Tokenomics – Quiz

Cryptoeconomics

Question 1

What is tokenomics?

A. Token trading strategies
B. The economic design and incentive structure of a token
C. Token storage
D. Token encryption

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B. The economic design and incentive structure of a token
C. Token storage
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Answer: B
Tokenomics encompasses supply, distribution, utility, and incentive mechanisms that govern a token's economy.

Question 2

What is the difference between a 'coin' and a 'token'?

A. They are the same
B. Coins have their own blockchain; tokens exist on another blockchain
C. Tokens are worth more
D. Coins are digital; tokens are physical

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D. Coins are digital; tokens are physical

Answer: B

Coins (like BTC, ETH, SOL) have native blockchains, while tokens (like USDT, UNI, LINK) are built on existing platforms like Ethereum. This is a traditional distinction, though the lines have blurred with bridges, wrapped assets, and L2 ecosystems. Regulatory definitions do not follow this taxonomy.

Question 3

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B. A token that provides access to a product or service
C. A stablecoin
D. A governance token

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Answer: B
Utility tokens grant holders access to a specific service or platform functionality.

Question 4

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A. A token for cybersecurity
B. A token representing ownership in an asset, subject to securities regulations
C. A privacy token
D. A mining reward

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Answer: B
Security tokens represent investment contracts in real assets and are regulated like traditional securities.

Question 5

What is 'token burning'?

A. Physically destroying hardware
B. Permanently removing tokens from circulation
C. Trading tokens quickly
D. Mining tokens

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Answer: B
Token burning sends tokens to an unspendable address, reducing supply and potentially increasing value.

Question 6

What is 'vesting' in tokenomics?

A. Wearing formal clothing
B. Gradual release of tokens over time to prevent dumping
C. Token staking
D. Wallet security

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Answer: B
Vesting schedules lock tokens and release them gradually, aligning long-term incentives.

Question 7

What is 'inflation' in token supply?

A. Price increase
B. Increase in total token supply over time
C. Network growth
D. User increase

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Answer: B
Inflationary tokens have increasing supply, often through staking rewards or block emissions.

Question 8

What is a 'deflationary' token model?

A. Token price decreases
B. Total supply decreases over time through burning
C. Mining difficulty increases
D. Transaction fees increase

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Answer: B
Deflationary models reduce supply through burning mechanisms, potentially increasing scarcity.

Question 9

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C. A regulatory compliance token
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Answer: B
Governance tokens allow holders to vote on protocol upgrades, parameter changes, and treasury allocation.

Question 10

What is 'circulating supply'?

A. Maximum possible supply
B. Tokens currently available and trading in the market
C. Tokens being mined
D. Burned tokens

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B. Tokens currently available and trading in the market
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Answer: B
Circulating supply is the number of tokens currently available to the public, excluding locked or burned tokens.

Question 11

What is 'max supply'?

A. Current supply
B. The maximum number of tokens that will ever exist
C. Daily trading volume
D. Wallet capacity

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Answer: B
Max supply is the hard cap on total tokens that can ever be created (e.g., 21 million BTC).

Question 12

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B. The initial creation and distribution of a new token
C. A hard fork
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B. The initial creation and distribution of a new token
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Answer: B
TGE is when a new token is created and initially distributed, often through an ICO, IDO, or airdrop.

Question 13

What is an 'airdrop'?

A. A type of mining
B. Free distribution of tokens to wallet addresses
C. A trading strategy
D. A wallet backup

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C. A trading strategy
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Answer: B
Airdrops distribute free tokens to existing holders or specific wallet addresses for marketing or rewards.

Question 14

What is the Howey Test used for?

A. Testing blockchain security
B. Determining if a token qualifies as a security under US law
C. Measuring transaction speed
D. Evaluating mining efficiency

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Answer: B
The Howey Test determines if an asset is an 'investment contract' (security) based on four prongs: (1) investment of money, (2) in a common enterprise, (3) with expectation of profits, (4) derived from efforts of others. All four must be met.

Question 15

What is 'fair launch'?

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B. Token distribution without pre-mine or insider allocation
C. Regulated token sale
D. Mining competition

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Answer: B
Fair launch means no tokens are pre-allocated to insiders; everyone has equal opportunity to acquire tokens.

Question 16

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C. Total transaction fees
D. Number of holders

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Market capitalization equals current price times circulating supply, measuring total market value.

