



# Non-Fungible Tokens: A Case Study Of The Buying And Selling Of Nfts

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## Abstract

The topics focused on NFTs which is a term that has been growing in popularity in the digital world and seems to have made a significant impact in the world of digital media and art, which has also stirred a debate among people about whether or not it is here to stay. The purpose of this research is to basically analyse this impact NFTs have made on the world, the reasons behind it, its cons and where are NFTs moving towards in future. Based on all the research give a conclusion.

## 1.1 INTRODUCTION

In 2014, during a live presentation in New Museum in New York City, the first known NFT, Quantum which was created by Kevin McCoy was sold to Anil Dash. This was done by linking a unique block chain marker to a piece of digital art which could then be traded. This process of linking a digital file to a special and unique non-fungible block chain marker did not get nearly enough attention at that time. However, with the progress in crypto currency markets, NFT sales have skyrocketed and today it seems to be all the hype in the world of digital art and media.

A surge in the buying and selling of NFTs mainly in the early months of 2021 when a number of very high profile sales made headlines like Mike Winkelmann (also known as Beeple)'s artwork titled Everyday: The First 5000 Days, which was sold for US\$ 69.3 million. Following

this came a huge flood of NFT trades which continue to this day with high profile celebrities like Amitabh Bacchan launching their own NFTs in the market.

