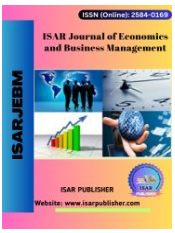
OPEN ACCESS



ISAR Journal of Economics and Business Management
Abbriviate Tittle- ISAR J Econ Bus Manag
ISSN *(Online)*- 2584-0169
https://isarpublisher.com/journal/isarjebm
Vol-2, Iss-3 (Mar- 2024)

OPEN ACCESS

How NFT Lost Its Crown: The Rise and Fall of the Blockchain King

Aram Mohammed-Amin Qadir, MSc[1*], Bashdar Hakim Nuri, Student[2]

[1]Department of International Trade, Law and Administration College, University Of Halabja, Halabja, 46018, IRAQ

[2]Student at Department of International Trade, Law and Administration College, University Of Halabja, Halabja, 46018, IRAQ.

***Corresponding Author**
Aram Mohammed-Amin Qadir

Department of International Trade, Law and Administration College, University Of Halabja, Halabja, 46018, IRAQ.

Article History

Received: 11.02.2024
Accepted: 01.03.2024
Published: 12.03.2024

Abstract: *The use of Non-Fungible Tokens (NFTs) has increased recently. NFTs have revolutionized various industries and opened new avenues for creators, investors, and enthusiasts alike. Blockchain technology underpins these distinctive digital assets, guaranteeing their ownership, scarcity, and authenticity. Then, CryptoKitties, a blockchain game on Ethereum that allows users to purchase, collect, breed, and sell numerous varieties of virtual cats, has been introduced to the digital world. This paper aims to shed light on the diverse applications of NFT in digital content, gaming, investment, and even domain names. This work article is a beta study based on fact-finding processes.*

Keywords: *NFT, Crown, Rise, Fall, Blockchain, King, Dynamics, Narrative*.

1. INTRODUCTION

The year after NFTs burst in popularity, the situation became more complex. Millions of dollars have been paid for monkey pictures, million-dollar hacks of NFT projects have been the subject of countless headlines, and corporate cash grabs have only worsened. (Clark, 2022) Blockchain-based tokenization of assets is known as non-fungible tokenization (NFT). Tokens are unique identifying codes derived from metadata via an encryption process. These tokens are then stored on a blockchain, while the assets are stored elsewhere. The connection between the token and the investment is what makes them distinct. NFTs can be bought and exchanged for money, cryptocurrencies, or other NFTs—it all relies on the value the market and owners have placed on them. For instance, you could draw a smiley face on a banana, take a picture of it (which has metadata connected to it), and tokenize it on a blockchain. Any rights you have given that token belong to whoever holds its private keys. (Sharma, 2023)

2. Research Methodology

Due to this paper's niche subject, the available knowledge bases are solely web page reports and academic papers. The author's desire to include additional practical examples might be within the author's desires, while the prevailing publications are nearly exclusively theoretical. However, as this can be an opinion for further study to be conducted on the topic, it is to be desired that the back catalogue of studies be thin. That being said, an attempt has been made to sketch similarities between digital consumer behaviour and the New War crisis that, supported by experimental proof, require advancement. Therefore, the theoretical description produces sketches of suitable explanations for implementation. This has been accomplished mainly via the use of news reports, as well as some documented events. By abstracting concerns with contemporaneous reporting and presenting the war crisis as a potential solution to numerous of these problems, suggestions on the overall implementation of digital payment and change in consumer behaviour are beyond the content of this report. The dream is instead to note that criteria should be exerted to review and develop a tactic in which applicable implementations authenticate experiments as a possible explanation for the situations in question. The present article is a beta study based on fact-finding processes.

