Professors stake out territory for bitcoin

Stephen Foley

The last thing Campbell Harvey wants is to find himself playing the role of Lawrence Summers in The Social Network, who had to adjudicate arguments between Mark Zuckerberg and the Winklevoss twins when he was president at Harvard University.

“We do not want a Facebook situation,” Professor Harvey says, explaining why students on his bitcoin course at Duke University’s Fuqua School of Business have to sign “no poaching” contracts and non-disclosure agreements.

If all goes according to plan, the course will launch nine hot start-ups, ready to take advantage of venture capital enthusiasm for the much-hyped virtual currency — and all without any cross words or legal fights.

Think of it as a “semester-long business hackathon”, Prof Harvey says, “and think of me as the VC professor. The lone requirement of the course is to propose a venture that is related somehow to the bitcoin blockchain.”

While sceptics may doubt there could be Facebook-style riches at stake, particularly since the price of a bitcoin collapsed last year, the claims being made for the technology’s revolutionary potential are only getting grander.

This is why Prof Harvey, a professor of finance, and other US academics have created courses that offer the study of the virtual currency, including the legal and economic issues that it raises and, most importantly, the technology that underlies it.

“We are staking out some academic territory and trying to get the university’s brand associated with a new body of knowledge,” says David Yermack, the finance professor at New York University’s Stern Business School, whose MBA course, created with law school colleague Geoff Miller, finished before Christmas. “This is an entrepreneurial venture for us.”

Bitcoin was created in the wake of the financial crisis by an anonymous computer scientist keen to
displace central banks, government currencies and the traditional banking system. But while the currency he created attracted high-minded libertarians and people of lower motives, such as drug dealers and money launderers, it is the technology that allows the ownership of a bitcoin to be transferred from one user to another which is generating enthusiasm among venture capital investors.

Known as the blockchain, this transfer mechanism could be expanded to move almost any financial asset, with potential applications for writing wills, selling houses or agreeing derivatives contracts.

“Most financial contracts can be put in the blockchain,” Prof Harvey says.

Some visionaries go even further. Because the blockchain is based on unique keys that validate a user’s identity, they think it could be a way to allow you to start your car, open the door to your house or send secure texts.

Both the Duke and NYU courses are interdisciplinary. At Duke, MBA and law students have been partnered up with computer science students to create up to nine mini start-up teams and, according to Prof Harvey, angel investors and venture capitalists are already offering work space and money for field trips, as they sniff around for access to potential new companies.

One such angel investor is Rahul Pagidipati, who looks after his family’s portfolio of investments in the healthcare industry and believes that insurance premiums and medical records could be transferred via the blockchain.

“It is probably going to happen in a college town,” he says. “Hopefully Duke will be one of the universities from which some really cool blockchain technologies will come out over the next few years.”

The NYU course leans more heavily on the financial and legal ramifications of the core virtual currency and has been following how regulators worldwide are dealing with it.

Bitcoin has been effectively banned in some countries, such as Russia, while the US and the UK have allowed a certain amount of experimentation, even though they have pursued those using it for illegal transactions.

It is this legal focus that attracted law student Eduardo Petry Veronese to the NYU course.

“After two big legal issues, a bankruptcy and a global criminal case, I got very interested in bitcoin — just like any good lawyer should,” he says. After graduation, he hopes to get involved in bitcoin regulation in his native Brazil.

In contrast to many of his students, who see bitcoin as a new kind of gold standard and a check against inflation, Prof Yermack casts himself as a bitcoin sceptic, at least when it comes to the potential to establish a global currency outside the purview of central banks.

He says his mission is to convert enthusiasts for the currency into enthusiasts for the underlying technology.

“What we are teaching is a set of issues and technologies,” he says. “The technology cannot be reversed. Certain sectors of banking are ripe for disruption, such as international money transfer, and bitcoin may be only a first move in what could be a real change in the payments system, so we are going to stick with this.”

It is a view echoed by Prof Harvey at Duke, the idea that something important has been invented, even if no one is quite sure what it is yet.

“If you are teaching international finance, you are derelict not to give some attention to this invention,” Prof Harvey said.

“Even if it does not work out, you have got to talk about the ideas percolating out there.”

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