CS251 Fall 2021

(cs251.stanford.edu)

Bitcoin Mechanics

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HW#1 is posted on the course web site. Due Oct. 4

Recap

(1) <u>SHA256</u>: a collision resistant hash function that outputs 32-byte hash values

Applications:

- a binding commitment to one value: commit(m) → H(m) or to a list of values: commit($m_1, \dots, m_n$) → Merkle($m_1, \dots, m_n$)
- Proof of work with difficulty D: given x find y s.t. $H(x, y) < 2^{256}/D$ takes time $O(D)$

Recap

(2) Digital signatures: (Gen, Sign, Verify)

Gen() → (pk, sk),

Sign(sk, m) → σ, Verify(pk, m, σ) → accept/reject

signing key

verification key

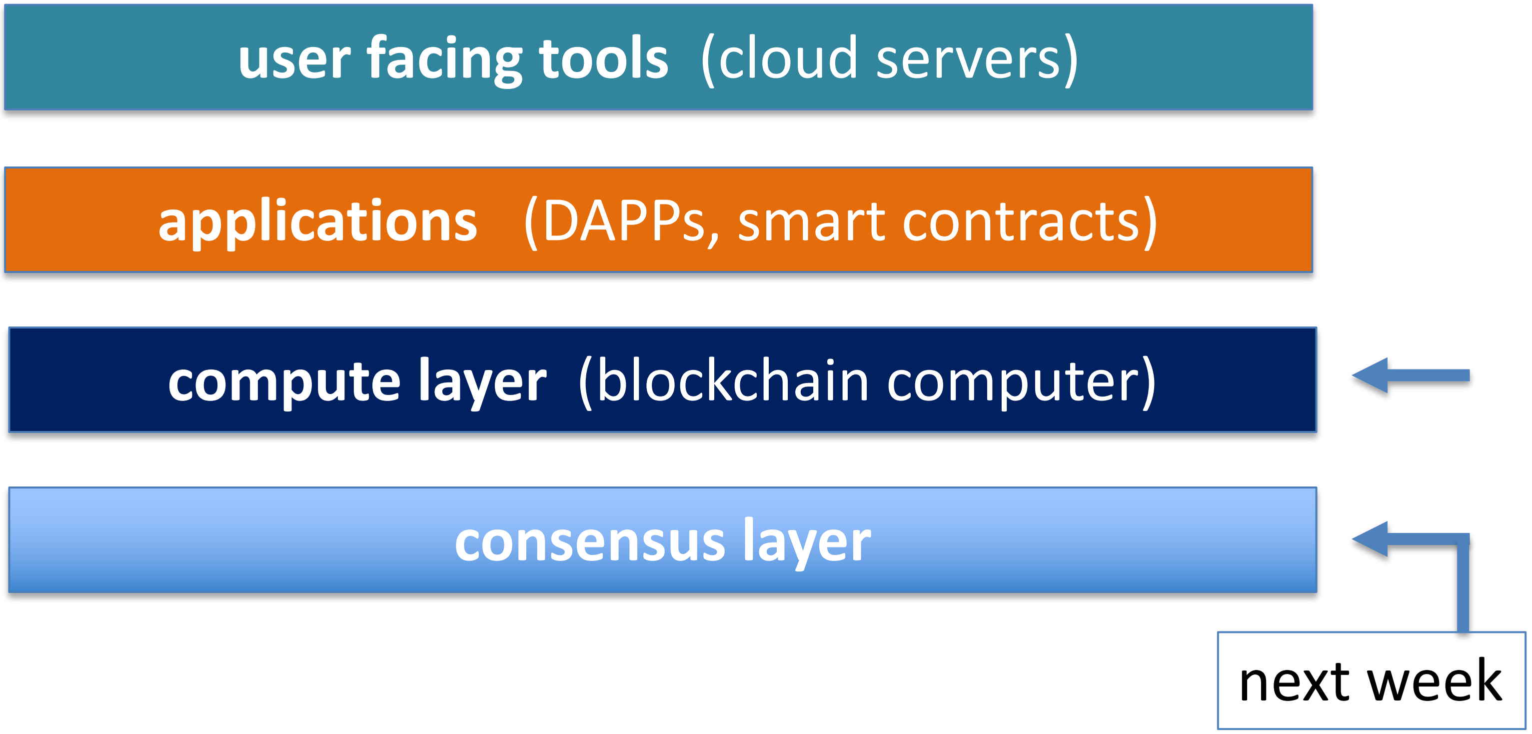
This lecture: Bitcoin mechanics

Oct. 2008: paper by Satoshi Nakamoto
Jan. 2009: Bitcoin network launched

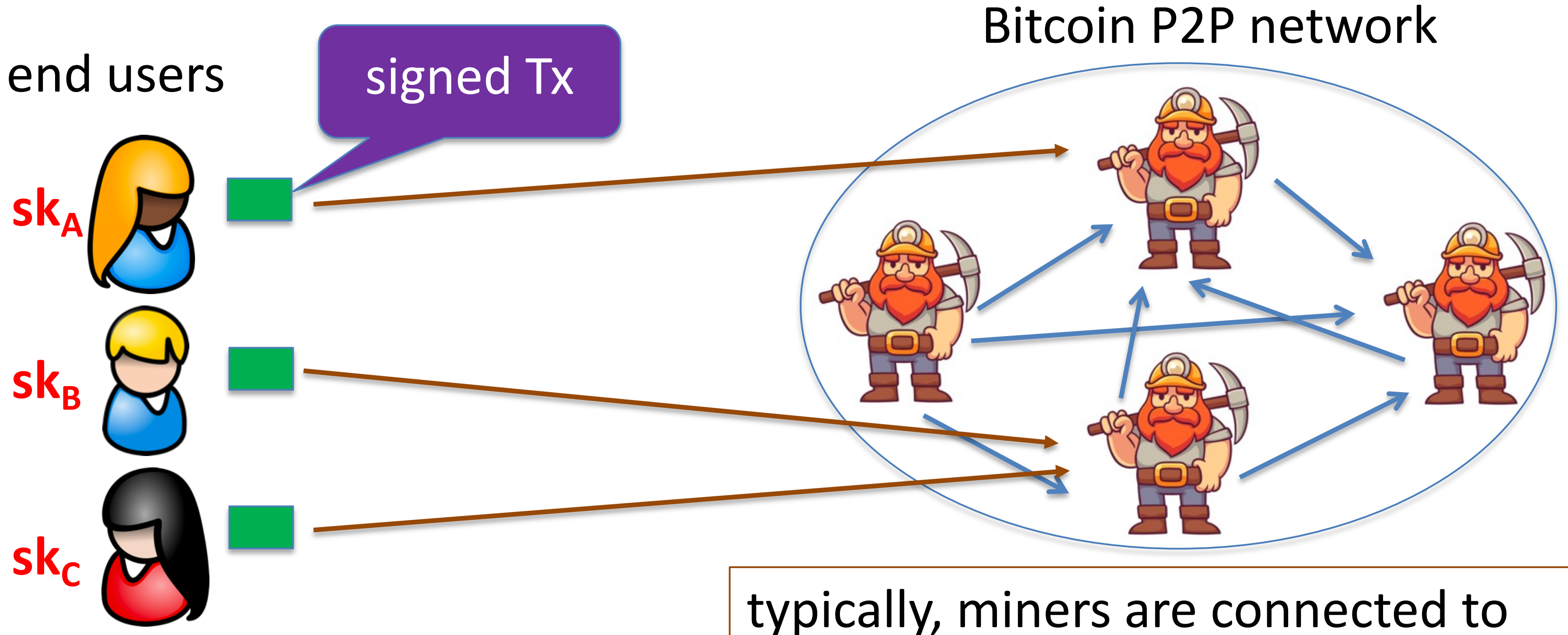
Total market value:

Sep. 2021: $800B

This lecture: Bitcoin mechanics



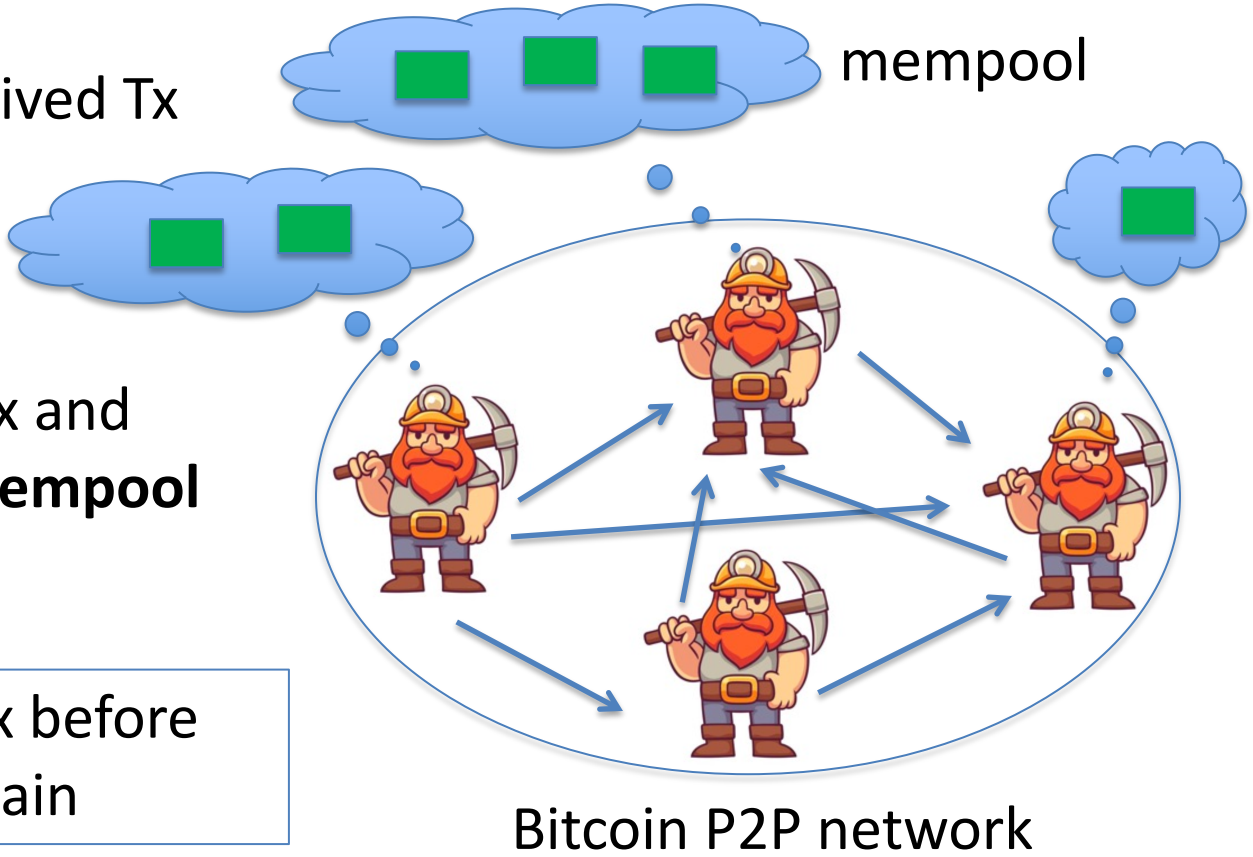
First: overview of the Bitcoin consensus layer



typically, miners are connected to eight other peers (anyone can join)

