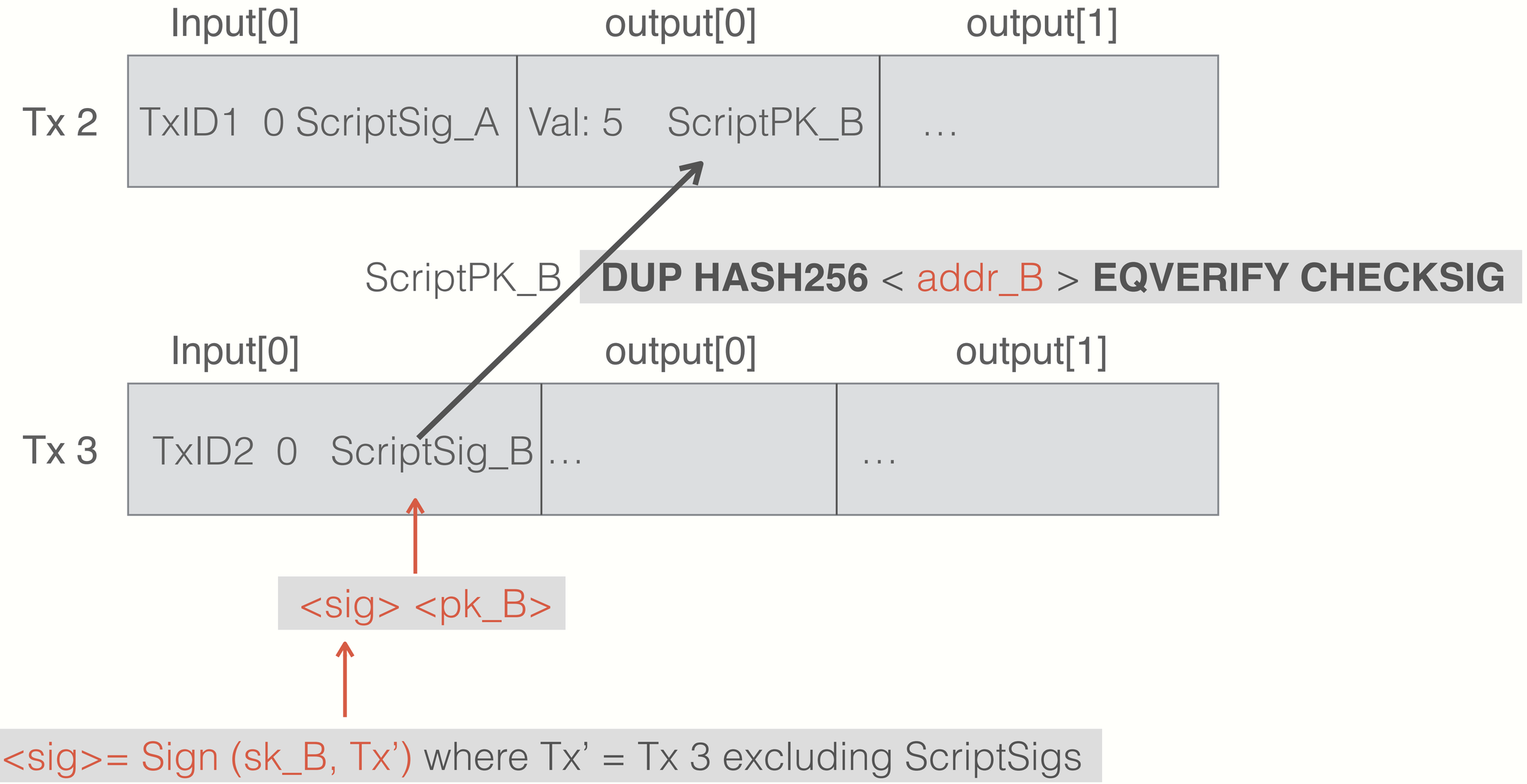


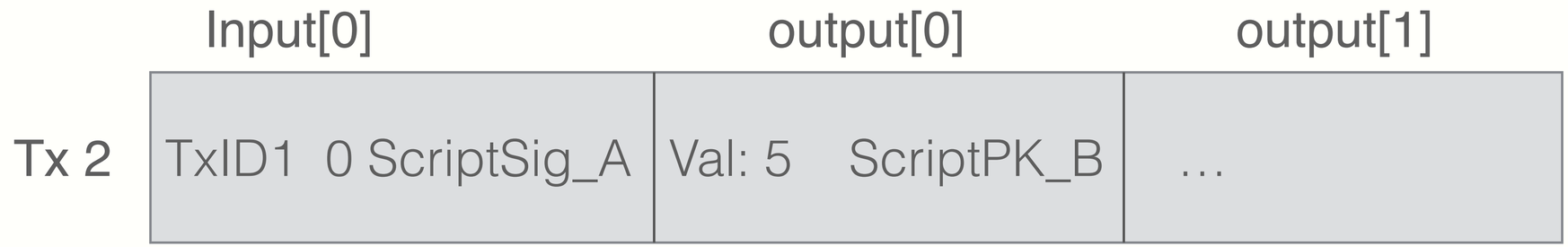
P2PKH (Pay to Public Key Hash)

<sig> <pk_B> **DUP HASH256** <addr_B> **EQVERIFY CHECKSIG**

Stack	
[ ]	Init
[<sig> <pk_B>]	Push values
[<sig> <pk_B> <pk_B>]	**DUP**
[<sig> <pk_B> <addr_B>]	**HASH256** addr_B <— H(pk_B)
[<sig> <pk_B> <addr_B> <addr_B>]	Push values
[<sig> <pk_B>]	**EQVERIFY**
[1]	**CHECKSIG** <sig>= Sign (sk_B, Tx')

P2PKH (Pay to Public Key Hash)

- Bob's Public Key is not revealed until UXTO is spent
  - Alice only specifies Bob's PK hash
- Miner Cannot change addr_B and steal funds
  - Invalidates Alice's signature



5

Discussion Session

How to start a startup?