3. Literature Review

The evolution of non-fungible tokens (NFTs) traces back to the inception of the CryptoPunks collection in 2017. Comprising 10,000 pixelated avatars, CryptoPunks predated the Ethereum token standard ERC-721, the protocol that later facilitated NFT functionality. Initially issued as ERC-20 tokens, certain CryptoPunk NFTs now require wrapping into ERC-721 tokens for trading on NFT marketplaces. Subsequently, CryptoKitties, a blockchain game on Ethereum, emerged as a groundbreaking platform allowing users to acquire, breed, and trade virtual cat variations, each represented by NFTs. This innovation marked the mainstream adoption of NFTs for recreational purposes, introducing the concept of unique digital assets to a wider audience. The success of CryptoKitties showcased the potential of NFTs in portraying individuality and rarity, laying the foundation for subsequent NFT booms (Manoylov, 2023). The origin of NFTs can be traced back to 2014 with the creation of Quantum by Kevin McCoy, marking the initiation of NFT history. However, NFTs gained public attention in 2017 when various unique collections surfaced on the Ethereum blockchain. Early blockchain networks faced challenges in ownership transfer and NFT transaction processes, hindering the broader development of NFTs. Ethereum addressed these issues by streamlining token creation, programming, storage, and trading, thereby simplifying onboarding and reducing entry barriers for NFTs (Team, 2023).

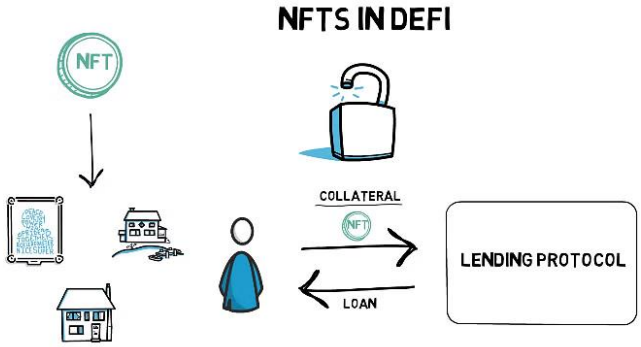
In parallel, the development of blockchain technology, which Bitcoin introduced in 2008, was crucial in laying the foundation for NFTs. Bitcoin, the first decentralised digital

currency, provided accountability, security, and immutability through blockchain—a distributed database technology. Blockchain's emphasis on stability and safety set the stage for the subsequent development of NFTs. This historical context reveals the intertwined evolution of NFTs and blockchain technologies. The emergence of CryptoPunks and CryptoKitties exemplifies the creative potential of NFTs, while the foundational principles of blockchain, initially established by Bitcoin, continue to underpin the security and accountability of these unique digital assets. The transition from ERC-20 to ERC-721 tokens reflects the dynamic nature of NFTs, adapting to technological advancements for enhanced functionality. the trajectory of NFTs showcases a symbiotic relationship with blockchain technologies. Understanding this historical progression is crucial for comprehending the current landscape and anticipating future developments in the NFT space.

3.1 The use of NFT:

People who are interested in crypto-trading and prefer to collect artwork commonly utilize NFTs. Additionally, it has various other purposes, also like:

- **Digital Content** - The primary use of NFTs today is in digital content. Work creators see their revenues boosted by NFTs, as they enable a creator economy where creators hold the ownership of their work over to the platforms they use to disseminate it(A S, 2023).
- **Gaming Items** - Within gaming, non-fungible tokens (NFTs) grant players genuine ownership of in-game assets, like scarce skins, weaponry, characters, or virtual real estate. The distinctive tokens are maintained on a blockchain, offering a clear and protected method to authenticate ownership and origin (IKEDA, 2023).



Investment and Collaterals - NFTs and DeFi are separate phenomena in the blockchain ecosystem, each fulfilling certain functions and addressing diverse user requirements. NFTs introduce distinctiveness and origin verification to digital assets, while DeFi transforms how conventional financial services are obtained and carried out through decentralization and automation. Both tendencies contribute to the continuous development of the blockchain and cryptocurrency industry (Team, 2023).

Domain Names: Within the expanding realm of the NFT ecosystem, NFT domains emerge as a novel extension. Similar to traditional website addresses, these domains offer distinctive and memorable digital identities on the blockchain. Functioning as NFTs, these domains empower individuals and businesses to establish a verifiable and censorship-resistant online presence (Abhishek, 2023).

3.1.1 Examples of NFT:

Ownership, whether emotional or financial, has been an ingrained human desire throughout history, with a particular fondness for tangible possessions. The advent of NFTs (non-fungible tokens) presents a paradigm shift in the concept of ownership, challenging traditional notions by providing a blockchain-based approach to verify ownership and authenticity. While not a new concept, NFTs gained widespread attention when digital artworks were auctioned at unprecedented amounts (Fard, n.d.).