First: overview of the Bitcoin consensus layer

miners broadcast received Tx to the P2P network



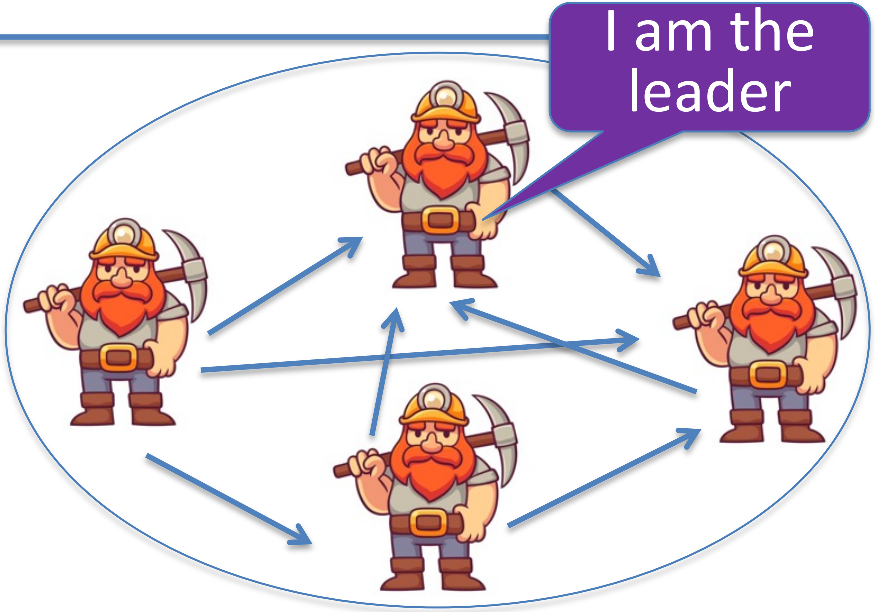
every miner:

validates received Tx and stores them in its **mempool** (unconfirmed Tx)

note: miners see all Tx before they are posted on chain

First: overview of the Bitcoin consensus layer

blockchain



Bitcoin P2P network

Every **10 minutes**:

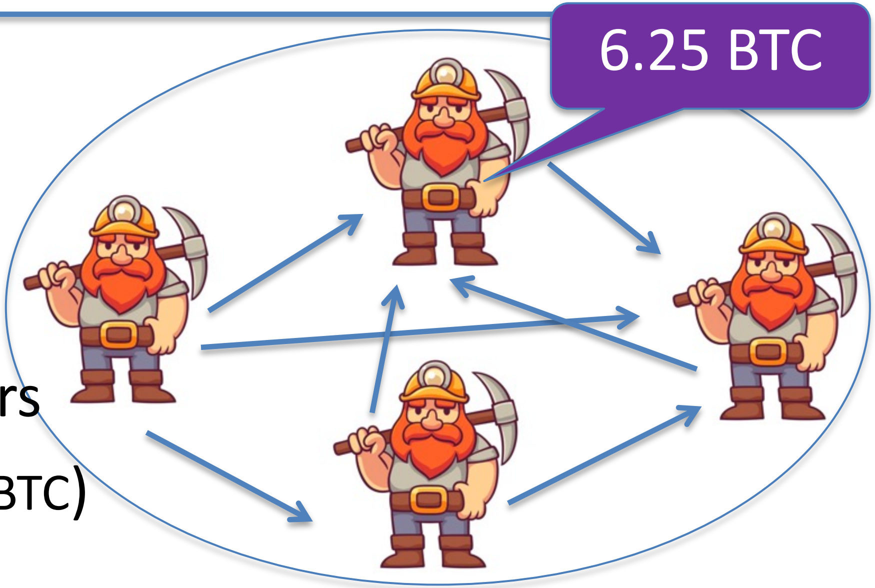
- Each miner creates a candidate block from Tx in its mempool
- a “random” miner is selected (how: next week), and broadcasts its block to P2P network
- all miners validate new block

First: overview of the Bitcoin consensus layer

Selected miner is paid 6.25 BTC
in **coinbase Tx** (first Tx in the block)

- only way new BTC is created
- block reward halves every four years

  ⇒ max 21M BTC (currently 18.75M BTC)



note: miner chooses order of Tx in block

Properties (very informal)

Next week:

Persistence:

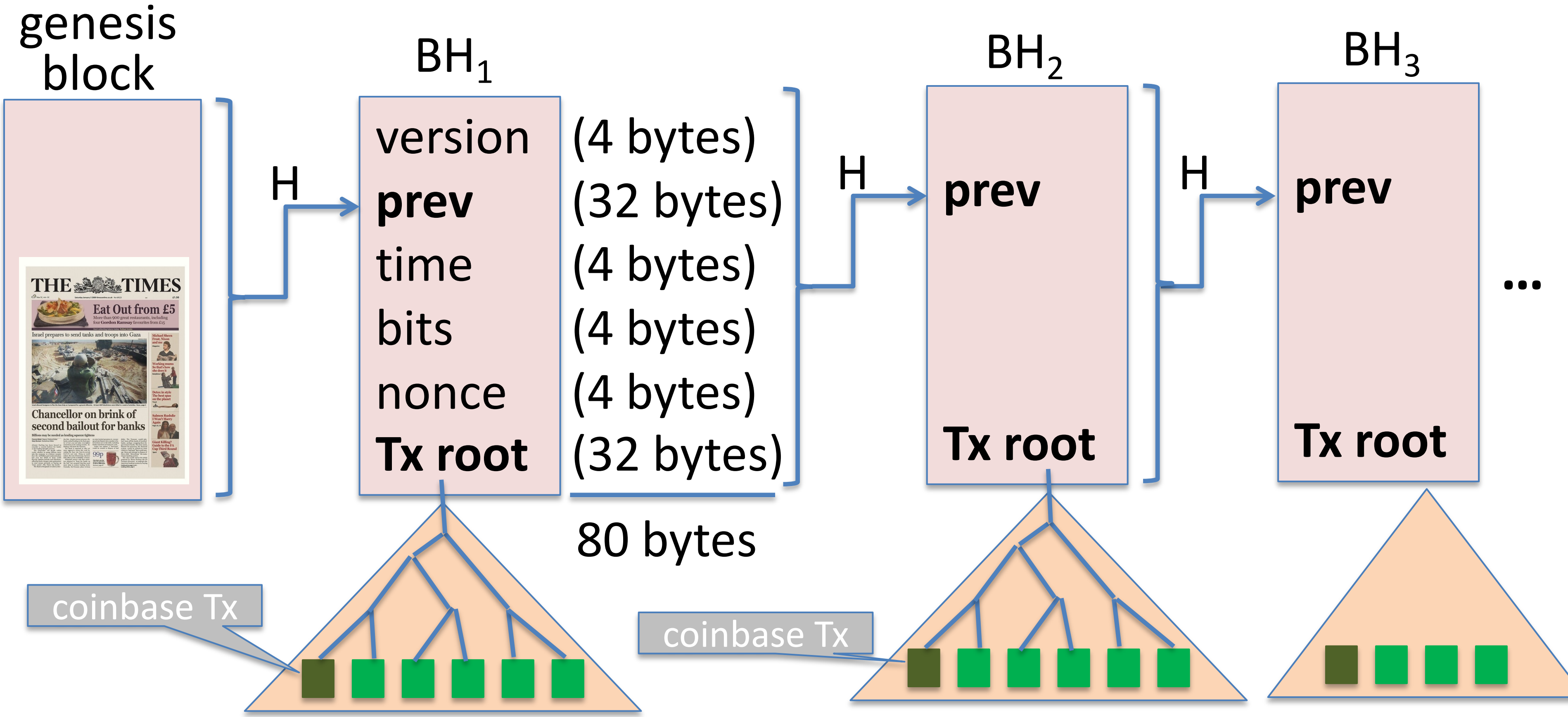
- to remove a block, need to convince 51% of mining power *

