

# NFTs: What are they, and why did someone spend \$69 million for one?

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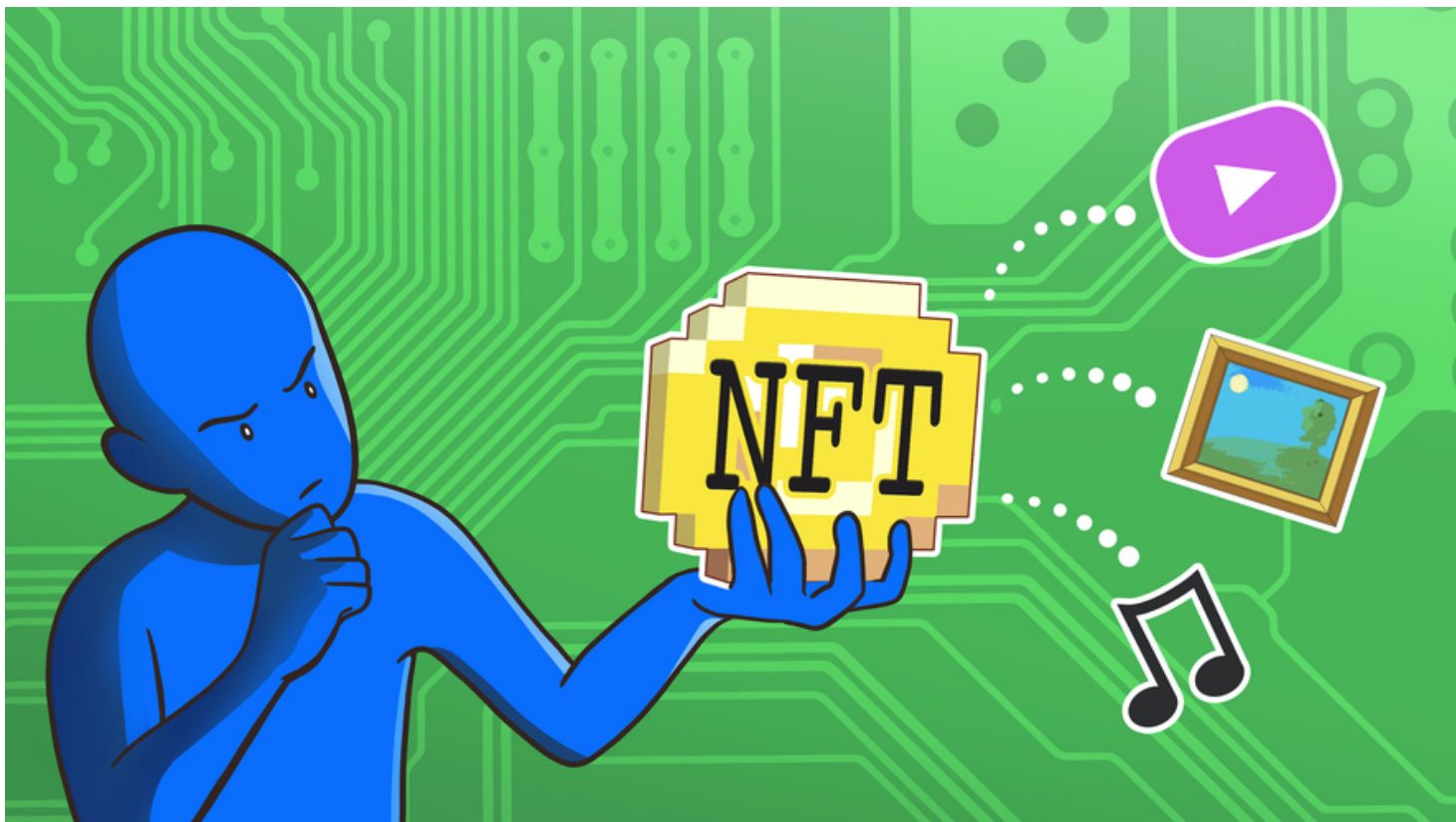


Illustration: Newsela staff

The week of March 12, the British auction house Christie's, famous for selling top-dollar artworks, made an announcement. They said that the artist Beeple sold a piece of artwork for more than \$69 million. This was the third-highest amount a living artist has ever received, according to Christie's.

The artwork that sold is titled "Everydays: The First 5000 Days" and isn't a physical work of art. It's an entirely digital creation.

The work was sold through an NFT. This is a growing technology that could change how we own everything from artwork and concert tickets to our homes.

NFTs have the support from some big names. NBA Top Shot, for example, is a digital collectibles service that allows fans to collect and own digital highlights from National Basketball Association games.

Meanwhile, Kansas City Chiefs quarterback Patrick Mahomes launched his own digital art gallery using NFTs. Then there's Elon Musk, the head of Tesla and founder of SpaceX. He is selling a

recent tweet as an NFT.

Here's everything you need to know about the digital platform:

### **What does NFT stand for?**

NFT is short for non-fungible token. Fungible items are easily interchangeable, such as money, for example. If we each have a \$20 bill, we could swap them without any change to their value. Non-fungible tokens, however, are unique and cannot be directly exchanged for another.