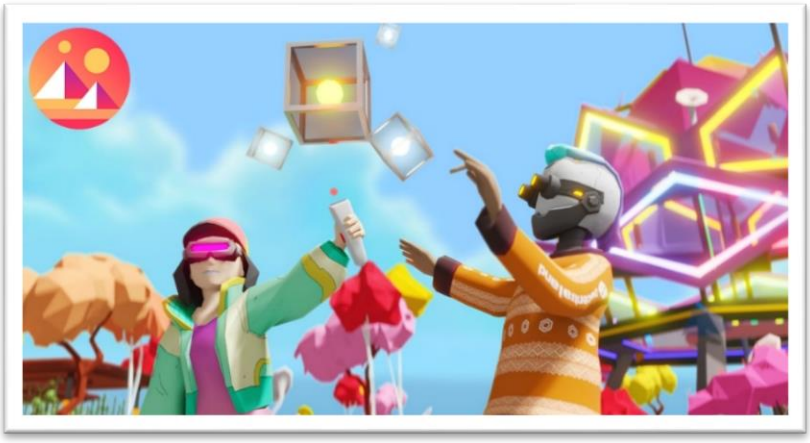
Let us take a look at the three best NFTs of all time.

- **CryptoPunks** - Originally published in 2017, CryptoPunks are profile image art collectables that become among the highest-valued NFT collections after widespread recognition. Several notable pop culture icons, such as our client Snoop Dogg, joined the realm of NFTs, buying their own CryptoPunk and using them for their social media identities (Velasquez, 2022).

- **Bored Ape Yacht Club (BAYC)** - The Bored Ape Yacht Club (BAYC) NFT emerged in 2021 during the peak of the cryptocurrency bull market, quickly establishing itself as a prominent player among renowned NFTs like CryptoKitties and CryptoPunks. Initially priced at 0.08 Ether (ETH), equivalent to $220, BAYC NFTs sold out within a mere 12 hours, underscoring their immediate popularity and demand. By

mid-October 2022, the "floor price" of BAYC NFTs skyrocketed to 76 ETH, approximately $100,418, marking an unprecedented surge in value (Amure, 2023). This exponential increase in value reflects the growing interest and investment potential of BAYC NFTs, highlighting their significance in the digital art and collectables market. The success of Bored Ape Yacht Club underscores the evolving dynamics of the NFT landscape, where scarcity, artistic uniqueness, and community engagement converge to drive demand and value appreciation. (Amure, 2023).

- **Decentraland -** There are many different ways to define Decentraland. Most definitions state that it is a virtual, augmented, or extended reality social experience or game. Realistically, and as of its condition at the end of 2023, it is a three-dimensional internet platform allowing users to be part of a shared digital experience where they may play games, socialize, and create, buy, or sell digital products. You can buy a parcel of virtual land and develop anything you want. If you have virtual or augmented reality goggles, you can wear them while in Decentraland or run the software on the screen of one of your devices and play it like a game (Lodge, 2023).



3.1.2 Types of NFT

There are countless possible applications for non-fungible tokens (NFTs). However, given that we are still in the early phases of the non-fungible era, it might be some time before we see large-scale initiatives that are not tied to art in one way or another. To this purpose, NFT projects of days typically fall into one of seven categories. Here is everything you need to know about them (Exmundo, 2022).