Liveness:

- to block a Tx from being posted, need to convince 51% of mining power **

(some sub 50% censorship attacks, such as feather forks)

Bitcoin blockchain: a sequence of block headers, 80 bytes each



Bitcoin blockchain: a sequence of block headers, 80 bytes each

time: time miner assembled the block. Self reported.
(block rejected if too far in past or future)

bits: proof of work difficulty
nonce: proof of work solution
for choosing a leader (next week)

Merkle tree: payer can give a short proof that Tx is in the block

new block every ≈10 minutes.

An example (Sep. 2020)

Tx data

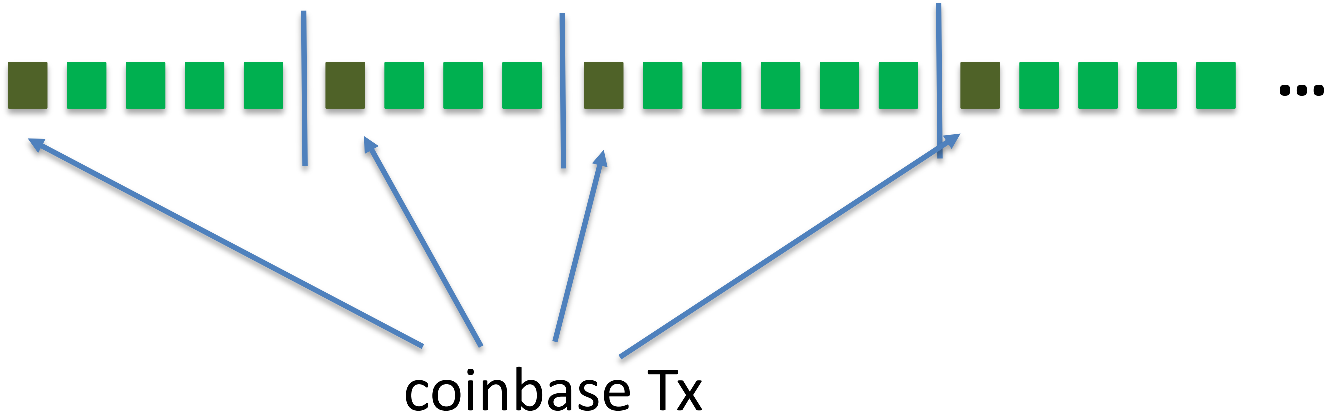
Height	Mined	Miner	Size	#Tx
648494	17 minutes	Unknown	1,308,663 bytes	1855
648493	20 minutes	SlushPool	1,317,436 bytes	2826
648492	59 minutes	Unknown	1,186,609 bytes	1128
648491	1 hour	Unknown	1,310,554 bytes	2774
648490	1 hour	Unknown	1,145,491 bytes	2075
648489	1 hour	Poolin	1,359,224 bytes	2622

Block 648493

Timestamp	2020-09-15 17:25	
Height	648493	
Miner	SlushPool	(from coinbase Tx)
Number of Transactions	2,826	
Difficulty (D)	17,345,997,805,929.09	(adjusts every two weeks)
Merkle root	350cbb917c918774c93e945b960a2b3ac1c8d448c2e67839223bbcf595baff89	
Transaction Volume	11256.14250596 BTC	
Block Reward	6.25000000 BTC	
Fee Reward	0.89047154 BTC	(Tx fees given to miner in coinbase Tx)

This lecture

View the blockchain as a sequence of Tx (append-only)



Tx structure (non-coinbase)

inputs	input[0] input[1] input[2]
outputs	output[0] output[1]
(segwit)	witnesses (part of input)
(4 bytes)	locktime

TxID = H(Tx)
(excluding witnesses)

earliest block # that can include Tx

input:

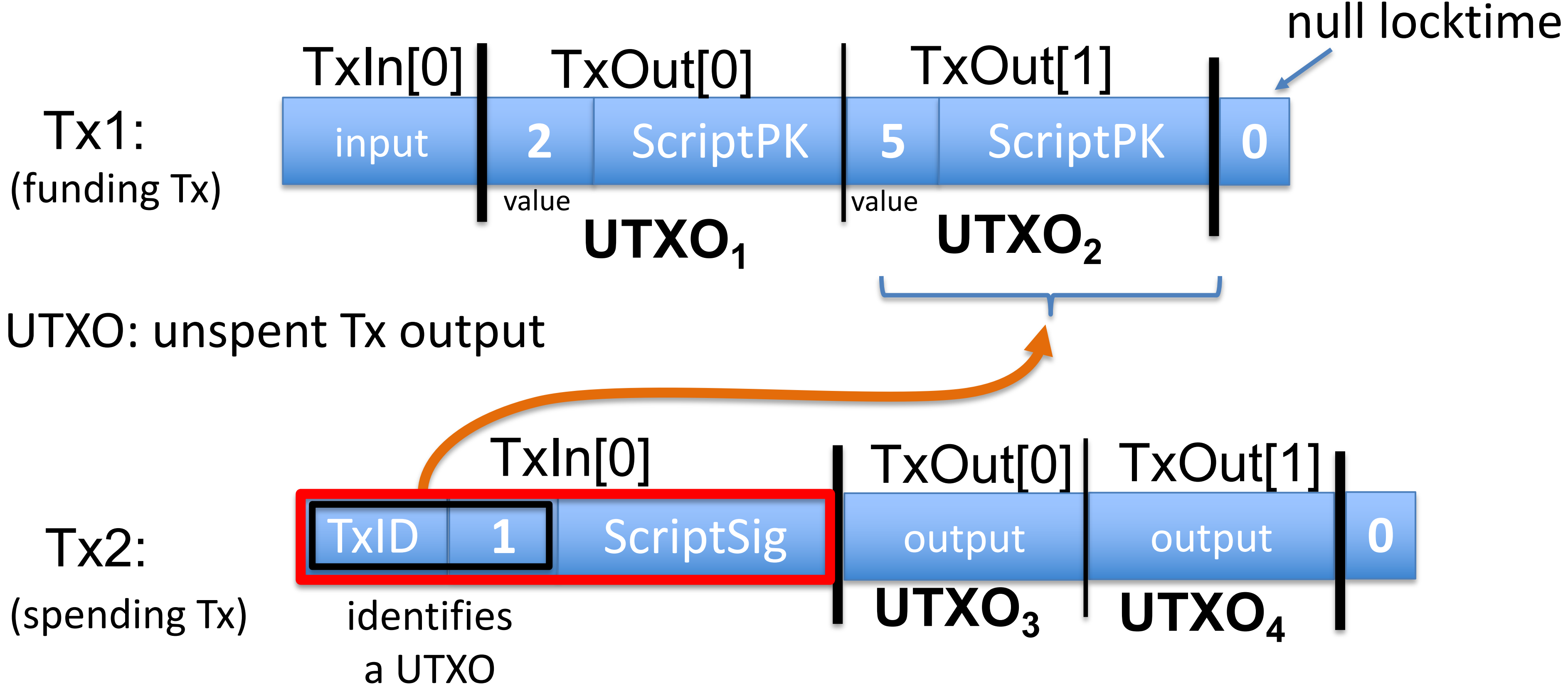
TxID	32 byte hash
out-index	4 byte index
ScriptSig	program
seq	ignore

output:

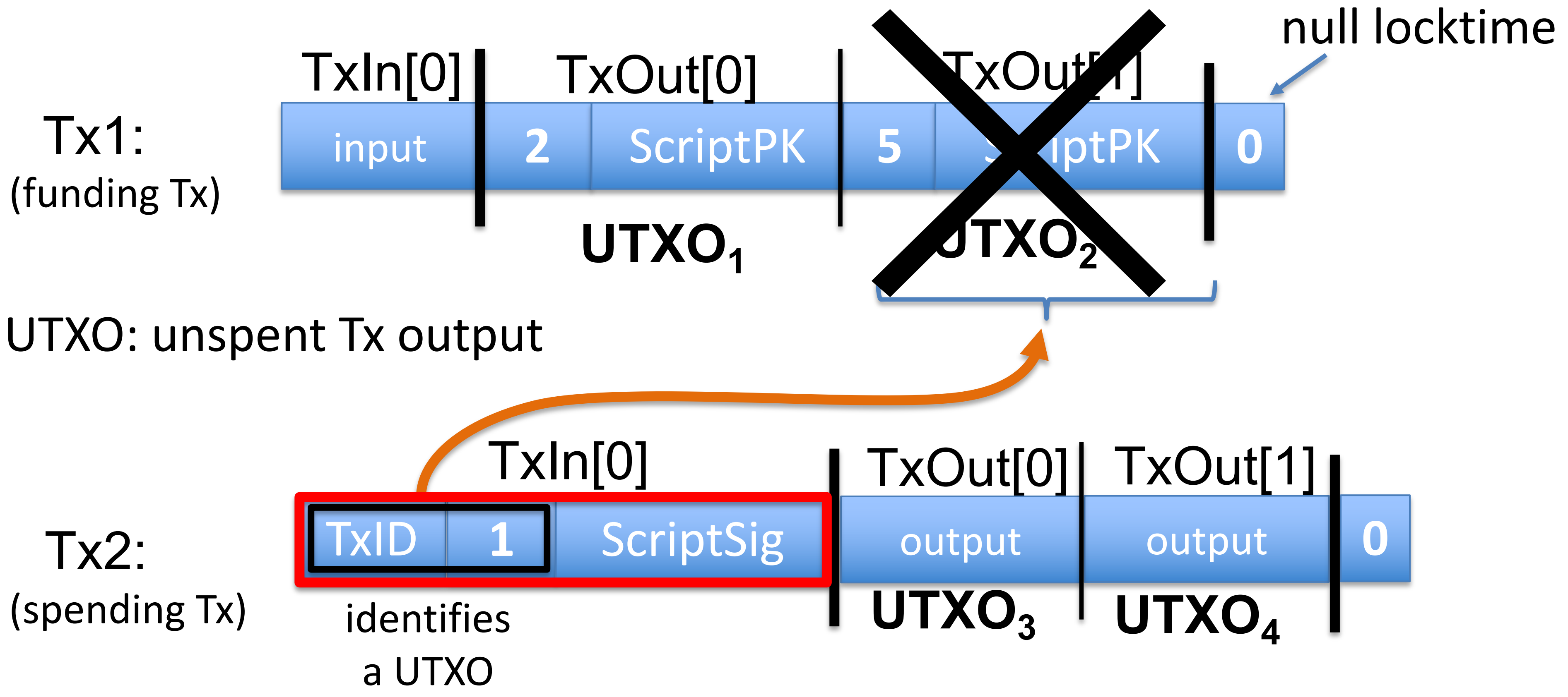
value	8 bytes
ScriptPK	program

#BTC = value/10^8

Example


null locktime
TxIn[0]
TxOut[0]
TxOut[1]
Tx1:
(funding Tx)
input
2
ScriptPK
5
ScriptPK
0
value
value
$UTXO_1$
$UTXO_2$
UTXO: unspent Tx output
TxIn[0]
TxOut[0]
TxOut[1]
Tx2:
(spending Tx)
TxID
1
ScriptSig
output
output
0
identifies
a UTXO
$UTXO_3$
$UTXO_4$