Question 17

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C. Supply limit
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B. Initial period before any vested tokens are released
C. Supply limit
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Answer: B
A cliff is the initial period (e.g., 6-12 months) during which no vested tokens are released.

Question 18

What is 'fully diluted valuation' (FDV)?

A. Current market cap
B. Price multiplied by maximum supply
C. Trading volume
D. Staking rewards

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B. Price multiplied by maximum supply
C. Trading volume
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Answer: B
FDV represents the theoretical market cap if all tokens were in circulation at current price.

Question 19

What incentive do staking rewards provide?

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B. Encouraging holders to lock tokens and secure the network
C. Lower fees
D. Anonymous transactions

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Answer: B
Staking rewards incentivize token locking, which secures PoS networks and reduces selling pressure.

Question 20

What is 'token velocity'?

A. Transaction speed
B. How quickly tokens change hands in the economy
C. Price volatility
D. Mining speed

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A. Transaction speed
B. How quickly tokens change hands in the economy
C. Price volatility
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Answer: B
Token velocity measures how frequently tokens are traded. High velocity can reduce token value as holders don't retain tokens.

Question 21

A new DeFi protocol launches with the following distribution: 40% team/advisors (4-year vesting, 1-year cliff), 30% community airdrop (immediate), 20% investors (2-year vesting, 6-month cliff), 10% liquidity mining (released over 3 years). Which aspect presents the HIGHEST short-term selling pressure risk?

A. Team/advisors allocation due to largest percentage
B. Community airdrop due to immediate unlock
C. Investor allocation due to early cliff
D. Liquidity mining due to incentivized selling

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Answer: B

The 30% community airdrop has immediate unlock with no vesting, creating instant selling pressure. Team and investors are locked for 1 year and 6 months respectively. Liquidity mining is gradual. Immediate unlocks often lead to 'airdrop farmers' dumping tokens. Best practice is adding vesting even to community allocations.

Question 22

You're analyzing a project with the following vesting schedule for advisors: 12-month cliff, then 24-month linear vesting. An advisor receives 100,000 tokens at TGE (token generation event). How many tokens does the advisor control after 18 months?

A. 0 tokens - still within cliff period

B. 50,000 tokens - half of allocation

C. 25,000 tokens - 6 months of 24-month vesting

D. 100,000 tokens - all tokens unlocked after cliff

Question 22

You're analyzing a project with the following vesting schedule for advisors: 12-month cliff, then 24-month linear vesting. An advisor receives 100,000 tokens at TGE (token generation event). How many tokens does the advisor control after 18 months?

A. 0 tokens - still within cliff period

B. 50,000 tokens - half of allocation

C. 25,000 tokens - 6 months of 24-month vesting

D. 100,000 tokens - all tokens unlocked after cliff

Answer: C

Timeline: Months 0-12 = cliff (0 tokens released). Month 12: cliff ends. Months 13-36 = linear vesting over 24 months. At month 18 = 12 months (cliff) + 6 months (vesting) = 6/24 of tokens = 25,000 tokens. Cliff delays ALL releases, then vesting begins. This structure ensures long-term commitment.

Question 23

Protocol X announces a retroactive airdrop to early users. To qualify, you need 10+ transactions before the snapshot date. You have 8 transactions. Gas fees are currently 50 gwei, and you estimate 2 more transactions at 100,000 gas each would cost ~20 total. The airdrop is expected to distribute 500 tokens worth 0.10 each. What is the economically rational decision?

A. Make 2 more transactions - potential gain (50) exceeds cost (20)

B. Don't participate - too risky without guaranteed allocation

C. Make 10 more transactions to maximize allocation

D. Wait for gas fees to drop before deciding

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Answer: A

Expected value: 500 tokens $\times$ 0.10 =50 potential gain. Cost: 20 in gas fees. Net expected value :50 - 20 =30 profit. This is profitable 'airdrop farming'. However, real considerations include: token price volatility, no guarantee of allocation size, possible Sybil detection, and opportunity cost. This behavior is why protocols now use more sophisticated qualification criteria.

Question 24

A token has circulating supply of 100M tokens at $5 each (market cap = $500M). Max supply is 1B tokens, with remaining 900M vesting over 5 years. What is the FDV/market cap ratio, and what does it indicate?

