Decentralized Finance

Introduction to Smart Contracts

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Outline

- What are smart contracts?

They’re neither smart nor contracts!

Developer’s perspective: Program objects on the blockchain

- Basics of Solidity programming in Ethereum

Just enough to follow the DeFi examples later

- Case Study: The Dutch Auction from CryptoKitties

- Comparing Legal Contracts and Smart Contracts

Part 1: Smart Contracts from Programmer Perspective

https://defi-learning.org

Digital currencies: just one blockchain application

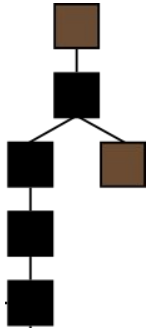
Users

Money

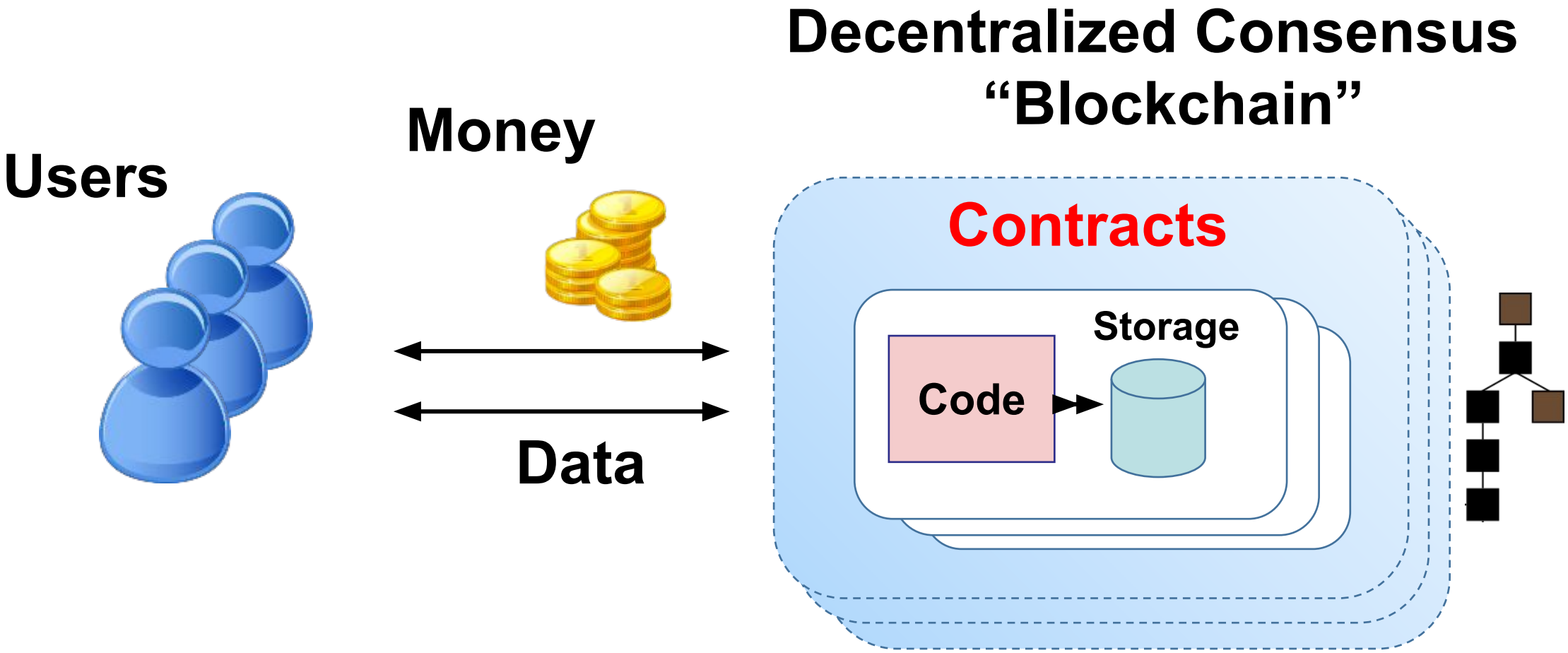
Decentralized Consensus
"Blockchain"