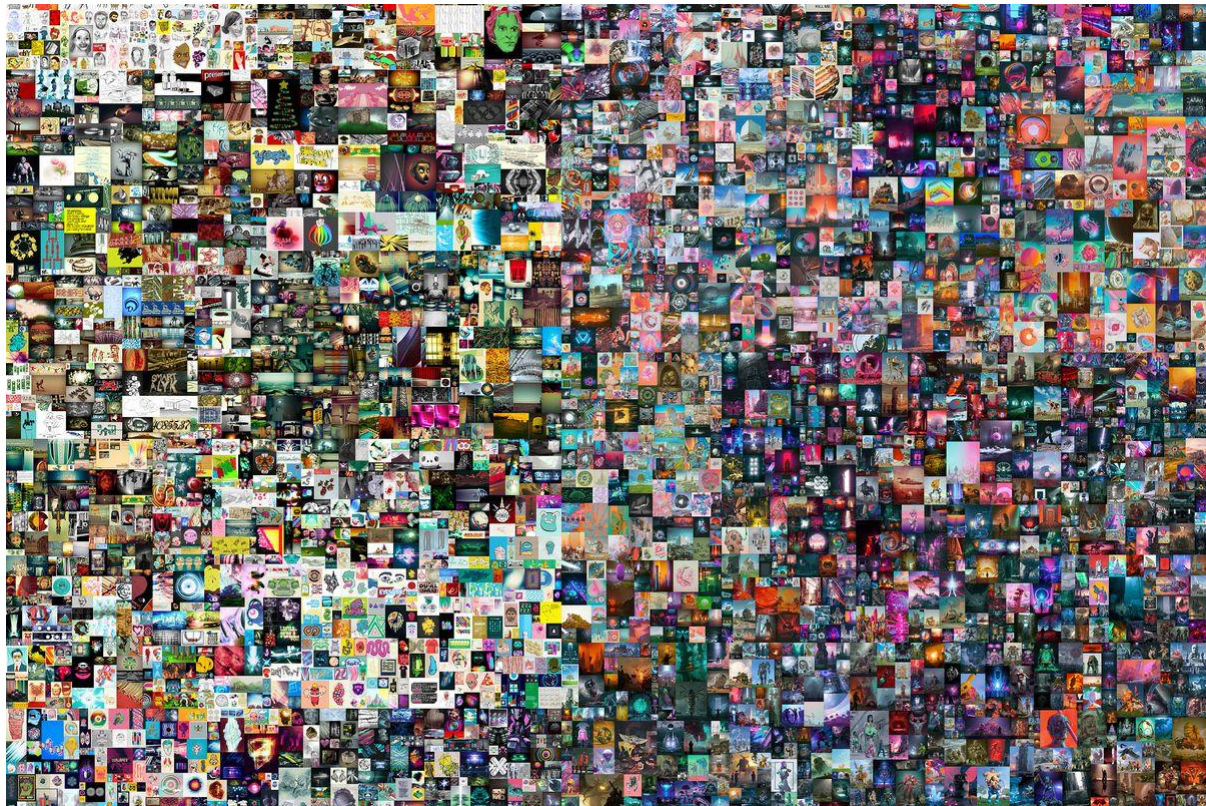


Figure 1, The First 5000 days by Bleeple

Source: [https://en.wikipedia.org/wiki/File:Everydays,\\_the\\_First\\_5000\\_Days.jpg](https://en.wikipedia.org/wiki/File:Everydays,_the_First_5000_Days.jpg)

However, all this craze was also met with a lot of suspicion as all of the artworks in the NFTs that are being sold for thousands and millions of dollars can be seen by and downloaded by anyone very easily. Many people still consider this whole NFT craze to be just a fad which would soon be over. Despite this, the popularity of NFTs only increases.

### **1.1.1 Understanding NFTs and the Hype Around it**

Non-fungible token as the name suggests is a very unique token or code associated with a digital file which cannot be copied or reproduced. While the individual file linked to the token can be copied and stored any number of times, the code or the token is what provides it its unique identity which is next to impossible to tamper with without any proper authorisation all thanks to the complex blockchain technology it uses to store this data like the information about the owner of the NFT. This unique digital signature linked to the digital file is what makes it unique and hence also valuable. With an NFT one has the proof of authenticity and ownership with respect to that particular file.

The file linked to the token can be any digital asset like a picture, video music pdf etc. These NFTs can then be traded with anyone on the market.

NFTs are seen as a way to manage, collect and trade digital art like art collectors collect traditional art like paintings, sculptures etc. And since digital art/files can be copied indefinitely, this means to authenticate the proof of ownership to a particular piece of art and being able to trade it further was welcomed with open arms by a lot of people who saw these as a thing of the future. Through this art appreciators can support their favourite artists by buying a certain piece like they could with physical and more tangible forms of art. Other than art people have even turned popular internet memes, music etc. into NFTs.

### **1.1.2 Minting an NFT**

The process of attaching a digital file to a non-fungible token on a block chain and selling on an open decentralised market is called minting an NFT. The process includes first choosing a block chain( like Ripple, Cosmos etc.) for your NFT. Then one has to select a marketplace to sell their NFT. A digital wallet is also needed in order to pay the fees involved in the process. Some popular marketplaces are: Opensea, Super rare etc. You then have an option to either auction to sell your NFTs or sell them at a fixed price.

### **1.2 Objectives**

The objectives of this research are:

To analyse the Impact of NFTs on the world

To understand the reasons behind the NFT popularity.

To analyse Public perception towards NFTs

To give an analysis on the nature and future of NFTs

### **1.3 Research Methodology**

In this research study, Secondary data study/Archival study has been used. The secondary data sources are mainly from online articles, internet links and published online surveys.

### **2.1 Pros and Impact of NFT**

NFTs have undeniably made a huge impact on the digital markets. It has made many people millionaires and have changed the perspective of many people regarding digital assets. In relation to art community it has in some ways revolutionized the digital art market with many people now rushing to invest in digital art in huge numbers. Artists like Beeple and Pak who auctioned off their works for multi million dollars have shown the potential that NFTs hold. Looking at the growing market, many artists have started tailoring their art mainly for the purpose to be sold as NFTs to collectors and investors who seem to be looking for new and new art.



Figure 2; twitter, @degenharambe

Source: <https://twitter.com/degenharambe/status/1424133878352998401?s=20>

A lot of people are looking at NFTs as business opportunities and a way to earn more money as it has generated billions of dollars in sales in just this year alone. Many people are now releasing collectables in collaboration with brands and their advertisements on social media platforms can easily be seen.

