



Economic Risks

How To Analyse



Agenda

1. Risk types in Web 3
2. How to get started with understanding economic risks
3. Who should care about economic risks
4. Economic stability analysis
5. Learn more about designing economics

Risk Types in Web 3

Financial Risk

- Traditional financial risk models
- Used in treasury management
- Used in DeFi protocols
- Related to calculating yields in the protocol

Technical Risk

- Code and smart contract risks
- Used for all smart contracts
- Used in all web3 protocols
- Related to the security of executing economic transactions in the protocol

Economic Risk

- New economies being build, new risk types to analyse
- Used in new ecosystems
- Used in all web3 protocols, defi, gamefi, infrastructure
- Related to economic sustainability



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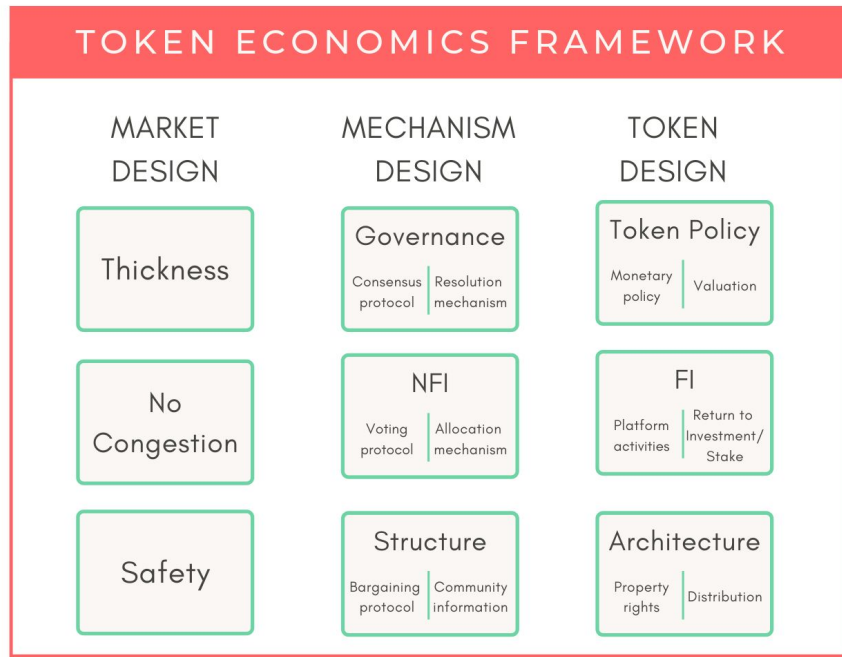
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Economics Design Framework

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LEGENDS

NFI: Non-Financial Incentives

FI: Financial Incentives

DISCLAIMERS

Variables have differing significance
(E.g. Governance is very important.)

Variables' relevancy depends on token use-case, token function and token business model.

The framework only considers the internal endogenous variables.
Other important considerations include (but not limited to) external variables (legislations) and team, popularity of blockchain, etc.



Economic risks based on economic design

Market Design

- Legal and regulatory risks
 - Jurisdictions
- Technological risks
 - What chain are you built on
 - Security of the chain
- Community
 - Economic agents

Mechanism Design

- Governance
 - Change implementation
 - Decision making mechanism
- Financials
 - Economic transactions

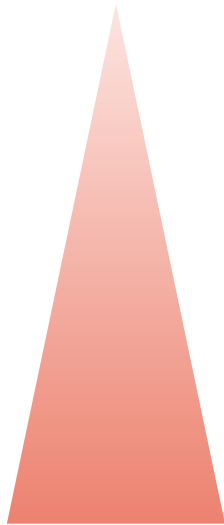
Token Design

- Tokens
 - Tokens in the ecosystem
 - Economic activity value
- Financials
 - Cash flow
 - Trading volume



Who should care about economics risks?

Least involved in
designing the
economy



Most involved

Stakeholders

Active community

VCs and investors

Protocol creators and decision makers

Why should you care

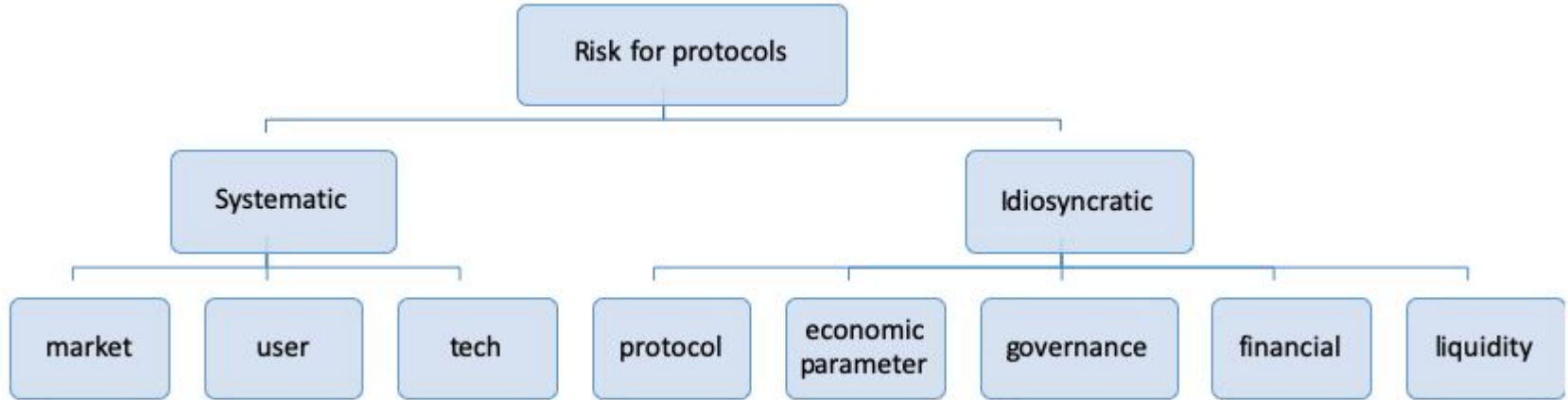
You should care about the economic sustainability of this ecosystem. Can the economy evolve its own structure to balance short term effects and long term stability?

You should care about the self-financing ability of this ecosystem. Can the token economy grow and develop, ultimately sustaining itself using just retained earnings from the ecosystem?

You should care about the organisation and hierarchy of this ecosystem. Can the token economy optimally balance value flows across and within each sub-systems to maintain economic viability?



Economic Sustainability



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