Example


null locktime
TxIn[0]
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(funding Tx)
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UTXO1
UTXO2
UTXO: unspent Tx output
Tx2:
(spending Tx)
TxIn[0]
TxOut[0]
TxOut[1]
TxID
1
ScriptSig
output
output
0
UTXO3
UTXO4
identifies
a UTXO

Validating Tx2

program from funding Tx:
under what conditions
can UTXO be spent

Miners check (for each input):

1. The program $\boxed{\text{ScriptSig | ScriptPK}}$ returns true
2. $\boxed{\text{TxID | index}}$ is in the current UTXO set
3. sum input values $\geq$ sum output values

After Tx2 is posted, miners remove $UTXO_2$ from UTXO set

An example (block 648493) [2826 Tx]

Input			Outputs	
COINBASE (Newly Generated Coins)		→	1CK6KHY6MHgYvmRQ4PAafKYDrg1ejbH1cE	7.14047154 BTC
			OP_RETURN	0.00000000 BTC
	Tx0		OP_RETURN	0.00000000 BTC
0.00000000 BTC			6.25 + Tx fees =	7.14047154 BTC

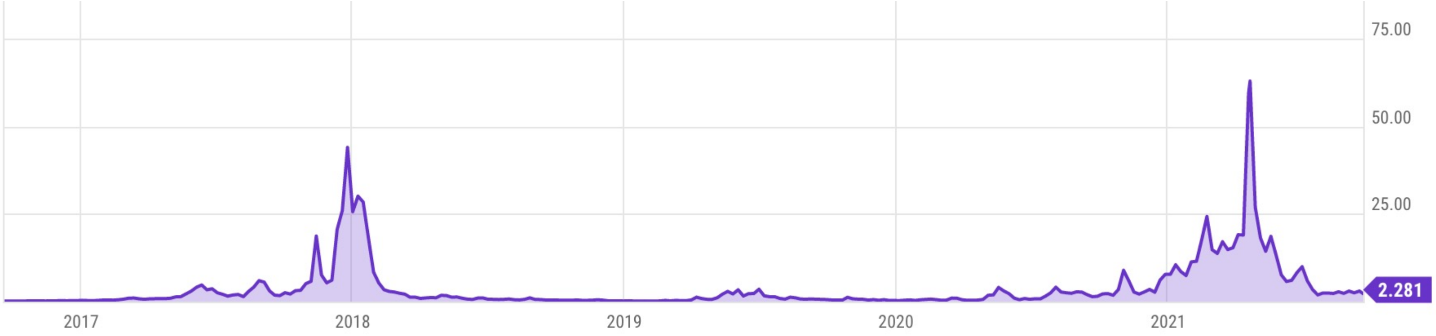
Input			Outputs	
3PuJbxJS1pKxf8EdVR18yBkD1fPAbgUtyw	0.72333974 BTC	→	1E5Ao1VUnA5BhffvXf2Xmud6avUgwkFnJv	0.00917379 BTC
input	(input UTXO value)		bc1qr8k3e0vx06lpu3j7m858pa2ak9tyr56ttwvefk	0.61504199 BTC
			bc1qdrxve8kua3yz5dgx6wf3u95ngh0d3e648...	0.09290152 BTC
	Tx1		14ZhjuXpQ5jCDjtAy7ZMu3hfEQCWewzLw7	0.00616444 BTC
0.00005800 BTC (Tx fee)			outputs	0.72328174 BTC

Input			Outputs	
17MWze4Z1uP1jnvqvj7SAnGtxcoVq11H8A	0.05000000 BTC	→	3G3C2RFQ8gsf77EQpdR4ZReChWFKEHhxVU	0.04808000 BTC
0.00192000 BTC (Tx fee)	Tx2			0.04808000 BTC

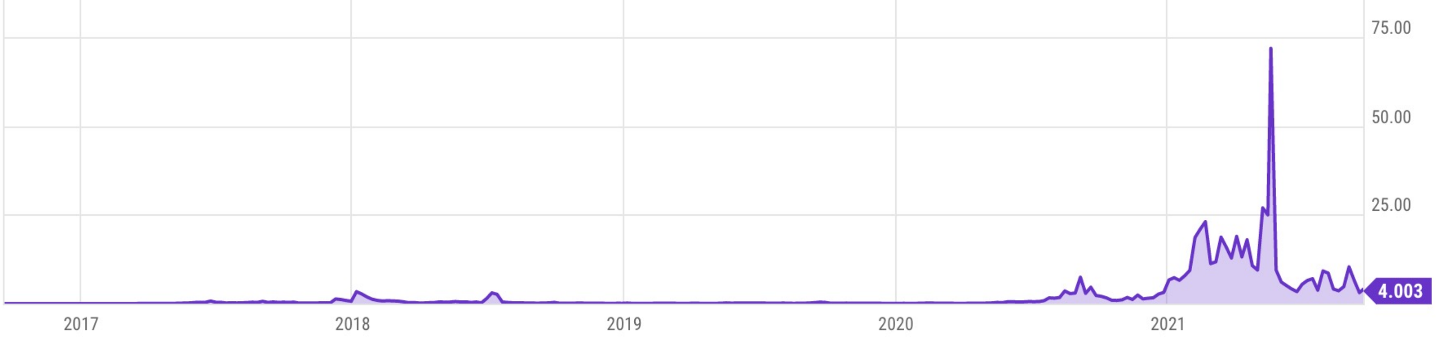
sum of fees in block added to coinbase Tx