### 2.1.1 NFTs and brands

Many major organisations like NBA have opened their own marketplaces just for the purpose of sale and trade of NFTs related to NBA like some famous moments being sold to collectors. With this the popularity of NFTs only seems to be increasing. In addition to this many

celebrities and influencers like Amitabh Bacchan, Snoop Dog, Jake Paul etc. have also come out selling their own NFTs based around their brands.

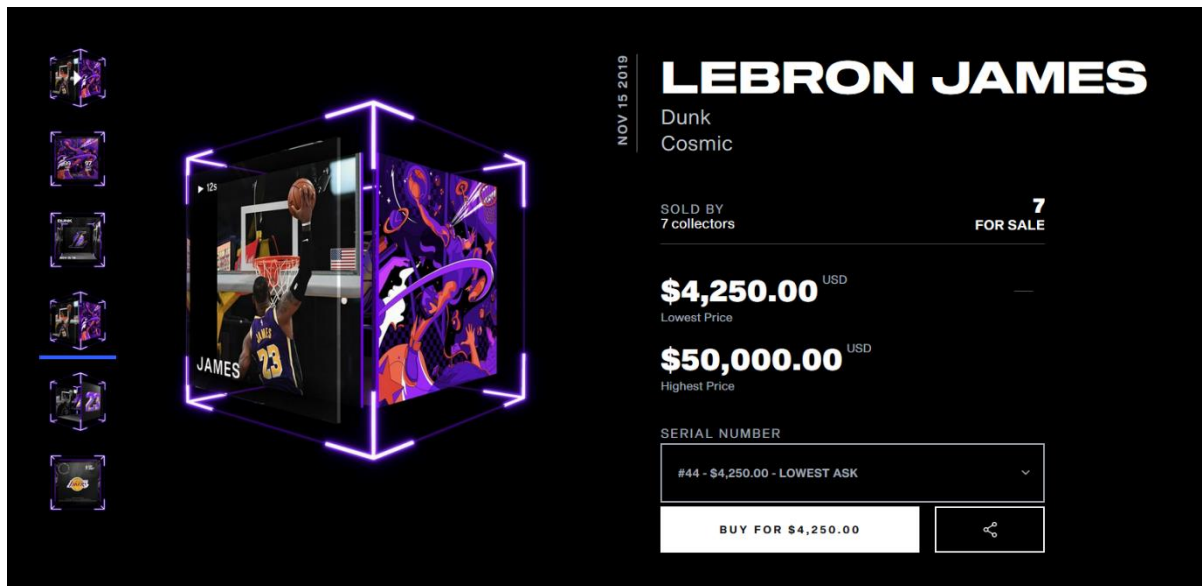


Figure 3; Source: NFT Top Shot marketplace

Source: <https://nbatopshot.com/listings/p2p/c561f66b-5bd8-451c-8686-156073c3fb69+de32d3fb-0e6a-447e-b42a-08bbf1607b7d>

People are also looking at NFTs as an investment opportunity like it is the case with cryptocurrency. Many people resell the NFTs they buy on market further to make profits.

In a notable event a physical Banksy art was burnt and destroyed during a livestream which recorded on video and that video was then converted into a NFT with the name 'Burnt Banksy' which was sold at an increased price for US\$380,000 (source: <https://www.bbc.com/news/technology-56335948>). Such incidents further show the huge impact that NFTs have made in today's society most of which spends a lot of time in the virtual world where you can now own a virtual asset to your name.

### 3.1 The Cons associated with NFTs

Even with their exploding popularity and a dedicated follower support base, a large chunk of the population including artists still do not like the basic idea behind NFTs. Many still arguing that the main file that is linked to the unique token can still be copied and reproduced indefinitely and since the file is digital, the copy can be completely identical to the main file minus the unique token with ease and there can never be a scarcity of a digital asset as long as it can be copied. It can be said that one pays only for the unique licence that is linked to the file and not the actual file, but then paying hundreds or thousands of dollars for just the licence or code seems ridiculous to many.