Account Balances

Alice:	฿10
Bob:	฿15
Carol:	฿120



Smart Contracts: user-defined programs running on top of a blockchain



5

Example: Domain Name Registry in Ethereum

```
1  pragma solidity ^0.5.0;
2
3  contract MyRegistry {
4
5      mapping ( string => address ) public registry;
6
7      function registerDomain(string memory domain) public {
8          // Can only reserve new unregistered domain names
9          require(registry[domain] == address(0));
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11         // Update the owner of this domain
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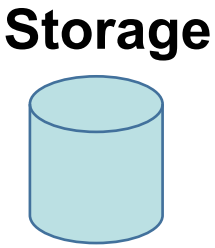

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Code

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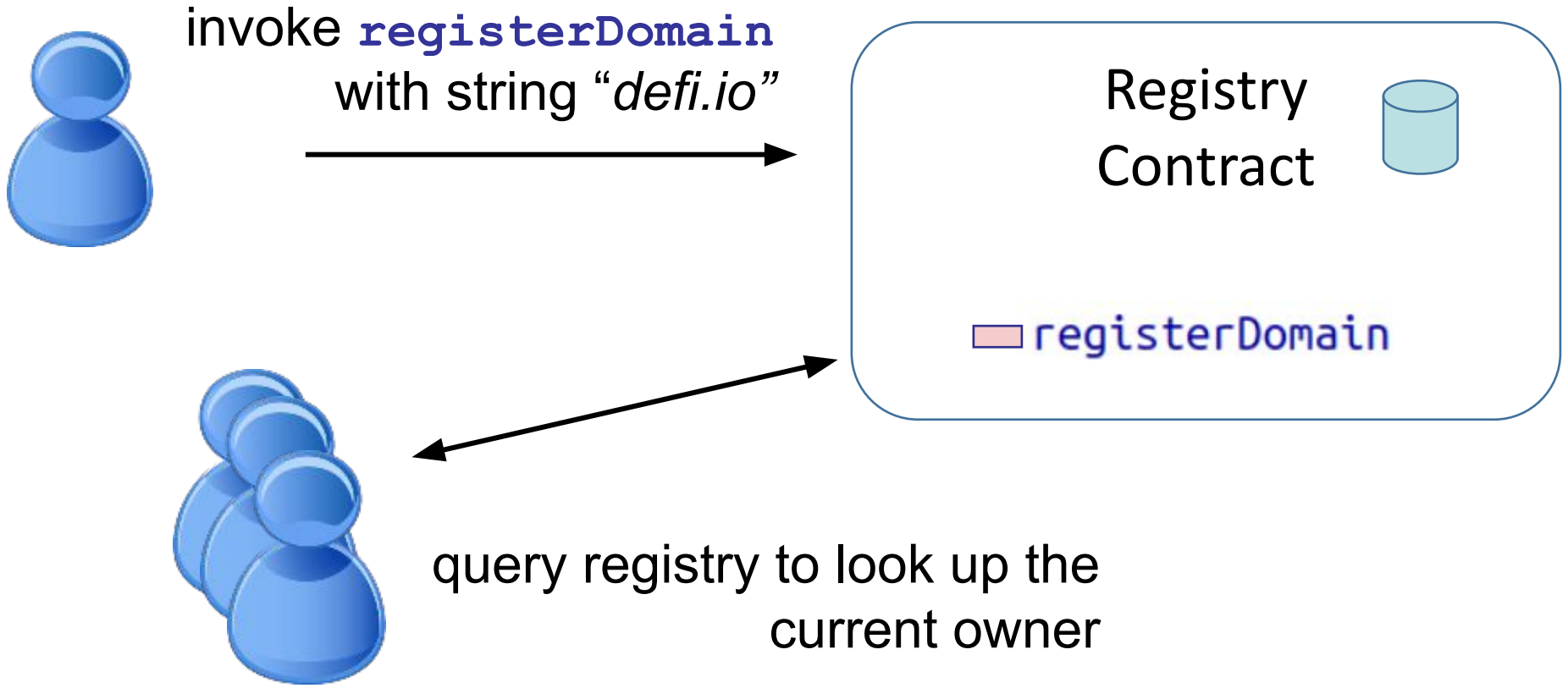
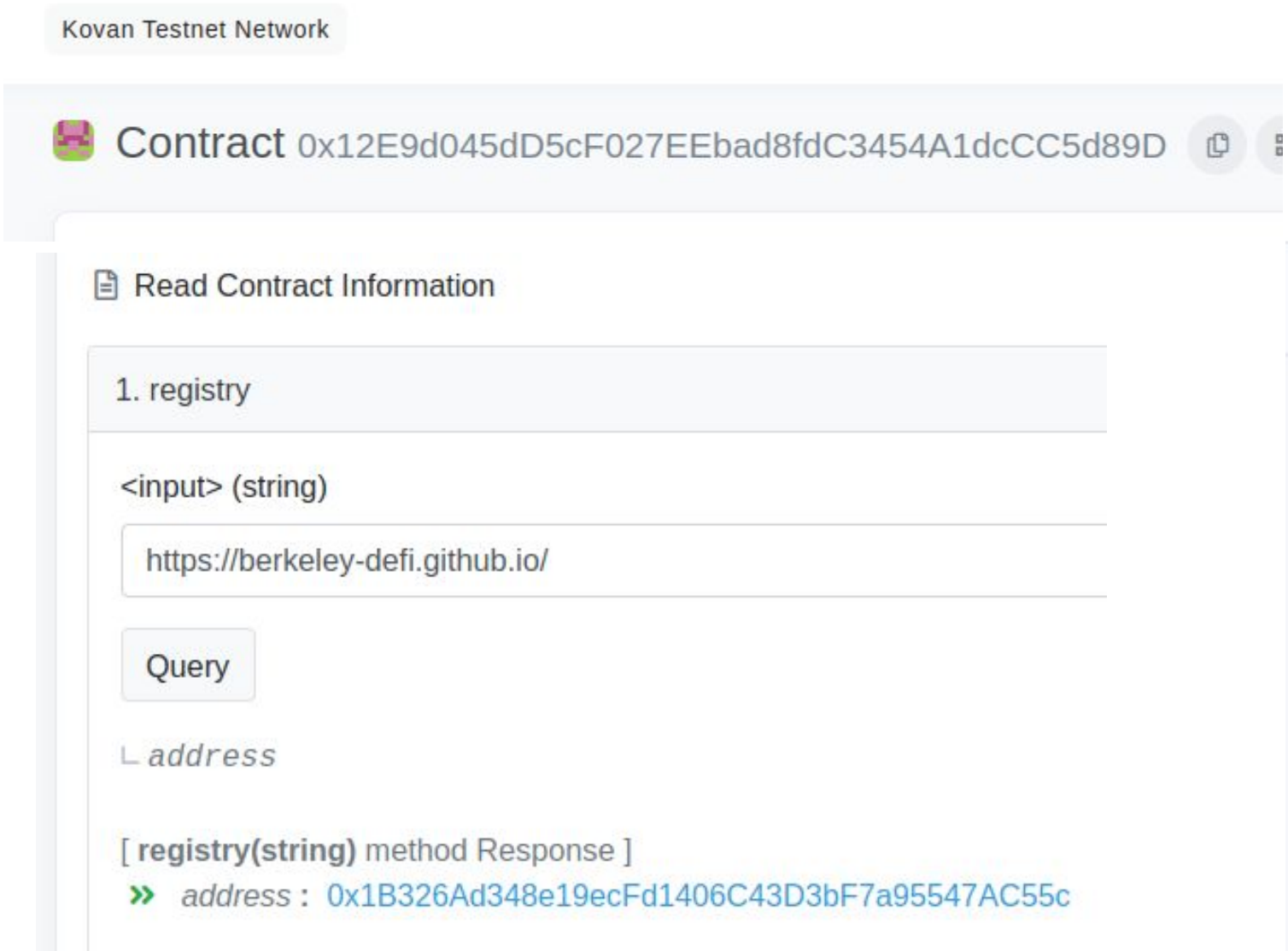
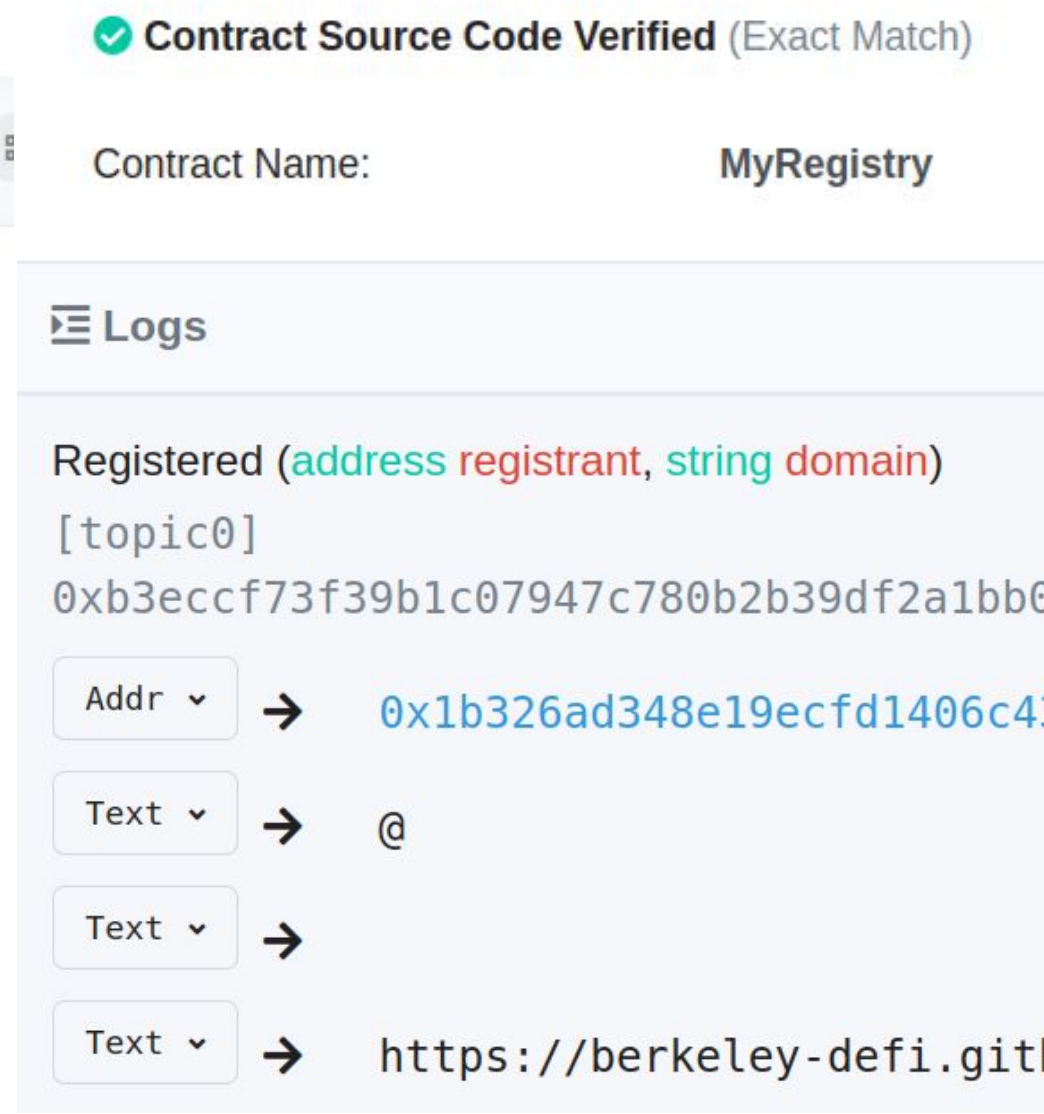
Example: Domain Name Registry in Ethereum

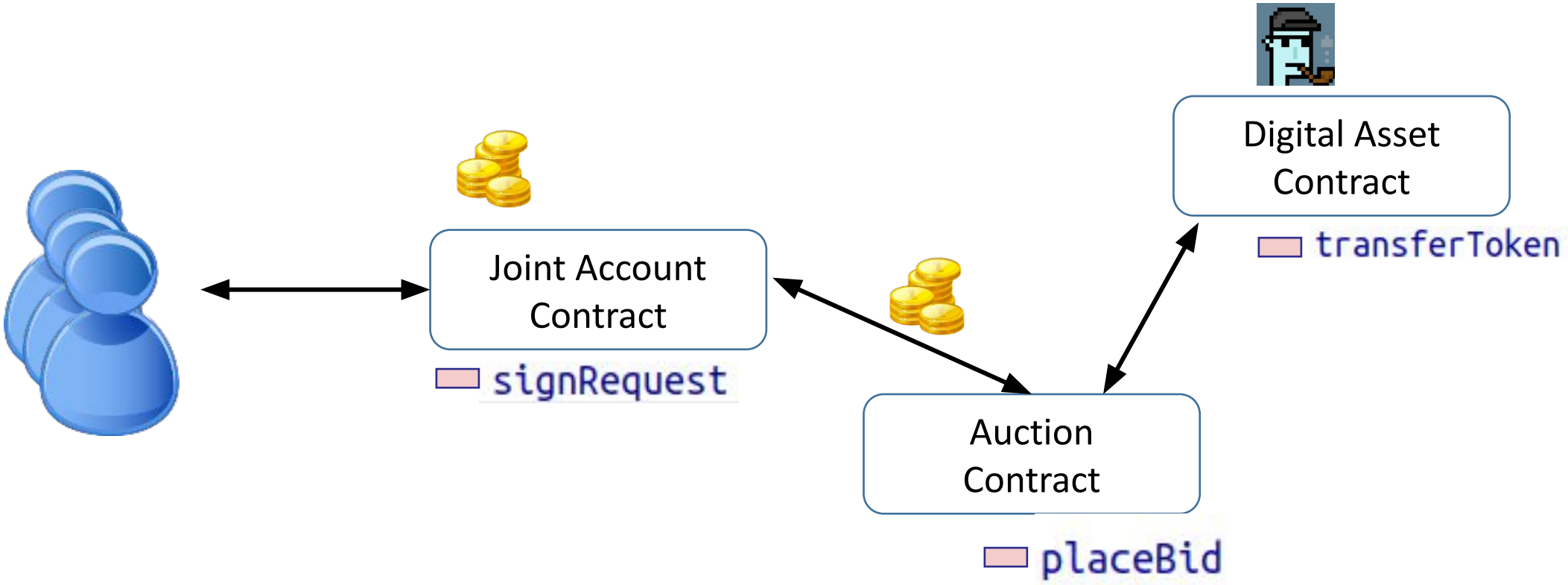


Let’s look at an instance on the Test Network





Interaction between Contracts



Recap of contract programming model so far...

- ***Contract class:*** Defines the program code and storage variables for a contract

- ***Contract object:*** an instance of the class living on the blockchain

- ***Storage fields:*** variables stored by the contract

- ***Functions/methods***: can be invoked to run the given code, updating the state of the contract

- ***Access control:*** Use “require()” to cancel the transaction if it isn’t authorized. You can inspect the caller that invoked the function

- ***Composition:*** interaction between multiple contracts

Question: What's missing from the example?

- What could go wrong here? How could you fix it

- What other functionality would a useful domain name registry need to have?