Tx fees

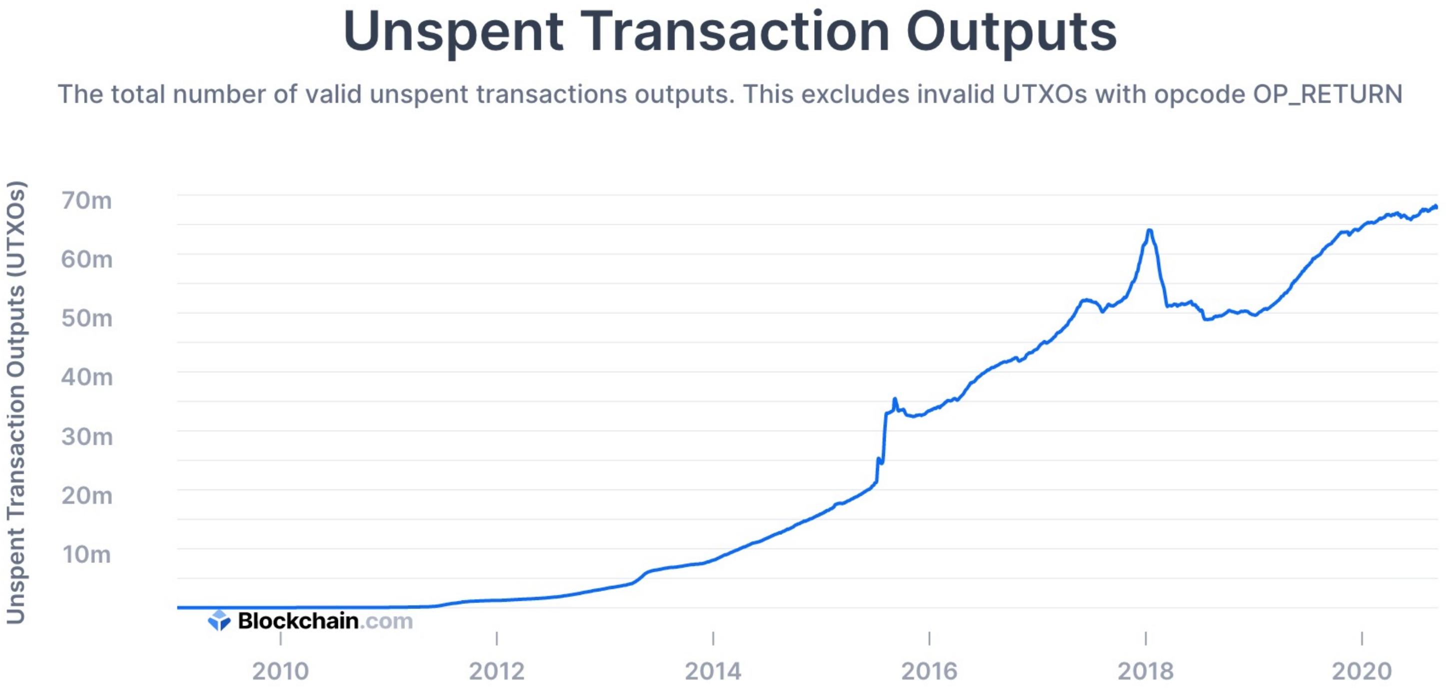
Bitcoin average Tx fees in USD



Ethereum average Tx fees in USD



All value in Bitcoin is held in UTXOs



Sep. 2021:   miners need to store ≈76M UTXOs in memory

Focusing on Tx2: TxInp[0]

from UTXO
(Bitcoin script)

Value	0.05000000 BTC
Pkscript	OP_DUP OP_HASH160 45b21c8a0cb687d563342b6c729d31dab58e3a4e OP_EQUALVERIFY OP_CHECKSIG
Sigscript	304402205846cace0d73de82dfbdeba4d65b9856d7c1b1730eb401cf4906b2401a69bdc90220589d36d36be64e774c8796b96c011f29768191abeb7f56ba20ffb0351280860c01 03557c228b080703d52d72ead1bd93fc72f45c4ddb4c2b7a20c458e2d069c8dd9e

from TxInp[0]

Bitcoin Script

A stack machine. Not Turing Complete: no loops.

Quick survey of op codes:

1. **OP_TRUE** (OP_1), **OP_2**, …, **OP_16**: push value onto stack

   81 82 96

2. **OP_DUP**: push top of stack onto stack

   118

Bitcoin Script

3. control:

99 **OP_IF** <statements> **OP_ELSE** <statements> **OP_ENDIF**

105 **OP_VERIFY**: abort fail if top = false

106 **OP_RETURN**: abort and fail

what is this for? ScriptPK = [OP_RETURN, <data>]

136 **OP_EQVERIFY**: pop, pop, abort fail if not equal

Bitcoin Script

4. arithmetic:

   OP_ADD, **OP_SUB**, **OP_AND**, …: pop two items, add, push

5. crypto:

   OP_SHA256: pop, hash, push

   OP_CHECKSIG: pop sig, pop pk, verify sig. on Tx, push 0 or 1

6. Time: **OP_CheckLockTimeVerify** (CLTV):
   fail if value at the top of stack > Tx locktime value.
   usage: UTXO can specify min-time when it can be spent

Example: a common script

<sig> <pk> **DUP HASH256** <pkhash> **EQVERIFY CHECKSIG**

stack:	empty	init
	<sig> <pk>	push values
	<sig> <pk> <pk>	**DUP**
	<sig> <pk> <hash>	**HASH256**
	<sig> <pk> <hash> <pkhash>	push value
	<sig> <pk>	**EQVERIFY**
	1	**CHECKSIG** verify(pk, Tx, sig)

⇒ successful termination

Transaction types: (1) P2PKH

pay to public key hash

Alice want to pay Bob 5 BTC:

- step 1: Bob generates sig key pair $(pk_B, sk_B) \leftarrow Gen()$
- step 2: Bob computes his Bitcoin address as $addr_B \leftarrow H(pk_B)$
- step 3: Bob sends $addr_B$ to Alice
- step 4: Alice posts Tx:

Point to Alice's UTXO

input 7 BTC	5	ScriptPK$_B$	2	ScriptPK$_A$	0
	UTXO$_B$ for Bob		UTXO$_A$ for Alice (change)		