A. Ratio = 10x; indicates high future dilution risk and potential price suppression

B. Ratio = 10x; indicates strong growth potential

C. Ratio = 0.1x; indicates undervaluation

D. Ratio = 5x; indicates balanced tokenomics

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D. Ratio = 5x; indicates balanced tokenomics

Answer: A

FDV = $51B = 5B. Market cap = $500M. Ratio = 5B / 500M = 10x. High FDV/MC ratios (> 5x) signal major dilution risk: current holders will own proportionally less as tokens vest. This creates persistent selling pressure and caps price growth. Healthy ratios are typically < 3x. Investors should evaluate vesting schedules and emission rates carefully.

Question 25

You're evaluating two governance tokens for a 1-year hold. Token A: 80% held by top 10 wallets, high voting participation (60%), active development. Token B: 40% held by top 10 wallets, low voting participation (15%), slow development. Which presents better long-term value from a tokenomics perspective?

A. Token A - high engagement indicates active community despite concentration

B. Token B - better distribution reduces governance capture risk

C. Token A - concentrated holdings mean less selling pressure

D. Token B - low participation means your vote matters more

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D. Token B - low participation means your vote matters more

Answer: B

Token B's better distribution (60% beyond top 10 vs 20%) reduces risks: fewer whale manipulations, harder to execute governance attacks, more resilient to single-entity selling. Token A's 80% concentration is a red flag - small group controls protocol decisions and price. While low participation in B is concerning, it's addressable through governance improvements. Concentration is structural and harder to fix. Decentralization is a key value driver.

Question 26 (True/False)

Utility tokens give holders voting rights.

A. True
B. False

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Utility tokens give holders voting rights.

A. True

B. False

Answer: False

Utility tokens provide access to products or services, not voting rights. Governance tokens give voting rights in protocol decisions.

Question 27 (True/False)

Token vesting prevents immediate selling.

A. True
B. False

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Token vesting prevents immediate selling.

A. True

B. False

Answer: True

Vesting schedules lock tokens and release them gradually over time, preventing immediate selling and aligning long-term incentives.

Question 28 (True/False)

Market cap equals price times total supply.

A. True
B. False

Question 28 (True/False)

Market cap equals price times total supply.

A. True

B. False

Answer: False

Market cap equals price times circulating supply, not total supply. Total supply includes locked, vested, and burned tokens that aren't actively trading.

Question 29 (True/False)

Airdrops distribute free tokens to users.

A. True
B. False

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Airdrops distribute free tokens to users.

A. True

B. False

Answer: True

Airdrops are free distributions of tokens to wallet addresses, often used for marketing, rewards, or initial distribution.

Question 30 (True/False)

Token burns increase total supply.

A. True
B. False

Question 30 (True/False)

Token burns increase total supply.

A. True

B. False

Answer: False
Token burns permanently remove tokens from circulation by sending them to unspendable addresses, decreasing total supply.

Question 31 (True/False)

All cryptocurrencies have a fixed maximum supply.

A. True
B. False

Question 31 (True/False)

All cryptocurrencies have a fixed maximum supply.

A. True

B. False

Answer: False

Not all cryptocurrencies have a fixed supply. Bitcoin has a 21 million cap, but Ethereum has no maximum supply. Some tokens are inflationary with unlimited supply.

Question 32 (Fill in the Blank)

Token ___ schedules prevent immediate selling. *Hint: Gradual release over time...*

Question 32 (Fill in the Blank)

Token ___ schedules prevent immediate selling. *Hint: Gradual release over time...* **Answer: vesting**

Vesting schedules lock tokens and release them gradually, preventing immediate selling and aligning long-term incentives.

Question 33 (Fill in the Blank)

Removing tokens from supply is called a token ___. *Hint: Permanently destroying tokens...*

Question 33 (Fill in the Blank)

Removing tokens from supply is called a token ___. *Hint: Permanently destroying tokens...* **Answer: burn**

Token burning sends tokens to an unspendable address, permanently removing them from circulation.

Question 34 (Fill in the Blank)

Market ___ equals price times circulating supply. *Hint: Abbreviation: MC...*

Question 34 (Fill in the Blank)

Market ___ equals price times circulating supply. *Hint: Abbreviation: MC...* **Answer: cap**

Market capitalization (market cap) equals current token price multiplied by circulating supply, measuring total market value.