```
1  pragma solidity ^0.5.0;
2
3  contract MyRegistry {
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6
7      function registerDomain(string memory domain) public {
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```

Introduction to Smart Contracts

Part 2: Ethereum programming basics

Just enough to follow the Defi examples later


Part 2: Ethereum programming basics
Just enough to follow the Defi examples
https://defi-learning.org

Outline and background

No programming experience required, but might help

Focus on the unique parts of Solidity

Outline: Solidity and EVM bytecode

Data types Functions and constructors

Visibility/mutability modifiers

Accessing blockchain metadata

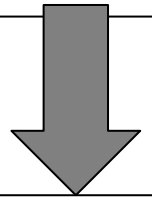
Working with the built-in currency

Events and interaction between contracts

Saved for next time: Gas

Solidity and Ethereum Bytecode

Solidity program
High level language



Ethereum Virtual Machine (EVM) Program
Low level bytecode

```
1  pragma solidity ^0.5.0;
2
3  contract MyRegistry {
4
5      mapping ( string => address ) publi
6
7      function registerDomain(string memo
8          // Can only reserve new unregis
```

```
REVERT JUMPDEST POP PUSH2 0x303 DUP1 PUSH2
PUSH1 0x4 CALLDATASIZE LT PUSH2 0x78 JUMPI
0x100000000000000000000000000000000000000
0x7D JUMPI DUP1 PUSH4 0x1D0806AE EQ PUSH2
PUSH2 0xDD JUMPI DUP1 PUSH4 0xD3642A88 EQ
DUP1 REVERT JUMPDEST PUSH2 0x85 PUSH2 0x18
DUP1 REVERT JUMPDEST POP PUSH2 0x9C PUSH2
```

Solidity and Data Types

Solidity is statically typed

Like Java, C, Rust….. unlike python or javascript

Example:

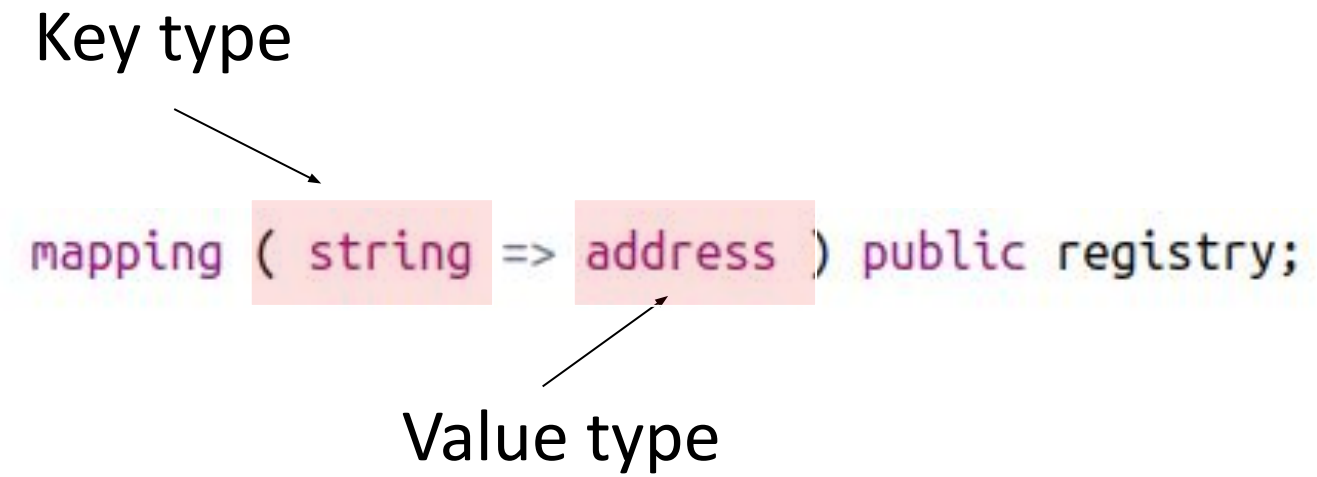
- **Integers**: uint (unsigned 256-bit integer)

  int (signed 256-bit integer)

```
/* Initialize ten users */
for (uint i = 0; i < 10; i++) {
    users[i].balance = 1;
}
```

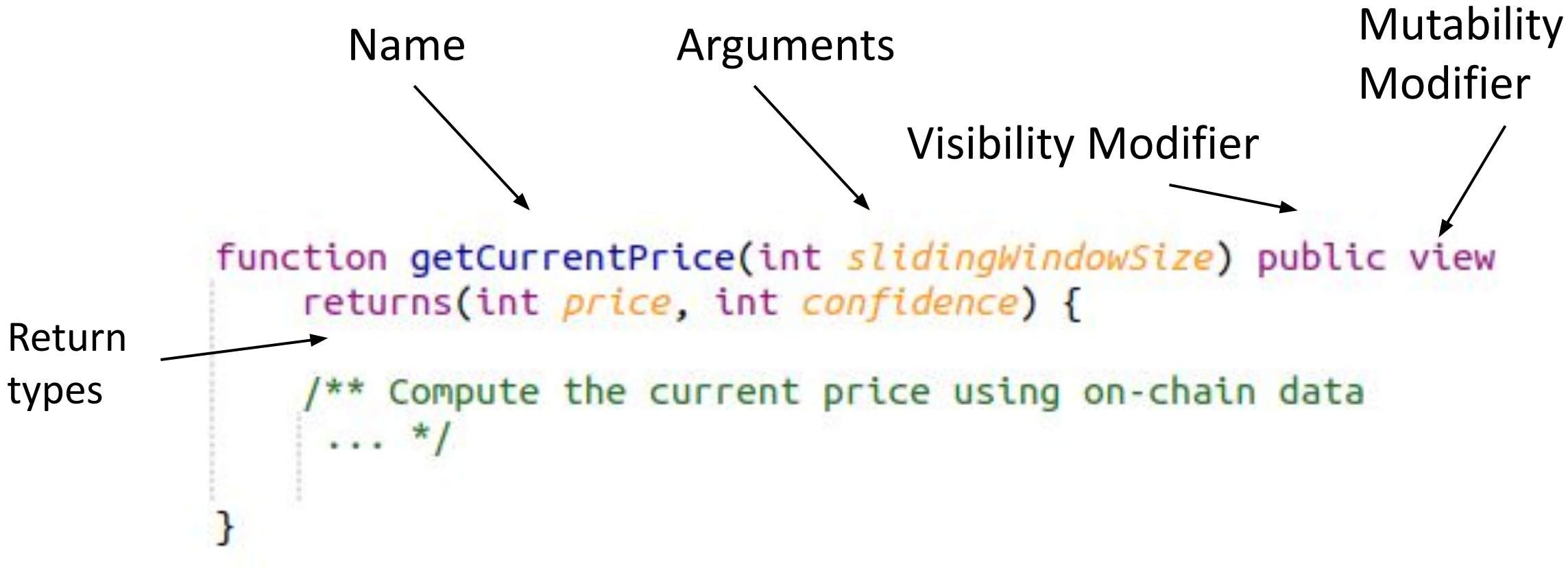
Mapping data types

- *Mapping*: a key value storage / hash table
- Every key is initially mapped to zero



- There is no built-in way to query the length of a mapping, or iterate over its non-zero elements. A separate variable can be used

Function signatures



Constructors

Invoked when initially creating the contract

Used to customize settings or give an initial state

```
42  contract BoardAction {
43
44      address public president;
45      address public vicePresident;
46
47      constructor(address initialPresident, address initialVP) public {
48          /** initialize the contract **/
49          president = initialPresident;
50          vicePresident = initialVP;
51      }
52  }
```

Visibility modifiers

For functions:

```
function calledByAnyone() public { /* anyone can call */ }

function calledInternally() internal { /* only called by another
                                          function in this contract */ }
```

For instance variables:

```
int public myPublicField; /* A getter method is
                             automatically created */

int private myPrivateField; /* No getter method is
                               provided */
```

Question: could **`myPrivateField`** hold a secret value?

Mutability modifiers

```
function ordinary() public { /* can modify state and
                              call other functions */ }

function viewOnly() public view { /* can't modify any storage or
                                  call another non-view function */ }

function localOnly() public pure { /* doesn't even read any
                                   state either */ }
```

Events

There are two main ways to observe the state of a contract:

- Using ***view*** functions, such as getter functions for public fields
- Looking at ***event logs***. Can "subscribe" to events of a contract

```
event Registered(address registrant, string domain);

function registerDomain(string memory domain) public {
    // Can only reserve new unregistered domain names
    require(registry[domain] == address(0));

    // Update the owner of this domain
    registry[domain] = msg.sender;

    emit Registered(msg.sender, domain);
}
```

Logs

Registered (address registrant, string domain)

Text → https://berkeley-defi.github.io/

Calling methods of other contracts

The interface for an external contract

```
abstract contract Token {
    function transferFrom(address from, address to, uint amount) public virtual;
}

contract Exchanger {
    Token tokenA = Token(address(0x000 /* Hardcoded address of existing token */ ));
    Token tokenB = Token(address(0x000 /* Hardcoded address of existing token */ ));

    function swap1(address Alice, address Bob) public {
        tokenA.transferFrom(Alice, Bob, 1);
        tokenB.transferFrom(Bob, Alice, 1);
    }
}
```

Address of external contract instance

Method Call

Working with the native currency

```
function acceptExactlyTwoEther() public payable returns(uint) {
    require(msg.value >= 2.0 ether);

    uint refund = msg.value - 2.0 ether;
    payable(msg.sender).transfer(refund);

    return address(this).balance;
}
```

`1.0 ether` => 1000000000000000000 wei

Reading the current time

```
function placeBid(int price) public {
    require(block.timestamp <= deadline);

    /** rest of the code for placing a bid **/
}
```

Other metadata about the block are available too

Other Solidity quirks and features

- Storage, memory, calldata

Compiler warnings often give recommendations to follow

*- **Creating contracts programmatically***

- Modifier macros e.g. onlyOwner

- Calling another contract's code

- Inheritance and interfaces

- …..

Next time: Hands on writing and deploying a smart contract

Quiz:

What does this Solidity code do?

What's wrong with it?