- **Collectible NFTs -** Digital collectables are goods represented on the blockchain that can be bought or traded. Whether it is a renowned meme or a historic filmed moment in sports, anything can be "minted" into NFTs. Minting gives the thing a token name, symbol, a digital fingerprint (hash), and a connection to the item on the interplanetary file storage (IPFS). All of this data, including who the current owner is and how much the object sold for in the past, is saved on the blockchain (Hedera, n.d.).
- **Art NFTs -** An art NFT is a piece of art that gets minted onto a blockchain, hence becoming a non-fungible token (or NFT). Art NFTs can be tangible pieces of artwork that are digitized, or they can be natively generated using digital tools (Opensea, 2022).
- **Music NFTs -** Music NFTs offer a novel way to own digital music files, including songs, albums, and music videos, providing a unique and exclusive version of beloved tunes in the digital realm (HQ, 2023). With the rise of blockchain technology, music NFTs present new opportunities for artists and collectors to engage in the digital music market.
- **NFT Memes -** Nothing can brighten your spirit like some amazing NFT memes and amusing material! It does not matter whether you got wrecked on a deal, coined a rug pull, or lost an NFT gas battle; NFT jokes are sometimes our only friends. Besides, we all know the power of a fantastic NFT meme (Ola, 2021).
- **Virtual Real Estate NFTs -** Virtual land provides the backbone of crypto-powered metaverse platforms like Decentraland and The Sandbox. With traditional major tech giants like Meta drawing up plans for their metaverses, it will become a crucial point of contrast between centralized and decentralized metaverse services (Irwin, 2022).
- **NFT Tickets -** Ticketing is a multi-billion dollar industry, yet it is one still beset by faults that damage consumers in more ways than one. For starters, there is a big black market that not only means higher pricing for fans who missed out on the opportunity to get tickets through the primary market but also paves the door for fraud and security hazards for

event organizers and other official entities (Sensoriumarc, 2022).

- **Gaming NFTs** - Gaming NFTs are non-fungible tokens created explicitly for the gaming sector. These tokens can represent in-game things, characters, or virtual assets that players can possess and sell. Gaming NFTs have been popular because they allow players to control their digital belongings and make money from them. For example, in play-to-earn games like Axie Infinity, users can buy and trade NFT characters called Axies. These Axies can be used to battle other players or complete objectives within the game, earning cryptocurrency prizes that can be sold for real money.(Sterling, 2023)

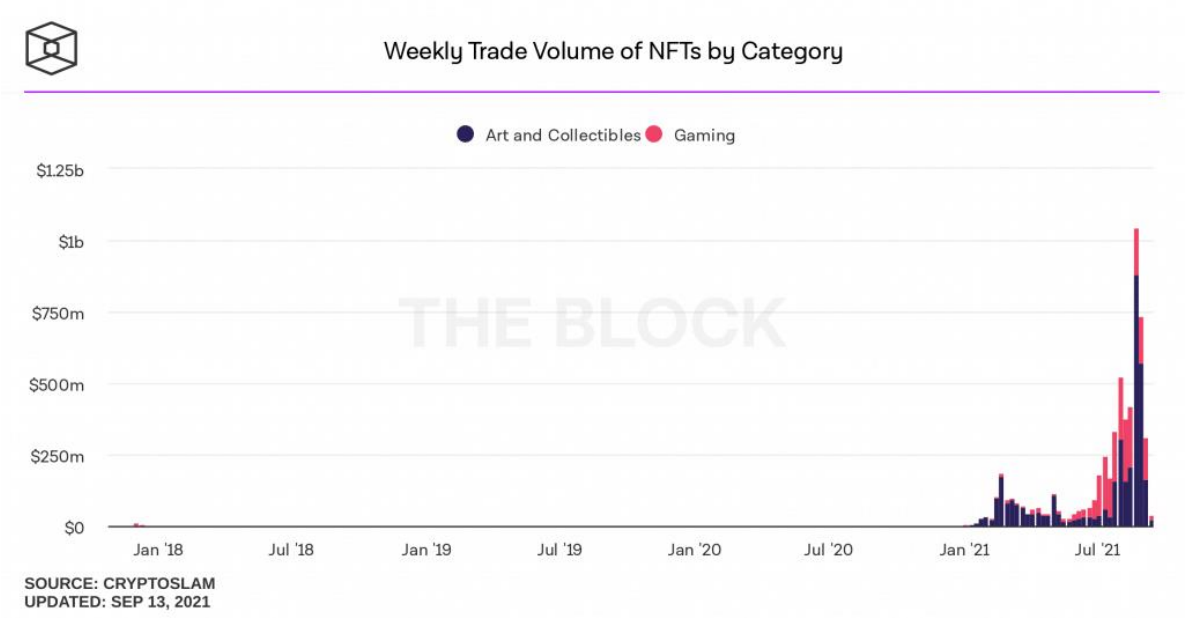
3.2 Block-Chain Technology :

Blockchain technology revolutionises data management by providing a shared, decentralised, and cryptographically secure database. Each transaction is grouped into blocks, forming a chain of interconnected data. This immutable ledger allows diverse parties to reach a consensus on shared information without the need for a central authority, instilling trust in the recorded data (Xu, 2016). Blockchain's potential extends beyond its traditional applications, offering significant benefits to accounting systems. By ensuring the integrity of records and enabling transparent audit trails, blockchain enhances the reliability of financial information. As blockchain technology matures, it holds the promise of fully automated audits, providing unprecedented transparency into revenue and expenses (Dai & Vasarhelyi, 2016).