### **So what exactly is an NFT?**

An NFT is essentially a piece of data that verifies you own a digital item. That item could be a piece of art, a video clip of a game-winning shot in an NBA game, or a tweet. It could even be a digital recording of a fart, according to a report in the New York Post.

"The norm right now is people create these limited edition tokens where there is only one of that token," said Chris Wilmer. He is an associate professor at the University of Pittsburgh Swanson School of Engineering. He is also an editor at Ledger, a peer-reviewed journal for research on cryptocurrency and blockchain technology.

Wilmer said that when NFT artwork is purchased, for example, the buyer receives a link. That, in turn, takes the buyer to the digital piece of art.

In a statement to USA Today, Christie's said Beeple's \$69 million artwork was transferred to the buyer's digital wallet.

The NFTs are created and recorded using blockchain technology.

### **Back up: What's blockchain?**

A blockchain is like a digital database that operates in a ledger format. Ledgers are often chronological lists of purchases and deposits. It shows what is added to or taken out of an account. Bank accounts are organized as a type of ledger, which also records who bought what, where, and when. A blockchain tracks transactions of items or assets, buying or selling something valuable, such as bitcoin or NFTs. Bitcoin is a type of digital money.

When you are buying or selling something with a credit card, all the transactions are handled by computers. These are, however, usually in a central location controlled by a company like Visa or a bank. With blockchain, your purchases and sales are completed through a peer-to-peer network of computers owned by people just like you. This means thousands of private computers scattered around the country are powering transactions.

In blockchain, transactions are completed and recorded. Such records are then grouped into a block. When enough blocks are joined together, they form a chain with a full history of every transaction linked to that asset. Because the logging of transactions such as NFTs is not happening in a central location, technology thieves such as hackers would have a tough time getting at your digital valuables.

Wilmer compares blockchain to a cloud storage database. Cloud computing means storing and accessing data and programs over the internet instead of your computer's hard drive.

## **What's the benefit of NFTs or blockchain?**

For the artist, blockchain and NFTs are another way to make money. For example, the band Kings of Leon is releasing their new album as an NFT. Some artists can also earn money any time an NFT featuring their work is resold, according to Ethereum, a popular blockchain.

David Sacco, a finance and economics professor at the University of New Haven, Connecticut, says another benefit to relying on blockchain technology is the security. According to a 2017 post by IBM, records kept on a blockchain are typically secured with a private digital key. This level of security prevents anyone from changing the records.

## **Any concerns with using NFTs?**

That password or private key is critical. In January, *The New York Times* reported on millionaires who were locked out of their bitcoin fortunes because they lost their passwords. There's no option to retrieve a forgotten password.

The same can happen with NFTs, says Wilmer. "You're going to have a secret password, a private key associated with the ownership of that," he said.

## **How big a deal is it?**

NFTs is a new technology, and many uses for them are still in the planning stage. One possible future use, says Wilmer, is the ability to use NFTs to track land titles, with a token representing ownership of property like a home.

"People for many years now have been talking about using blockchains to replace the archaic paper-based land deed systems that most of the world uses," he said.

Bitcoin has slowly been adopted by mainstream groups and companies as a form of payment. Sacco expects the same for the NFTs. "I think ultimately the NFTs and blockchain technology are going to become the way that people store records digitally because of the security associated with it," said Sacco.

## Quiz

- 1 Which detail from the section "Back Up: What's Blockchain?" BEST explains why blockchains keep NFTs safe from hackers?
- (A) A blockchain is like a digital database that operates in a ledger format. Ledgers are often chronological lists of purchases and deposits. It shows what is added to or taken out of an account.
  - (B) Bank accounts are organized as a type of ledger, which also records who bought what, where, and when. A blockchain tracks transactions of items or assets, buying or selling something valuable, such as bitcoin or NFTs. Bitcoin is a type of digital money.
  - (C) When you are buying or selling something with a credit card, all the transactions are handled by computers. These are, however, usually in a central location controlled by a company like Visa or a bank.
  - (D) With blockchain, your purchases and sales are completed through a peer-to-peer network of computers owned by people just like you. This means thousands of private computers scattered around the country are powering transactions.
- 2 Which section from the article BEST explains why there is a drawback to the added security NFTs and blockchains provide?
- (A) "Back Up: What's Blockchain?"
  - (B) "What's The Benefit Of NFTs Or Blockchain?"
  - (C) "Any Concerns With Using NFTs?"
  - (D) "How Big A Deal Is It?"
- 3 Read the introduction [paragraphs 1-6].
- How does the introduction develop the main idea?
- (A) by highlighting some of the problems people have encountered with NFTs and how they solved them
  - (B) by highlighting different ways people and companies have been using NFTs to buy and sell digital items
  - (C) by describing how buying digital valuables with an NFT has changed since it was first invented
  - (D) by describing what effect selling a digital art piece through an NFT has had on Beeple's other art pieces
- 4 What is one reason why the author includes information about land titles?
- (A) to illustrate one of the mainstream groups that are currently using NFTs to make money
  - (B) to illustrate one of the reasons why people prefer using bitcoin over NFTs
  - (C) to highlight one of the problems people have encountered with NFTs in the past
  - (D) to highlight one of the new ways people have thought about using NFTs going forward