Smart Contract Case Study: Dutch Auction

Part 3a: Smart Contract Case Study Dutch Auction

https://defi-learning.org

CryptoKitties is the Ethereum cat collecting game that's seen over $1m in user spending

This is definitely what blockchain was invented for

The first big NFT

Cryptokitties is based on Dutch Auctions

The “Buy it Now” price is initially set at a largest value

As time goes on, the “Buy it Now” price is lowered

As soon as someone is ready to buy it, they announce their bid and win

Dutch Auction in a few lines of Solidity

```
contract DutchAuction {
    // Parameters
    uint public initialPrice; uint public biddingPeriod;
    uint public offerPriceDecrement; uint public startTime;
    KittyToken public kitty; address payable public seller;
    address payable winnerAddress;

    function buyNow() public payable {
        uint timeElapsed = block.timestamp - startTime;
        uint currPrice = initialPrice - (timeElapsed * offerPriceDecrement);
        uint userBid = msg.value;
        require (winnerAddress == address(0)); // Auction hasn't ended early
        require (timeElapsed < biddingPeriod); // Auction hasn't ended by time
        require (userBid >= currPrice); // Bid is big enough

        winnerAddress = payable(msg.sender);
        winnerAddress.transfer(userBid - currPrice);  // Refund the difference
        seller.transfer(currPrice);
        kitty.transferOwnership(winnerAddress);
    }

```

Introduction to Smart Contracts

Part 3: Demonstration of Coding and Deploying Smart Contracts with Remix

Part 3b: Demo of Coding and Deploying Smart Contracts with Remix

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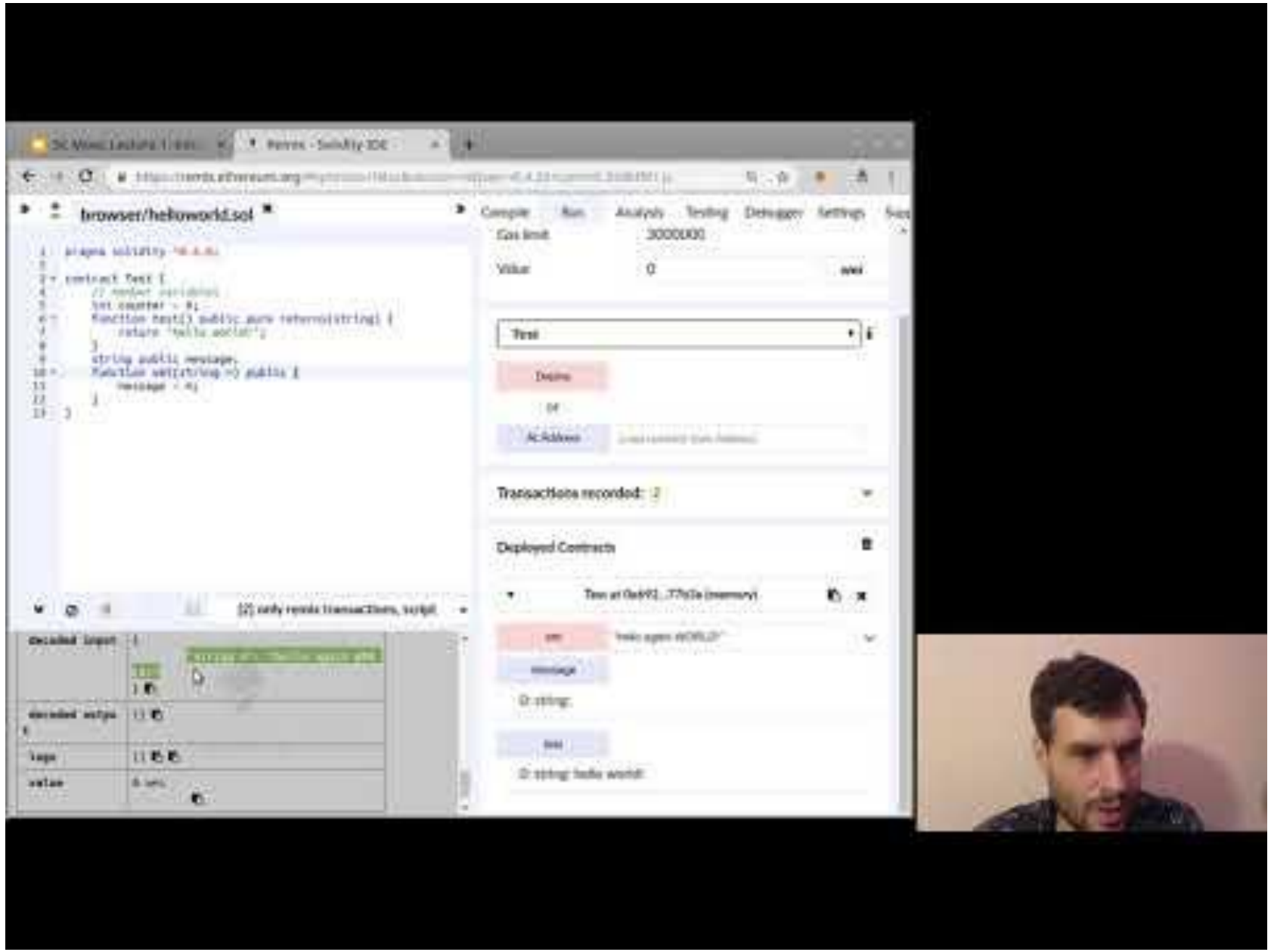
browser/helloworld.sol
Compile
Run
Analysis
Testing
Debugger
Settings
Gas limit
3000000
Value
0
wei
Test
Deploy
At Address
Transactions recorded: 2
Deployed Contracts
message
0: string:
test
0: string: hello world!
decoded input
decoded output
logs
value

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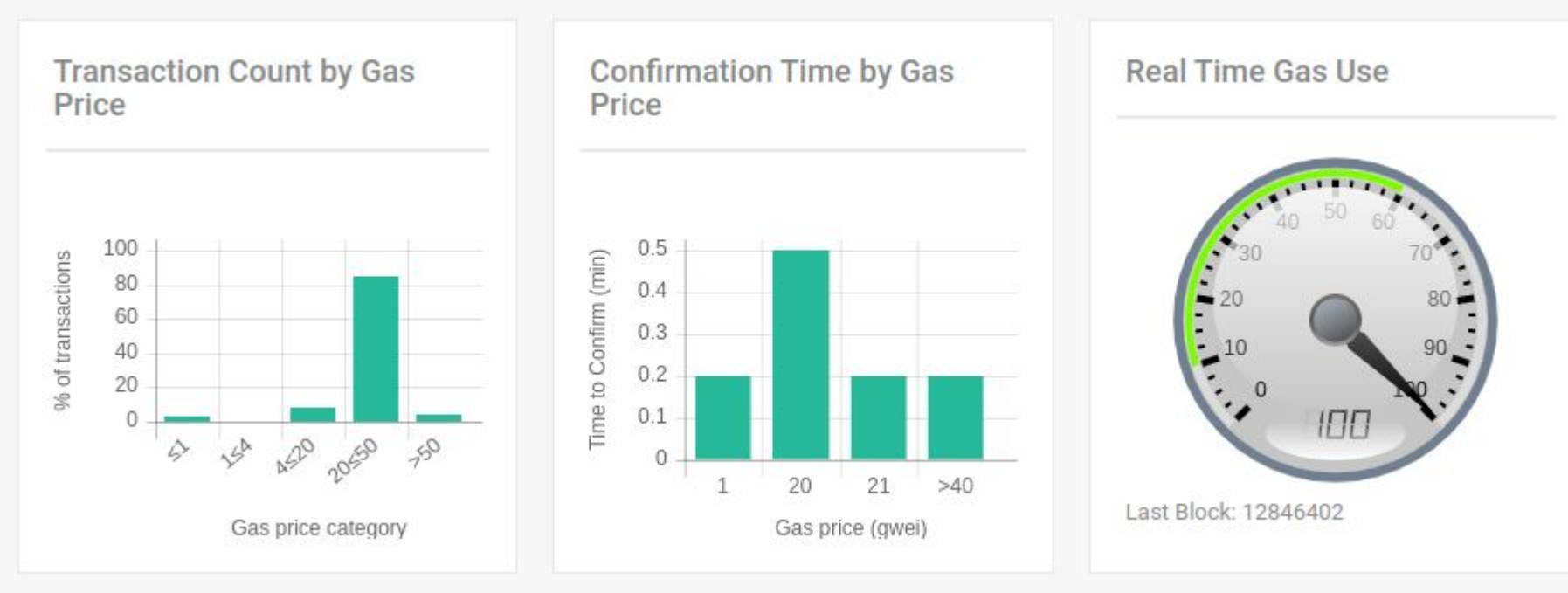
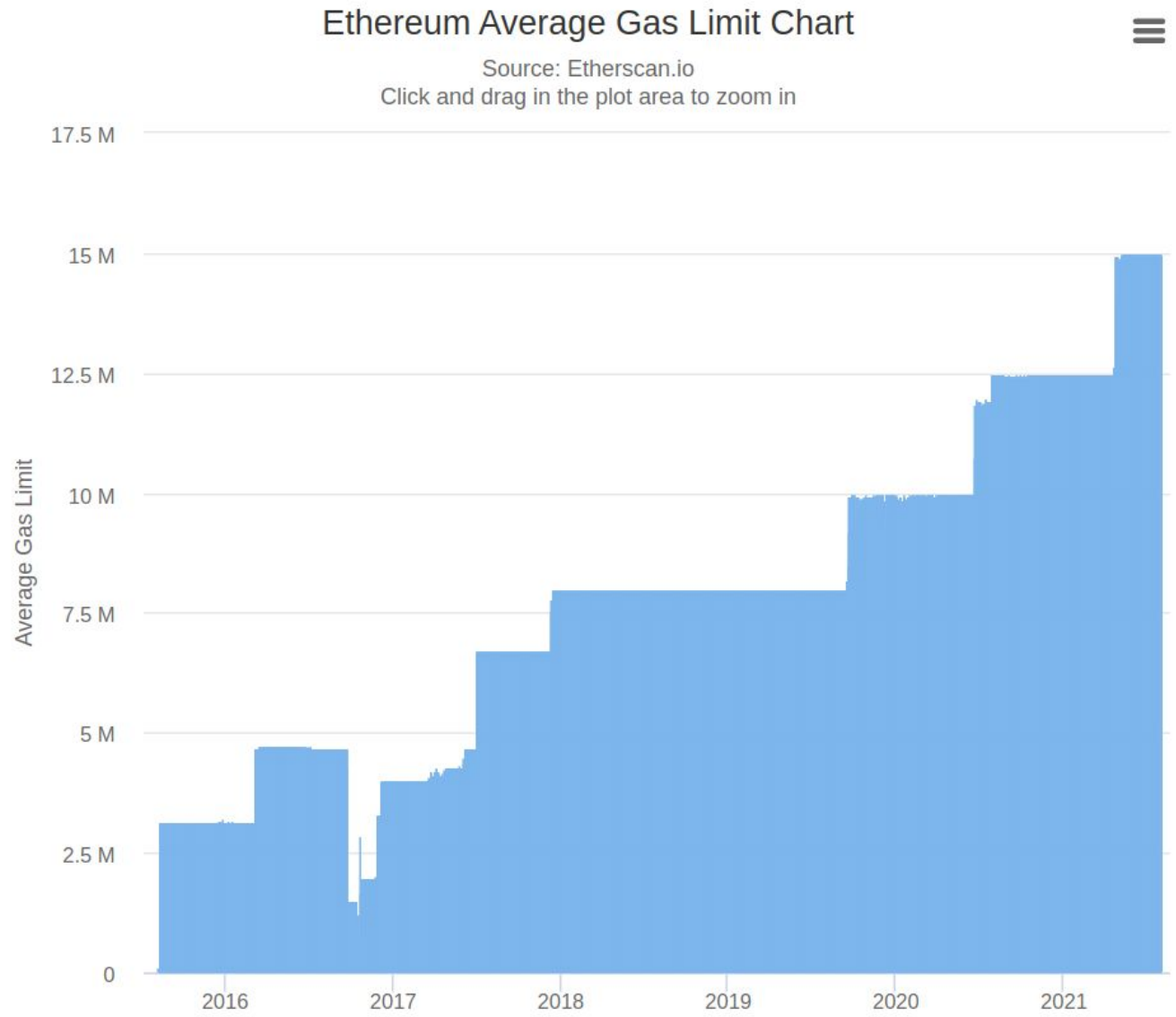
Each transaction has to pay a gas fee



More complicated transactions consume more gas, so they cost more.