Furthermore, blockchain facilitates the virtualization of physical assets within accounting processes. Each physical object is assigned a unique identifier and represented in a virtual copy of the accounting system. This virtualization ensures transparency throughout the blockchain, allowing for real-time updates and seamless sharing of information among relevant parties. The integration of blockchain technology into accounting systems holds immense potential for enhancing efficiency, accuracy, and transparency. By leveraging blockchain's decentralised architecture and cryptographic security, accounting processes can be streamlined, reducing the risk of errors and fraud. Blockchain technology offers a transformative solution for modernising accounting systems. Its decentralised nature, coupled with cryptographic security, ensures trust and transparency in financial transactions. As blockchain continues to evolve, its adoption in accounting is poised to revolutionise traditional practices, paving the way for more efficient and reliable financial management (Xu, 2016; Dai & Vasarhelyi, 2016).

3.2.1 The reason NFT became Popular

NFT gained popularity in 2017 with the release of CryptoKitties. The Ethereum network is used in the blockchain-based game CryptoKitties. Users can adopt, breed, and trade cats in this virtual cat game. Since then, NFTs' appeal has leveled, but in late January 2021, the market had another unexpected explosion. (Chang, 2021)



The graph above shows how the volume of NFT trades has increased dramatically since the beginning of 2021. This is due to the debut of NBA Top Shot by Dapper Labs, the company behind CryptoKitties. This product's meteoric popularity demonstrates NFTs' potential as a digital collecting medium. For fans and users, NFT ushers in a new phase for the digital archive. Thus, it is a novel approach to help performers, athletes, and singers without intermediaries. NFT is a new way for musicians, artists, and creators to share and profit from their work. The sale of digital products presented several difficulties and concerns since they were readily copied and imitated by third parties. Additionally, because record labels, distributors, publishers, and other third parties do not take a cut from NFTs, many digital artists can profit directly from them (Chang, 2021). In 2017, John Watkinson and Matt Hall introduced unique characters on the Ethereum blockchain, limited to 10,000 and possessing individuality. The first tweet from Twitter CEO Jack Dorsey sold for $2.9 million, and Grimes, Elon Musk's business partner, sold her digital art for over $6 million as examples of notable sales that came as a result of this innovation. Crypto.com also seized the opportunity by establishing an NFT platform. However, concerns arose regarding the sustainability of this trend, with some suggesting that NFTs could be the next cryptocurrency bubble. Subsequently, the market experienced a significant downturn, with NFT prices plummeting

by approximately 70% (Mathew, 2021). This rapid rise and subsequent fall underscore the volatility and speculative nature of the NFT market, prompting discussions about its long-term viability and potential regulatory challenges.

3.2.2 The fall of NFT

As major corporations like Nike, Gucci, and Tiffany entered the NFT space, the market initially appeared unstoppable. However, the influx of creators led to market saturation and widespread fraudulent activities, ultimately leading to a decline. Schuchart highlights the prevalence of fraud, including Ponzi schemes and money laundering, which tarnished the reputation of the NFT market. Fraudulent producers would hype up new projects only to abscond with investors' funds, while money launderers exploited the anonymity of blockchain transactions to legitimise their cash flow. The volatile nature of NFT valuations posed challenges for creators, with uncertain income streams and dramatic price fluctuations following the initial market boom. Spalter considers the erratic price of Ethereum (ETH) and its effects on the NFT market, observing periods of rapid growth and decline. Fear of missing out (FOMO) rather than actual valuation drove an unstable economy as a result of the influx of inventors and oversupply of low-value goods. Thomas emphasises the market's decline into an unsustainable state, which is characterised by an excess of NFTs and a lack of trustworthy appraisal mechanisms. The market's trajectory highlights the need for regulatory oversight and improved due diligence to mitigate fraudulent activities and restore investor confidence. Moving forward, addressing these challenges will be essential to fostering a more stable and sustainable NFT ecosystem.