Also one must note that by buying the NFT, you do not automatically get the copyright to the artwork unless it is specified. The most you can do with it is to display it or can sell it further. Considering the fact that some of these sell for thousands of dollars, commissioning an artist seems fairly cheaper and you can also get the copyright for the custom artwork that you commissioned.

Many people still do not like the idea of making digital goods more expensive when there are already fair enough means and ways for the trade digital items. People already buy digital assets for all sorts of more practical and actual use like commissioning digital art, buying usable skins for games and even commissioning music and literature so, the market for fair trade of digital goods has been there before NFTs became popular.

The quality and actual worth of digital goods being sold as NFTs is also questionable. One can see examples of something like a plain greyish square being sold for \$US 1.6 million which makes one wonder how and why can one grey square box can cost US\$ 1.3 million? Most of the digital art being sold as NFT collectibles are generated just for the purpose of being minted as NFTs after they are hyped up on social media to be something special. One must also note that the popularity of an artist plays a huge role in the sale of an NFT, so lesser known artists might find it hard to make profits out minting NFTs.

Ubisoft, a game developer giant had recently announced NFTs for its games and it was met with an overwhelming majority of people with up to 90% dislikes (source : <https://www.videogameschronicle.com/news/ubisoft-nft-quartz-youtube-dislikes/>).

Apart from all this, NFTs have can be used for money laundering and since its transactions are in cryptocurrency, it becomes almost impossible to find out who bought or sold the said NFT if the user does not wants to be found.

One of the reasons for outrage against NFTs is the type of content that is being sold. A twitter user 'z' bought a png image of a cartoon rock as an NFT for \$ 46,300 (source : <https://twitter.com/degenharambe/status/1424133878352998401?s=20>) which can sound really absurd to most people and rightfully so. There have been incidents of internet memes and other poorly made images being sold for millions of dollars.

### **3.1.1 Art theft in NFT MARKETPLACES**

While the NFT marketplaces like Opensea and rarible have been useful for many artists to grow their income, there have also been multiple cases of art theft where the artworks from popular artists were minted for huge profits without the knowledge of the artist. In one such case Loish, a very popular digital illustrator who is also a very respected artist in the online art community, with an instagram following surpassing millions, found that her art was being sold on Opensea without her knowledge or consent (source : <https://twitter.com/loishh/status/1470340143970230277?s=20> ).

Such incidents have been becoming more and more popular which shows that such platforms do not have sufficient parameters to check the authenticity of the person minting the artwork/ file.

Also one must note that there are no laws in the world yet to protect you if you get scammed in the NFT market, so if some anonymous user sells an NFT of art by Loish to a buyer, there isn't anything that can be done by the buyer to get his money back or some portion of their money back.

### **3.1.2 Environmental toll of NFTs**

The rise in the popularity of NFTs and their usage is having a significant toll on our planet. This is one of the main reasons behind all the hate that NFTs have been getting. For example, an NFT called space cat used enough energy to power an EU resident's house for two months. The blockchain technology on which NFTs are based on like ethereum use a lot of power which ultimately impacts our planet by heating it up even more. This fact, especially during a time when climate change is a global issue and more and more people are getting aware and raising their voices against it, has left a very bad impression on the mind of people who care about the planet. Adding to the issue is the fact that NFTs are more or less looked upon as unnecessary luxuries by many people and does not seem to have any strong enough pros in its favour which can help its cause. All these factors have made artists and some organisations avoid getting into the whole NFT hype in general. An example of one such incident is the decision taken by Artstation, a well reputed marketplace for digital art and artists, had to drop its plans for launching NFTs after it received a huge backlash from its users. People are ditching ethereum which is a blockchain technology which hosts most of the NFTs for other much greener alternatives such as COSMOS and Polka dot who use little portion of the power that is used by ethereum.