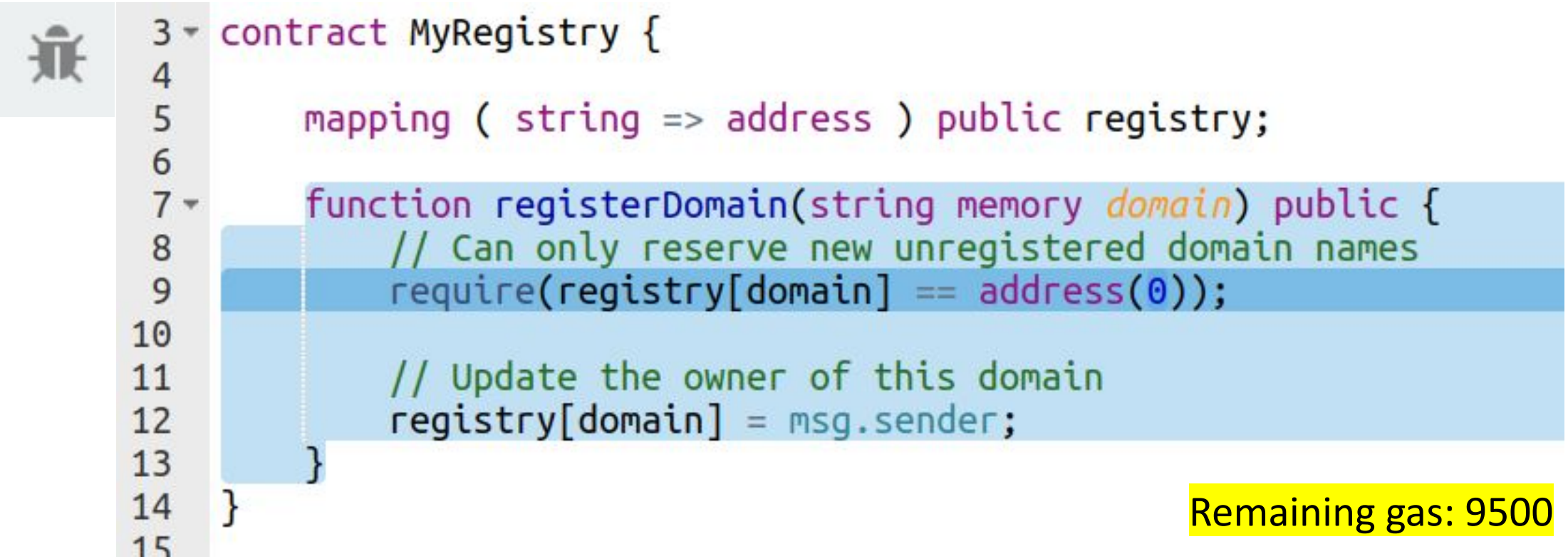
source: ethgasstation.info

Miners limited by a global limit on gas per block



Every instruction costs a fixed amount of gas

A counter of gas used is tracked when executing the transaction



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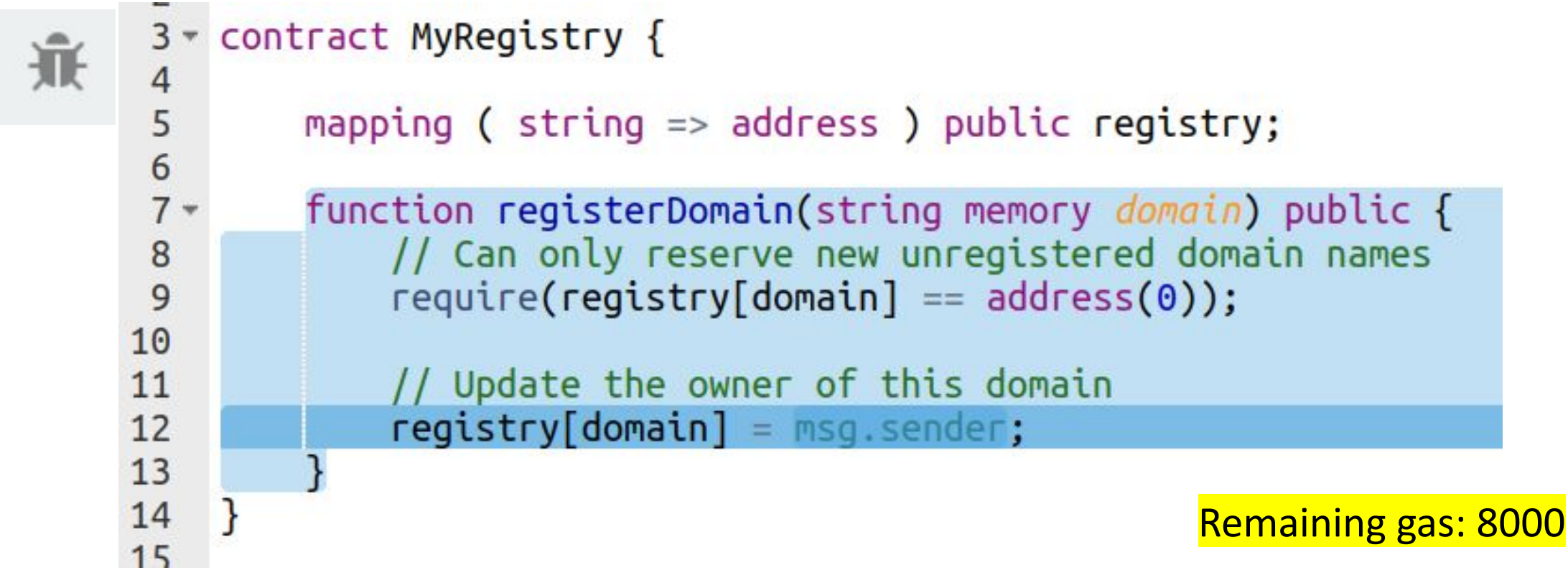