Reasons For the Fall Of NFT

Market Saturation: - As more producers and artists embrace NFTs, the market risks becoming saturated with tokens, potentially leading to a devaluation of individual tokens. This oversupply challenges tokens' ability to maintain value and stand out amidst increasing competition.

- **Lack of Intrinsic Worth:** NFTs derive their value from the demand of investors and collectors, but critics argue that they lack intrinsic value as the underlying digital assets can be easily replicated or accessed elsewhere. Consequently, the value of NFTs is susceptible to fluctuations based on changes in demand. (Bhubaneswar, 2023)
- **Environmental Concerns:** Environmental concerns surrounding NFTs have emerged due to the significant energy consumption associated with blockchain networks, particularly those utilising Proof-of-Work (PoW) consensus algorithms like Ethereum. As awareness of environmental impact grows, there may be a shift in consumer behaviour, leading to a potential decline in the popularity of NFTs. (Bhubaneswar, 2023)
- **Regulatory Challenges:** The regulatory landscape surrounding NFTs is still evolving, with governments and regulatory bodies considering measures to address potential issues such as fraud, copyright infringement, money laundering, and investor protection. The implementation of strict regulations could impact the accessibility and attractiveness of NFTs to market participants. (Bhubaneswar, 2023).
- **Speculative Bubble:** The fervour surrounding NFTs and their speculative nature raise concerns about the formation of a speculative bubble akin to past instances like the dot-com bubble or the 2017 cryptocurrency surge. Should this bubble burst, the price of NFTs and overall interest in them could experience a significant decline. (Bhubaneswar, 2023).

4. Conclusions

The growing popularity of Non-Fungible Tokens (NFTs) has taken the digital world by storm, transforming several industries and providing new opportunities for enthusiasts, investors, and artists. This text aims to shed light on the diverse applications of NFTs in digital content, gaming, investment, and even domain names.

To understand the significance of NFTs, delving into their history and development is crucial. NFTs emerged as a concept in 2017, but they gained mainstream attention in recent years. Blockchain technology underpins these distinctive digital assets, guaranteeing their ownership, scarcity, and authenticity. NFTs are indivisible and cannot be traded one-to-one, unlike digital currencies such as Ethereum and Bitcoin.

Underlying all these applications is the utilization of blockchain technology. NFTs rely on blockchain to ensure their authenticity, provenance, and scarcity. This technology reduces the possibility of fraud and fake assets by offering an unchangeable and transparent ownership record. Moreover, the potential for blockchain to transform accounting systems is immense. By leveraging blockchain's decentralized and transparent nature, businesses can streamline their accounting processes, reduce costs, and enhance trust and accountability.

In conclusion, the growing popularity of NFTs has brought about a paradigm shift in various industries. From digital content to gaming, investment, and domain names, NFTs have opened new possibilities for creators, investors, and enthusiasts. Fundamentally based on blockchain technology, NFTs provide unique benefits and potentially transform not only the way we create and consume digital assets but also the way we manage accounting systems.

References

1. Clark, M. (2022, June 6). *NFTs, Explained. The Verge.* https://www.theverge.com/22310188/nft-explainer-what-is-blockchain-crypto-art-faq
2. Sharma, R. (2021). Non-Fungible Token Definition: Understanding NFTs. *Investopedia*.. https://www.investopedia.com/non-fungible-tokens-nft-5115211
3. Manoylov, M. (2023, October 18). A brief history of NFTs: From CryptoPunks to Bored Apes. The Block. https://www.theblock.co/learn/251477/a-brief-history-of-nfts
4. Team, L. C. X. (2023, July 6). *The History of NFTs. LCX.* https://www.lcx.com/the-history-of-nfts/
5. A S, R. (2023, August 29). Discover NFTs: Your Ultimate Guide to Non-Fungible Tokens | Simplilearn. Simplilearn.com. https://www.simplilearn.com/tutorials/blockchain-tutorial/what-is-