ScriptPK$_B$: DUP HASH256 **<addr$_B$>** EQVERIFY CHECKSIG

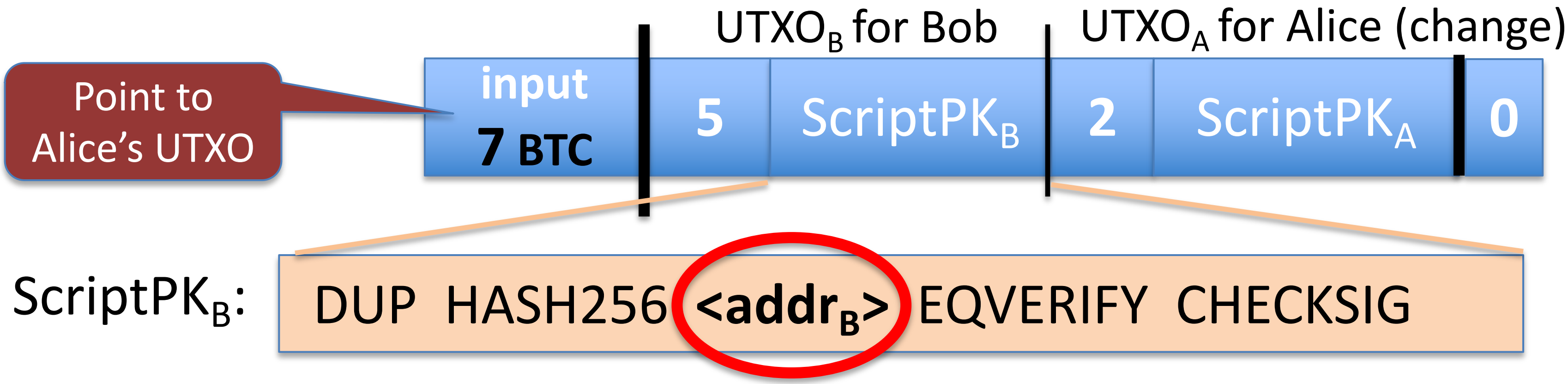
Transaction types: (1) P2PKH

pay to public key hash

"input" contains ScriptSig that authorizes spending Alice's UTXO

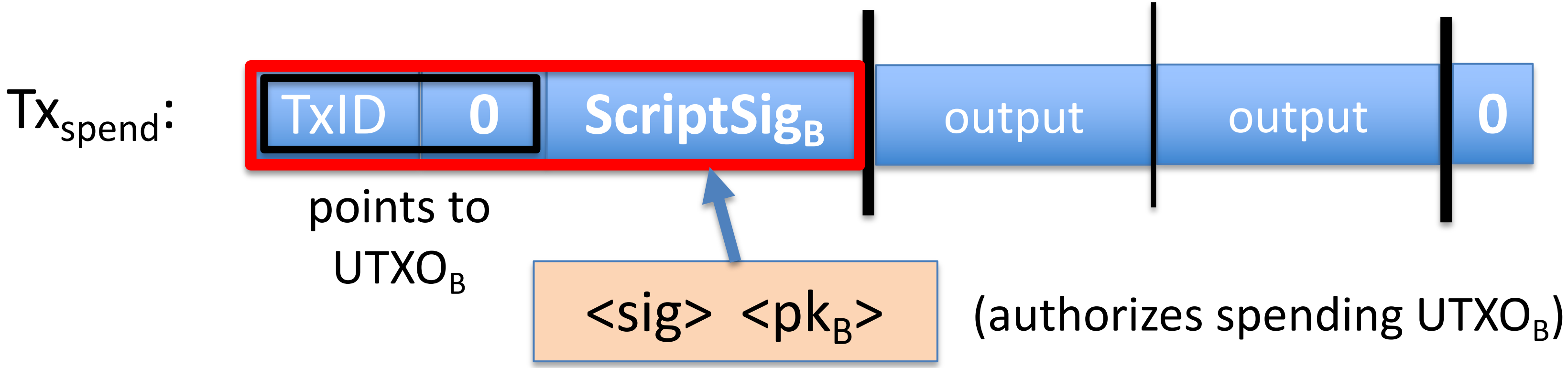
- example: ScriptSig contains Alice's signature on Tx

  $\Longrightarrow$ miners cannot change ScriptPK_B (will invalidate Alice's signature)



Transaction types: (1) P2PKH

Later, when Bob wants to spend his UTXO: create a Tx_{spend}



<sig> = Sign(sk_B, Tx) where Tx = (Tx_{spend} excluding all ScriptSigs) (SIGHASH_ALL)

Miners validate that $ScriptSig_B$ | $ScriptPK_B$ returns true

P2PKH: comments

- Alice specifies recipient's pk in $UTXO_B$

- Recipient's pk is not revealed until UTXO is spent

  (some security against attacks on pk)

- Miner cannot change <$Addr_B$> and steal funds:

  invalidates Alice's signature that created $UTXO_B$

Segregated Witness

ECDSA malleability:

Given (m, sig) anyone can create (m, sig') with sig ≠ sig'

⇒ miner can change sig in Tx and change TxID = SHA256(Tx)

⇒ Tx issuer cannot tell what TxID is, until Tx is posted

⇒ leads to problems and attacks

Segregated witness: signature is moved to witness field in Tx

TxID = Hash(Tx without witnesses)

Transaction types: (2) P2SH: pay to script hash

(pre SegWit in 2017)

Let's payer specify a redeem script (instead of just pkhash)

Usage: payee publishes hash(redeem script) ⟵ Bitcoint addr.

payer sends funds to that address

ScriptPK in UTXO: HASH160 <H(redeem script)> EQUAL

ScriptSig to spend: $<sig_1>$ $<sig_2>$ … $<sig_n>$ <redeem script>

payer can specify complex conditions for when UTXO can be spent

P2SH

Miner verifies:

(1) <ScriptSig> ScriptPK = true ⟵ payee gave correct script

(2) ScriptSig = true ⟵ script is satisfied

Example P2SH: multisig

Goal: spending a UTXO requires t-out-of-n signatures

Redeem script for 2-out-of-3: (set by payer)

<2> <PK_1> <PK_2> <PK_3> <3> CHECKMULTISIG

hash gives P2SH address

ScriptSig to spend: (by payee) <0> <sig1> <sig3> <redeem script>

END OF LECTURE

Next lecture: interesting scripts,
wallets, and how to manage crypto assets