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13     }
14 }
15
```
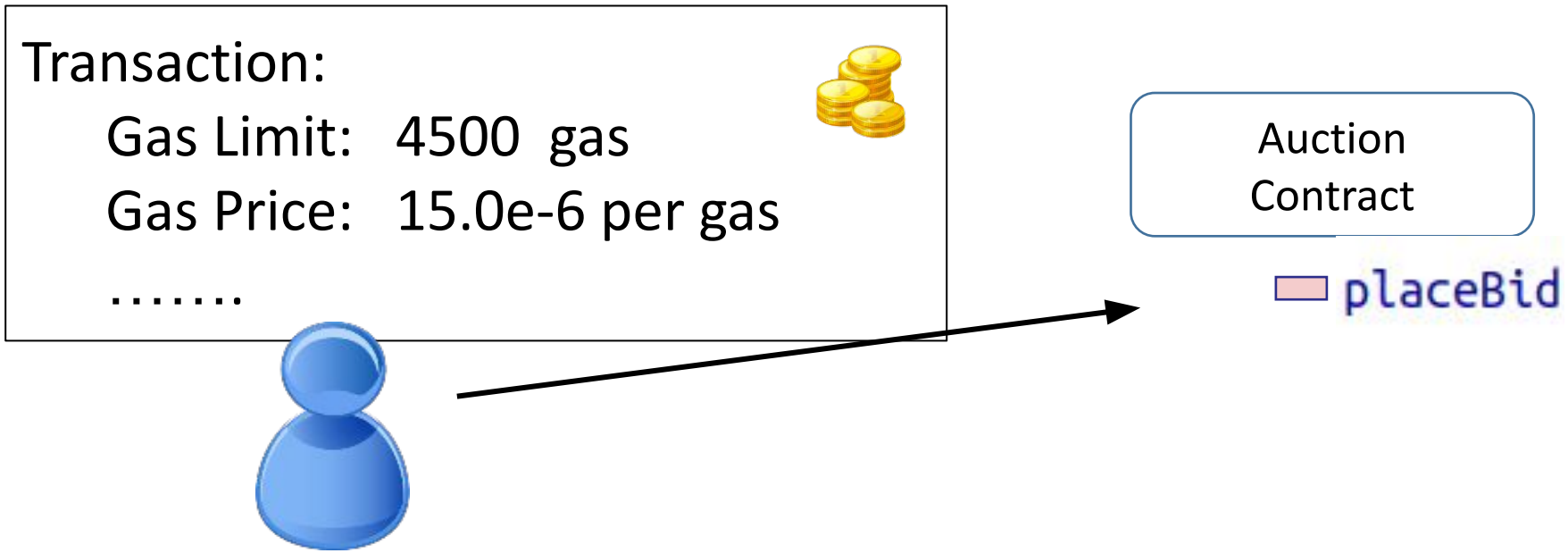

Remaining gas: 8000

Gas limits and refunds

- Each transaction specifies a gas limit and a price for the gas, in units of Ether
- Ether value to pay for the gas must be reserved up front
- At end of contract execution, unused gas is refunded



There’s a big table for gas prices per opcode

This is based on the compiled opcodes for Ethereum Virtual Machine (EVM), not high level code

“FORMULA” means the gas for this opcode depends on the arguments (for example on the size of the argument).

	A	B	C	
1	Value	Mnemonic	Gas Used	Su
2	0x00	STOP	0	ze
3	0x01	ADD	3	ve
4	0x02	MUL	5	lo
5	0x03	SUB	3	ve
6	0x04	DIV	5	lo
7	0x05	SDIV	5	lo
8	0x06	MOD	5	lo
9	0x07	SMOD	5	lo
10	0x08	ADDMOD	8	m
11	0x09	MULMOD	8	m
12	0x0a	EXP	FORMULA	
13	0x0b	SIGNEXTEND	5	lo
14	0x10	LT	3	ve

https://github.com/djrtwo/evm-opcode-gas-costs

What happens when gas runs out?

- An **Out-Of-Gas** exception is thrown

- Any changes made to storage variables, any account transfers, are **reverted** to their state before this method call

- You are ***still charged*** the gas fee for every instruction leading up to the exception

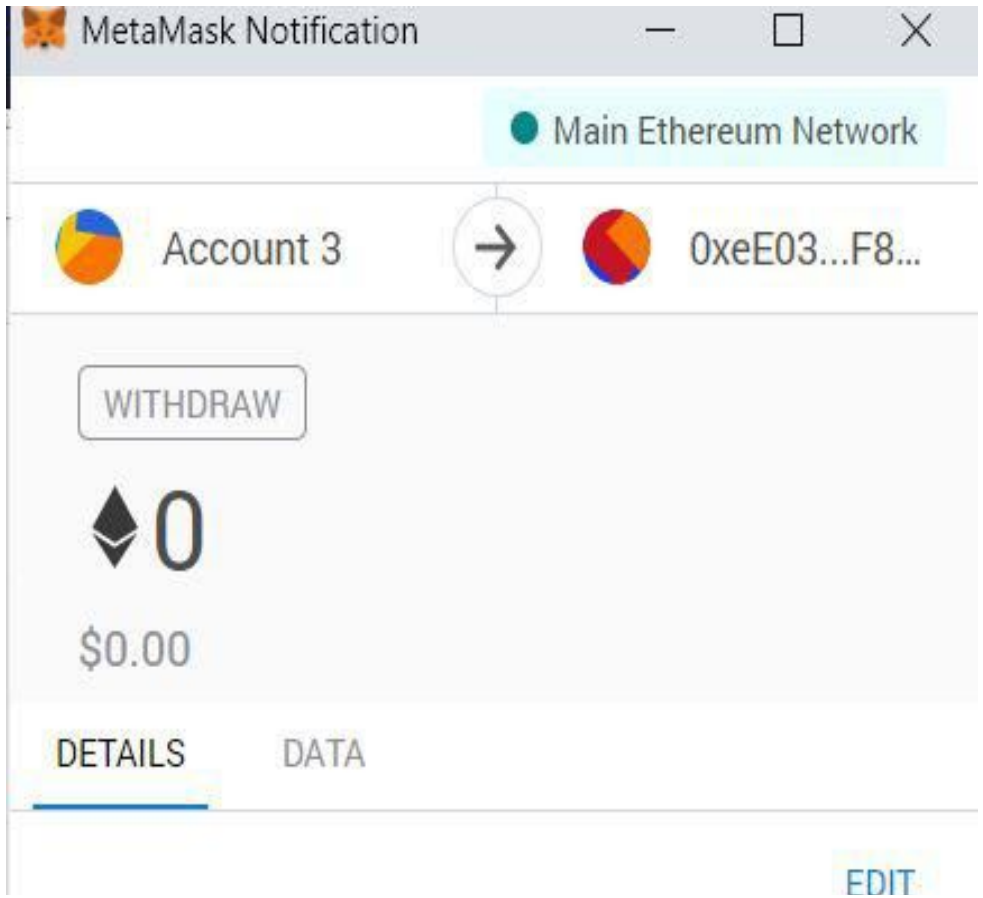
- Like other exceptions, it can be ***caught*** by a handler function

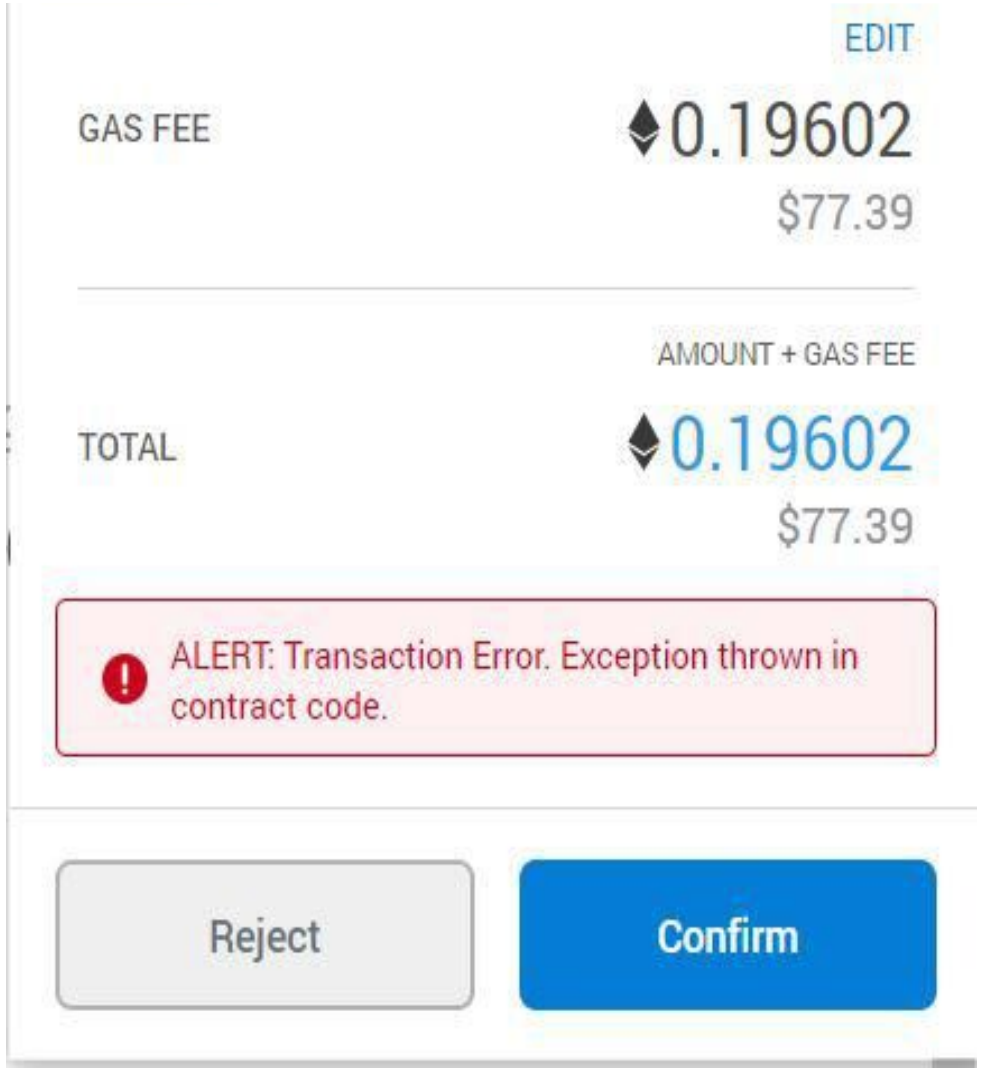
- Methods can be invoked with just a portion of available gas

Overview | State Changes | Comments

Transaction Hash:	**0x679d887dd23623c5477bffb62f854215b97**
Block:	3910317 5926643 Block Confirmations
Timestamp:	1022 days 9 hrs ago (Jun-21-2017 11:16:46 PM +UTC)
From:	0x7ed1e469fcb3ee19c0366d829e29
To:	Contract 0x12444b6ec62e616ebc8a23e5 Warning! Error encountered during contract execution [**Out of gas**] ☹
Value:	**1.5651901706057287 Ether** ($269.82) - [CANCELLED]
Transaction Fee:	0.00126 Ether ($0.22)

Click to see More ↓


MetaMask Notification
Main Ethereum Network
Account 3
0xeE03...F8...
WITHDRAW
0
$0.00
DETAILS
DATA
EDIT

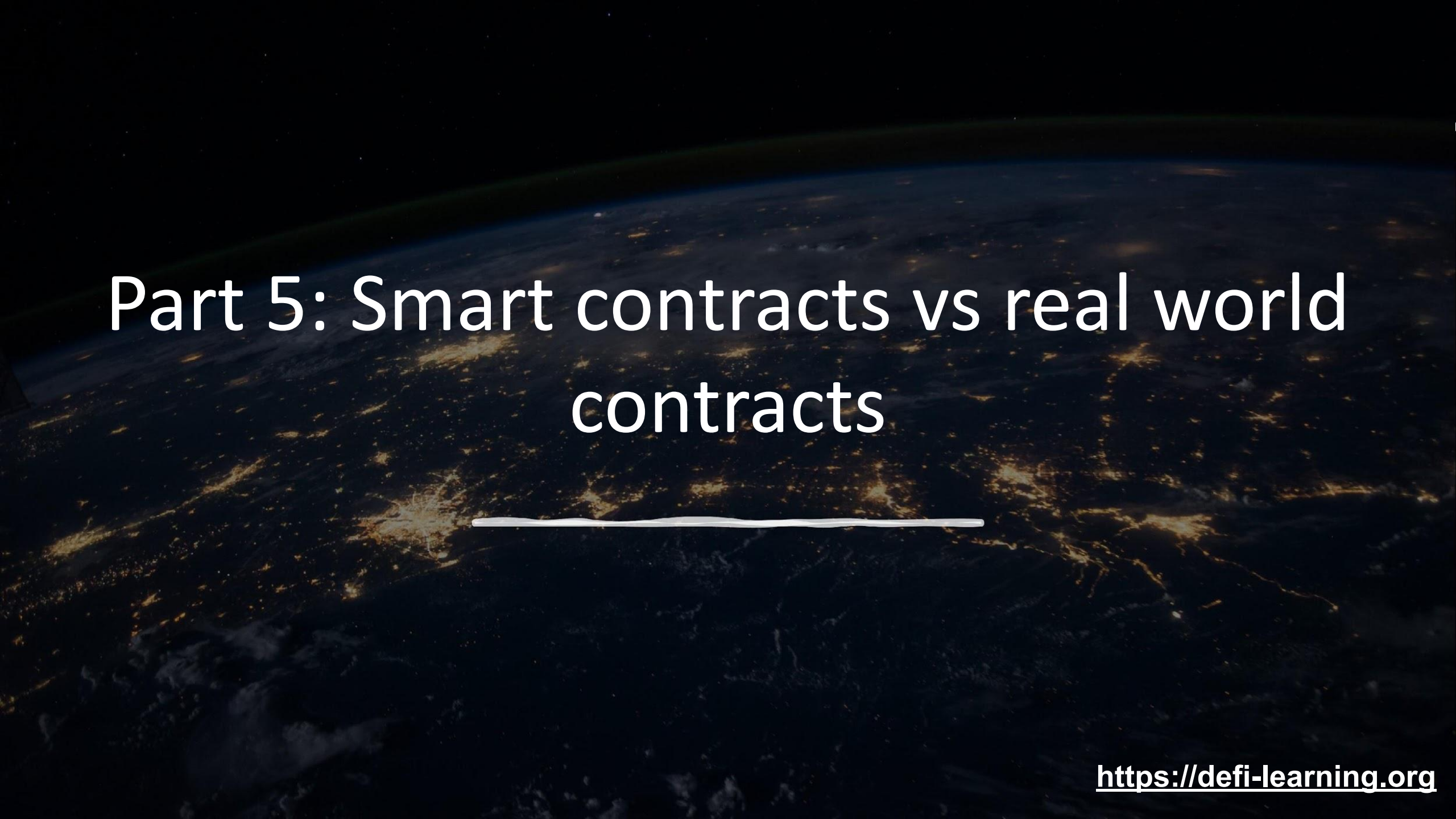

EDIT
GAS FEE
0.19602
$77.39
AMOUNT + GAS FEE
TOTAL
0.19602
$77.39
ALERT: Transaction Error. Exception thrown in contract code.
Reject
Confirm

Recap: Gas in Ethereum

Pay for the computation you use with gas

Gives a good reason to optimize your code

Next time: a case study comparing smart contracts with legal contracts



Part 5: Smart contracts vs real world contracts

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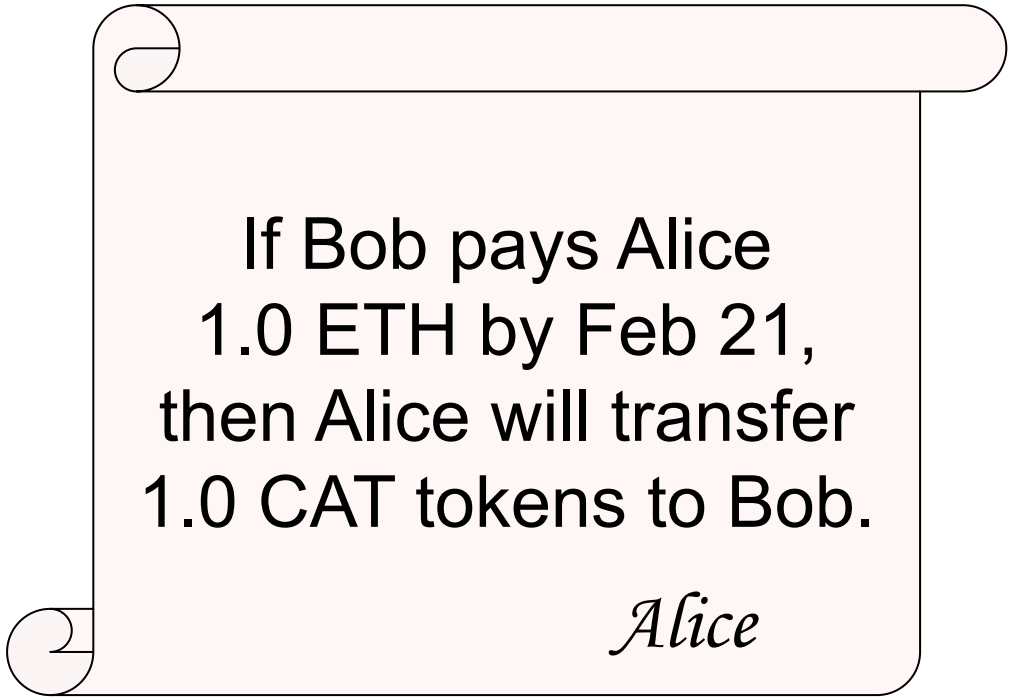
Traditional contracts: the basic elements



- Offer and acceptance
- Consideration
- Mutual agreement
- Legality and Capacity

How could we make a smart contract that models this contract?

Example: Offering a token for sale