nft#:~:text=Being%20created%20on%20blockchain%20technology

6. IKEDA, A. (2023, August 1). Exploring NFTs in Gaming: The Intersection of Blockchain and the Gaming Industry. *Tokengamer*. https://tokengamer.io/exploring-nfts-in-gaming-the-intersection-of-blockchain-and-the-gaming-industry/#:~:text=In%20gaming%2C%20NFTs%20allow%20players
7. Middleton, G. (2023). *Cryptocurrency for Beginners: How to Take Advantage of the Biggest "Millionaire Maker" of the New Era, Including Bitcoin, Altcoins, and NFTs*. Greg Middleton.. https://wazirx.com/blog/difference-between-nft-vs-defi/#:~:text=NFTs%20and%20DeFi%20are%20distinct
8. Abhishek, R. (2023, July 31). NFT Domains Explained: *Unlocking the Future of Digital Ownership*. Medium. *https://kryptoskatt.medium.com/nft-domains-explained-unlocking-the-future-of-digital-ownership-b1ee2a80091b*
9. Rampal, S., Singh, M., Sharma, S., & Jain, H. M. (2022). A comprehensive overview of NFTs. *Trinity Journal of Management, IT & Media (TJMITM)*, *13*(Special Issue), 161-167. https://adamfard.com/blog/nfts-21-examples
10. Velasquez, T. (2022, March 30). *The Best NFT Examples in 2022*.Www.rootstrap.com.https://www.rootstrap.com/blog/the-20-best-nft-examples-in-2022
11. AMURE, T. (2023, February 28). *Bored Ape Yacht Club. Investopedia*.https://www.investopedia.com/bored-ape-yacht-club-6747275#citation-47
12. LODGE, M. (2023, February 28). What Is Decentraland? *Investopedia*. https://www.investopedia.com/what-is-decentraland-6827259
13. Exmundo, J. (2022). The 7 Types of NFTs You Need To Know About. https://nftnow.com/guides/the-7-types-of-nfts-you-need-to-know-about/
14. Hedera. (n.d.). NFT Collectibles Q&A. Hedera. Retrieved January 19, 2024, from https://hedera.com/learning/nfts/nft-collectibles
15. Opensea. (2022, December 23). What are art nfts? Opensea. https://opensea.io/learn/nft/art-nfts
16. HQ, G. (2023, July 24). 10 Different Types of NFTs You Should Know in 2023. Medium. https://medium.com/@gamicHQ/10-different-types-of-nfts-you-should-know-in-202310-different-types-of-nfts-you-should-know-in-245ae44e4c0c
17. Ola. (2021, December 29). 35 NFT Memes: The Greatest of All Time. *NFT Evening*. https://nftevening.com/nft-memes-we-couldnt-get-enough-of-prepare-to-laugh-your-ass-off/
18. Irwin, D. / K. (2022, August 31). What Is Virtual Land? How NFTs Are Shaping the Metaverse. Decrypt. https://decrypt.co/resources/what-is-virtual-land-how-nfts-are-shaping-the-metaverse
19. Sensoriumarc. (2022, August 29). NFT Types: 10 Original Categories You Did not Know About | News | Sensorium Arc. Sensoriumarc.com. https://sensoriumarc.com/articles/nft-types
20. Sterling, A. (2023, September 20). What is the Classification of NFT? Doubloin. https://www.doubloin.com/learn/classification-of-nfts
21. Xu, J. J. (2016). Are blockchains immune to all malicious attacks?. *Financial Innovation*, *2*, 1-9. https://doi.org/10.1186/s40854-016-0046-5
22. Dai, J., & Vasarhelyi, M. A. (2016). Imagineering Audit 4.0. *Journal of Emerging Technologies in Accounting*, *13*(1), 1-15. https://doi.org/10.2308/jeta-10494
23. Chang, J. (2021). How Did NFTs Become So Popular? Medium. https://medium.com/geekculture/how-did-nfts-become-so-popular-f894eea22f90
24. Mathew, P. (2021, April 9). The Rise And Fall Of NFTs. Analytics India Magazine. https://analyticsindiamag.com/the-rise-and-fall-of-nfts/
25. CPE. (2022, June 22). *Journal entry definition. AccountingTools*. https://www.accountingtools.com/articles/what-is-a-journal-entry.html
26. Bhubaneswar, S. G. C. (2023, August 6). *The Rise and Fall of NFT. Medium*. https://medium.com/@startupgrindbhubaneswarchapter/the-rise-and-fall-of-nft-da5efce3c84c