Fungible Vs. Non-Fungible Tokens

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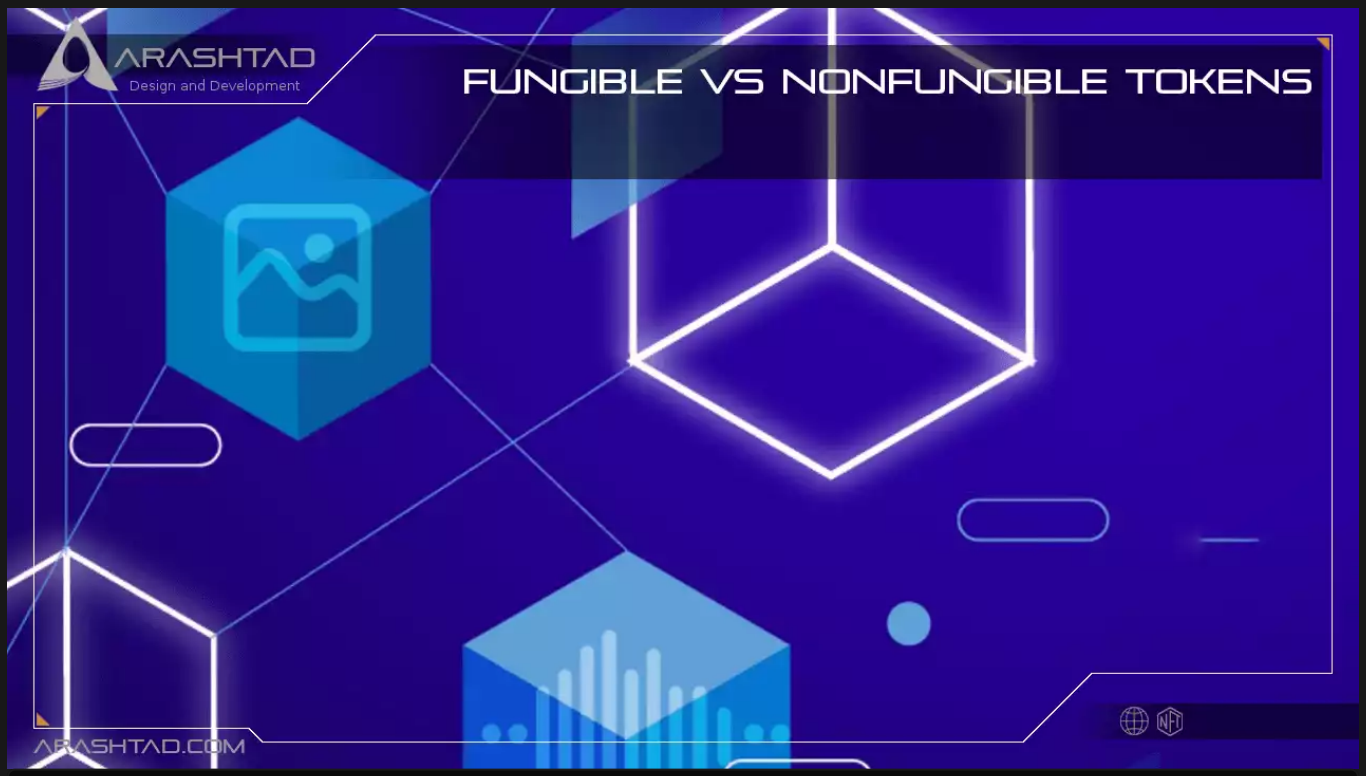

Fungible tokens are interchangeable. one unit is the same as another. Whereas non-fungible tokens are unique. No two units are alike. Token fungibility is determined by its degree of divisibility. For example, a Bitcoin can be divided into 100 million smaller units known as satoshis, which are interchangeable. As a result, each Bitcoin is fungible. However, Ethereum's native token, Ether, is not fungible. This is because it is not divisible. Rather than being divided into smaller units, one Ether must be exchanged for another Ether.

What are Tokens?

Crypto tokens, or tokens representing assets, are a type of cryptocurrency. Blockchain technology and Ethereum are here to stay, regardless of whether you believe it. Crypto tokens represent an asset and can be anything of value. NFTs are the next significant evolution in this ever-changing digital world, as cryptocurrencies are proving their legitimacy and value. The pandemic accelerated digital technological changes overnight, making NFTs a legitimate business.

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What are the types of tokens?

In the crypto space, tokens can be used to provide any kind of service or product. For example, Bitcoin and Litecoin (LTC) are payment tokens used in the digital world for payments. Users can access blockchain-based products and services using utility tokens. A security token represents traditional assets like stocks and shares via a digital token on a blockchain. Fungible and nonfungible tokens are the two most distinct types we will discuss in this article.

What Is a Fungible and Nonfungible tokens?

Now that we have seen what tokens are let's explore Fungible and Nonfungible tokens.

Fungible Tokens

To better understand fungible and nonfungible tokens, one should be familiar with the concept of fungibility in economics. As opposed to nonfungible tokens, crypto tokens express their fungibility property through code. Unlike fiat currencies like the dollar, fungible tokens or assets are divisible and non-unique. A $1 bill in New York City has the same value as a $1 bill in Miami. Bitcoin is also a fungible token: it is worth 1 Bitcoin no matter where it is issued.