```
3  contract ContractOffer {
4
5      address payable public Alice = address(0x0 /**/);
6      address payable public   Bob = address(0x0 /**/;
7      /* Hardcoded address of the CAT token */
8      Token public CatToken = Token(address(0x0 /**/));
9
10     function bobAcceptsOffer() public payable {
11         require(msg.sender == Bob);  /* Only offered to Bob */
12         require(msg.value == 1.0 ether); /* Payment must be 1 ETH */
13         require(now <= 1613937837); /* Offer good through Feb 21 */
14
15         // Transfer the payment to Alice
16         Alice.transfer(1.0 ether);
17
18         // Transfer the CAT token to Bob
19         CatToken.transferFrom(Alice, Bob, 1.0);
20     }
21 }
```

Example: Offering a token for sale

- Offer and acceptance

To accept an offer, have to digitally sign the transaction.
Alice would have to transfer asset to the contract ahead of time

- Consideration

Payment is collected in the blockchain's native currency

- Mutuality

The high level code for the contract is typically published

- Capacity / Legality

The execution of the contract code automatically carry out the transfer of the digital asset in the same transaction as the payment.

“Smart contracts” conceptualized by Szabo in 1994

*A smart contract is a **computerized transaction protocol that executes the terms of a contract**.*
*The general objectives are to satisfy common contractual conditions (such as payment terms, liens, confidentiality, and even enforcement), **minimize exceptions** both malicious and accidental, and **minimize the need for trusted intermediaries**. Related economic goals include **lowering fraud loss, arbitrations and enforcement costs**, and other transaction costs.*

-Nick Szabo “The Idea of Smart Contracts”

Questions

Consider the Dutch Auction smart contract.

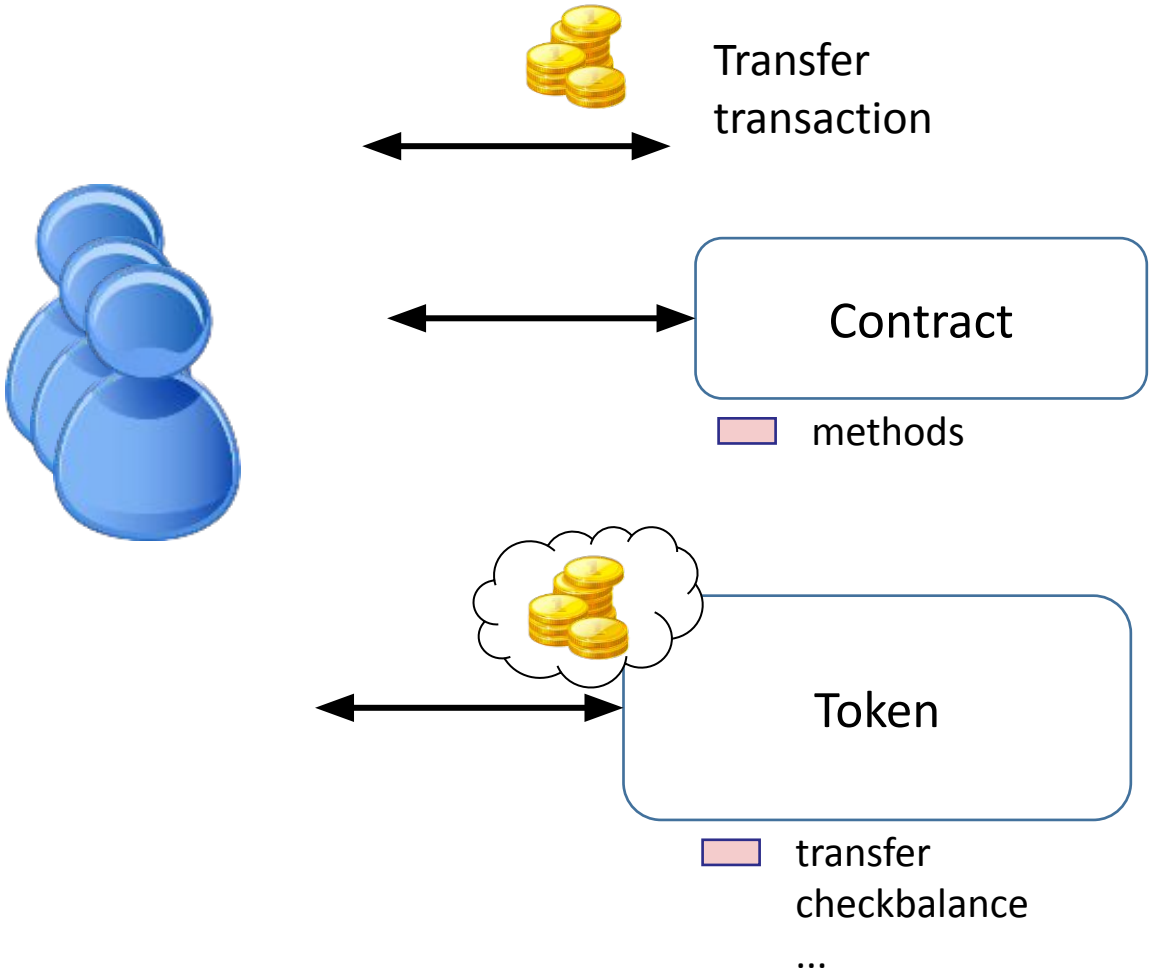
How could we describe it based on the four elements of a legal contract?

How could we describe it based on Szabo's smart contract objectives?

Part 6: Fungible and Non-Fungible Tokens on Ethereum

https://defi-learning.org

What are tokens?



Tokens are smart contracts that function as digital assets

Etherscan

Eth: $3,267.71 (+0.48%) | 43 Gwei

All Filters | Search by Address / Txn

Home Blockchain

Token CryptoKitties

CryptoKitties NFT Collectibles

Overview [ERC-721]

Max Total Supply:	2,007,928 CK
Holders:	104,893 (0.00%)
Transfers:	5,507,348

Profile Summary [Edit]

Contract:	0x06
Official Site:	https
Social Profiles:	

Transfers Holders Inventory Info DEX Trades Contract Comments

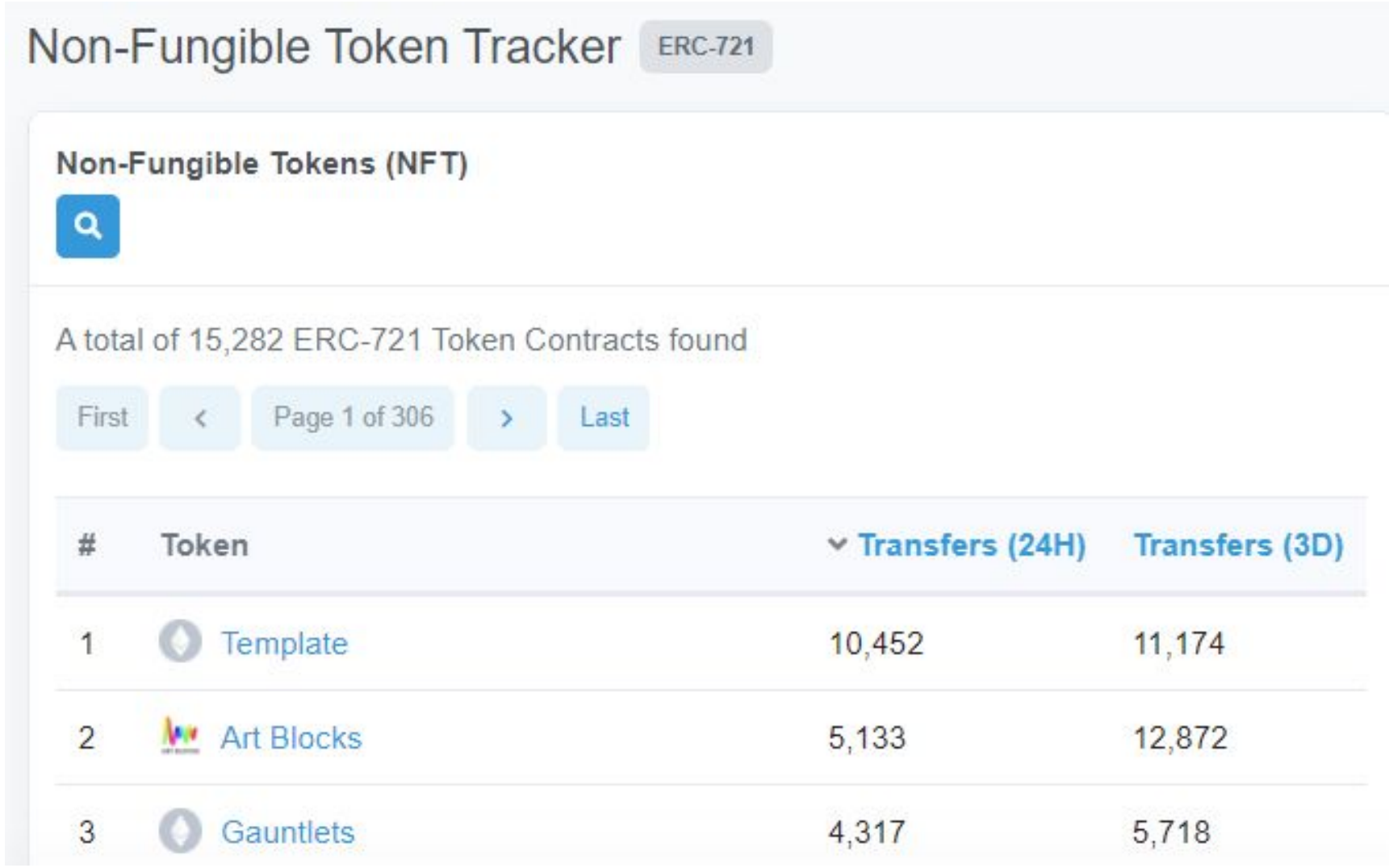
Latest 10,000 active tokens (From a total of 2,008,006 tokens)

#1
Owner 0x88207b431510dbe0addbdae...

#2
Owner 0xcd2c66fe27f8c6e08a5bd42b...

#3
Owner 0x88207b431510dbe0addbd

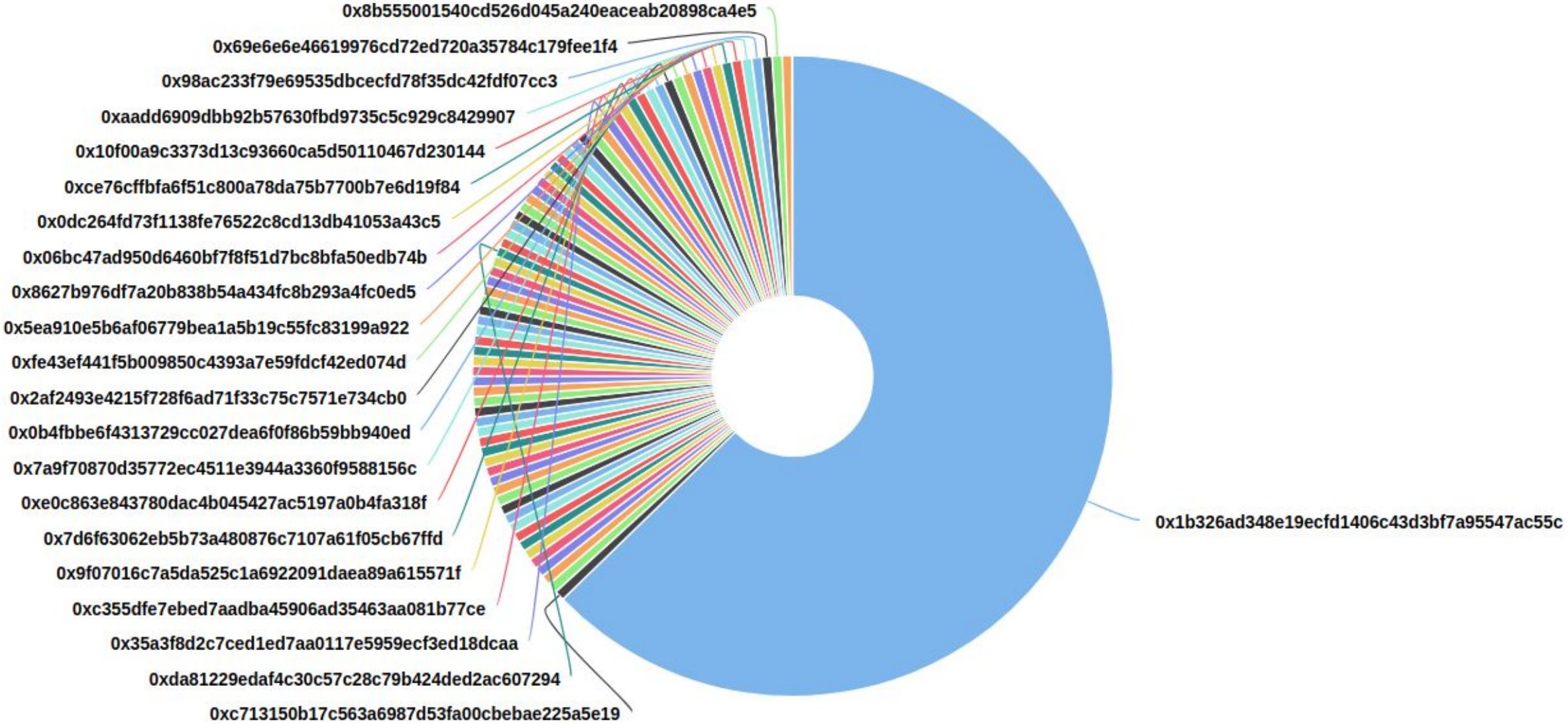
Following a standard means some functionality can be completely generic