### **3.1.3 The digital file can be stolen**

NFTs provide a unique identity to the digital file and it is this identity which holds the proof of ownership to the particular NFT. The digital file linked to the NFT can be stolen and reproduced very easily. For example, if there is an artwork or illustration that is being sold as an NFT in the market, It is already on display and the person viewing it can just screenshot the artwork and keep it with them. Though the person does not possess the right to sell the artwork forward, he may still use it for display purposes for his profile, and such little uses of stolen digital art goes mostly unnoticed. Even if one buys the said NFT the do not really get any special rights associated with the NFT unless such rights are specified by the seller so what you get is the ownership and the basic rights to display that artwork and for other personal use the later of which you can still get without having to pay any royalties. Thus,

spending a huge amount of money just to get the title of an owner to a copy of a particular artwork with a special code linked to it seems ridiculous to many people.

### **3.1.4 The Volatile Market**

Another problem around NFT market is the volatility of cryptocurrency using which NFTs are usually traded online. Crypto market is extremely volatile and there have been examples in which people have lost thousands of dollars over night and other people have earned thousands in the same night. The fact that crypto currency needs to yet be officially accepted by the majority of the world does not really help.

In July of 2021, China banned cryptocurrency mining and trading, this resulted in an overnight fall in the crypto market as china once was the largest contributor in bitcoin mining. This one move by China made a lot of people lose a lot of money. India is also evaluating its cryptocurrency policies and is expected to come out with a cryptocurrency bill which is definitely going to shake the market again, if it will do some good or bad to the market remains yet to be seen.

### **4.1 The Way Forward**

Most people who seem to invest in NFTs consider it to be revolutionary thing leading us into the future considering the fact that most of our lives today are in a way chained to the digital world which has a massive impact on what kind of decisions we make. There have been efforts to make the use of NFTs and crypto currency in general much more economically feasible and less harmful for the environment. Ethereum, which is a major crypto asset on which most of the world's NFTs are centred announced that it will rework its technology to solve its energy consumption issue and work on just a fraction of what it currently uses.

The tech is evolving and getting more efficient to fix its flaws and shortcomings, so there is hope that with advancement in technology the toll on environment can be reduced to negligible levels. If this is done, much more people will get involved especially those who are hesitant due to this environmental factor. Other than that the issues like art theft can be easily avoided with better security and authentication implemented on both the user and the artist. Other problems left are pretty much subjective. NFTs linked to a physical asset have aslo started popping up which have an actual physical item linked to them or vice versa which will provide a digital and very secure proof of ownership and certificate of authenticity which cannot be tampered with.

Hence NFTs are still on a quite early stage and holds potential.

### **5.1 Conclusion**



The part of the population that is aware of what NFTs and how it functions and what it costs is divided on it based on what they make of it. Some people consider NFTs to be a digital Ponzi scheme where people with more influence make more money by selling useless impractical items to people who find some value in such items, whereas others see NFTs as a thing of the future which holds the potential to revolutionize the digital markets forever and are willing to invest in it for the potential it holds.

For now it seems to hold more flaws than pros mainly based on the fact that we today exist in a world that is heating up at an alarming rate and the hot NFT craze is just adding to the problem without providing anything significant at its current stage. The cons associated with NFTs become more justified when you see that there was already a market for digital goods like streaming content services, games, etc. and it still meets all the necessary needs.

The use of NFTs seems to be a risky way to capitalise random, mostly unnecessary things by giving it an expensive tag to be bought by people who have money or those who think they can make a profit with it. All of which is hyped up mostly by influencers with obvious monetary motivations. This hype is then used to create even more money which comes at a cost of a warmer planet and waste of energy which could have had much better uses elsewhere. All this comes at a time when world governments are having global summits in order to tackle the alarming threat of climate change.

Despite all its flaws, the NFTs seem to be getting more popular because, its ability to produce money for those who can mint it cannot be underestimated and money is a very powerful factor. And if the tech around NFTs is able to reduce its environmental impact to almost negligible amount and some strong legal framework for the trade of NFTs are introduced, there is a future for NFTs in an evolved more practical form and feasible.

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