Nonfungible Tokens

As opposed to fungible assets, nonfungible assets are unique and non-divisible. They should be regarded as a title of ownership or deed for unique, nonreplicable items. For example, a flight ticket is nonfungible since it has specific data that cannot be duplicated. A house, boat, or car are nonfungible physical assets because they are unique. A nonfungible token represents one unique and indivisible item, such as intellectual property or picture. Blockchain is the underlying technology that proves ownership of an intangible digital item. A fungible asset like Bitcoin stores values, whereas a nonfungible asset like an academic title or artwork stores information.

Fungible Vs. NonFungible Tokens

Following our understanding of the two types of tokens, let's examine their differences.

Fungible Vs. Non-Fungible Tokens

Interchangeable

In general, fungible tokens are interchangeable with each other. The most notable example of fungible assets is fiat currencies. Fungible assets can be transferred from one owner to another to make payments for certain items. However, exchanging fungible assets has no meaning because they have the same value. The purpose of fungible tokens is generally to make payments and track balances. one of the notable cases of fungible tokens in a practical

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blockchain application is the binding of tokens to an organization's account balance in a specific payment account. In addition to completing payments with token transfers, users can query the resultant token balances for periodic netting and settlement. In contrast to fungible tokens, non-fungible tokens cannot be replaced with non-fungible tokens of the same type.

Value Transfer

Besides the fact that every account maintains a balance based on the tokens it owns, another significant aspect is that there are fungible and non-fungible tokens. The Ethereum platform allows tokens to be transferred from one account to another via direct transactions or swap techniques. The source account is debited with the transfer amount for token transfers, just as a bank transfer would. At the same time, the beneficiary account receives a credit for the same amount. Based on the comparison of fungible to non-fungible tokens, it is evident that non-fungible tokens offer a unique value proposition. As NFTs are unique instances, each token has its unique ID, which can be used to distinguish them from other tokens within the same smart contract. Non-fungible tokens have a particular owner, and their values can differ because each token is treated differently.

Unique NFTs with a proven scarcity can represent unique tributes. Therefore, NFTs are in high demand, featuring more buyers with greater value than those that represent common attributes. Also, NFTs could be used to transfer ownership and trade. For example, John could exchange tokens for a batch of Bordeaux wine if he had tokens representing a production batch of Scottish whiskey. A notable use case involves assigning a non-fungible token to a real estate property. Users can transfer NFTs from the bank's Ethereum account to the house owner's Ethereum account after paying off the mortgage. This introduces a new type of blockchain use case in the real estate sector.

Standard

A fungible token uses the ERC20 protocol, one of Ethereum's most significant tokens utilizing blockchain technology, similar to ether, bitcoin, and bitcoin cash. It is a perfect protocol for blockchains. A non-fungible token, on the other hand, uses Ethereum's ERC721 standard, allowing developers to tokenize ownership of any arbitrary data. This standard is used when you want to transfer an entire asset that cannot be broken down into multiple pieces.

What are ERC20 and ERC721?

It is important to note that the initial types of ERC tokens, ERC-20 and ERC721 tokens, serve as the standards that define the functionality of the Ethereum ecosystem. It's important to remember that smart contracts are used to create and publish smart contracts on Ethereum's blockchain. In addition to that, smart contracts allow people to invest in tokenized assets or smart properties. In developing smart contracts, ERCs are more like a template or format that developers should follow. The best thing about ERC is that it could help with easier code writing, improved predictability, and chances of reuse. ER20 is a fungible token standard for creating fungible tokens on the Ethereum blockchain, while ER721 is a non-fungible token (NFT) standard.

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Conclusion

To conclude, we can say that non-fungible tokens and fungible tokens are right on their own terms. The fungible vs. non-fungible tokens comparison is a key factor in defining the future of the blockchain ecosystem. In terms of security and immutability, non-fungible tokens provide a clear advantage over fungible tokens. Users can add extra context and information to asset tokenization metadata. Since non-fungible tokens are relatively new, users may have trouble trusting them. However, they have broad acceptance in the blockchain ecosystem with notable applications in gaming and art. Recent advancements could make a mark as the debate between fungible and non-fungible tokens gains momentum.

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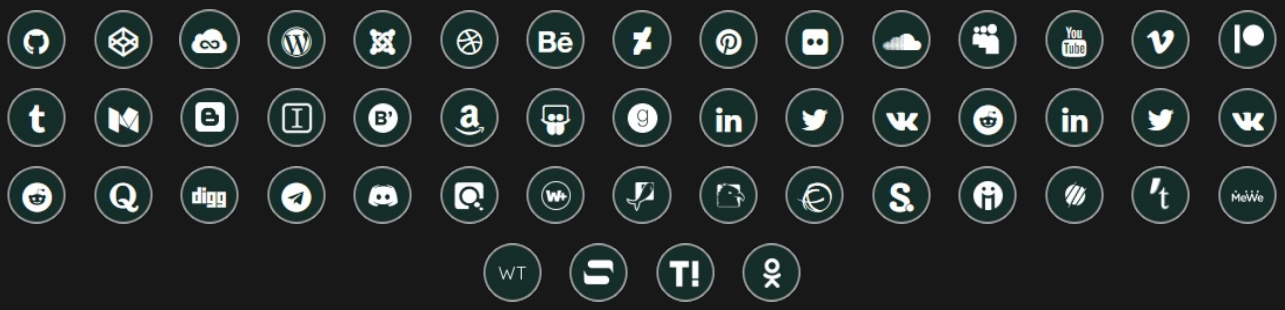

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