```
contract NonFungibleToken {
    struct Record {
        string description;     // This could be a url that points to a jpeg, or anything else
        address owner;          //
        bool exists;            // True if this record exists (asset has been minted)
    }

    mapping (uint => Record) public table; //maps ids to records
    uint public nextid = 0;

    function ownerOf(uint id) view public  returns(address) {
        return table[id].owner;
    }

    address public administrator;
    constructor () public { administrator = msg.sender; }

    function mint(string memory description) public {
        require(msg.sender == administrator);
        require(table[nextid].exists == false);
        table[nextid].exists = true;
        table[nextid].owner = msg.sender;
        table[nextid].description = description;
        nextid += 1;
    }

    function transfer(uint id, address to) public {
        require(table[id].exists);
        require(ownerOf(id) == msg.sender);
        table[    id].owner = to;
    }
}
```

ECE398SC test token 1 Top 100 Token Holders

Source: Etherscan.io



ERC20 defines interfaces for basic token behavior

https://github.com/ethereum/EIPs/blob/master/EIPS/eip-20.md

Basic functionality:

```
function totalSupply() constant returns (uint256 totalSupply)

function balanceOf(address _owner) constant returns (uint256 balance)

function transfer(address _to, uint256 _value) returns (bool success)
```

Delegating control:

```
function transferFrom(address _from, address _to, uint256 _value) returns (bool success)

function approve(address _spender, uint256 _value) returns (bool success)

function allowance(address _owner, address _spender) constant returns (uint256 remaining)
```

To summarize

- Tokens are contracts that function like digital assets
- Difference between fungible and non-fungible
  Non-fungible: each asset in a series has a distinct ID, attributes
  Fungible: the assets are interchangeable, can be summed up

- Using standard interfaces for tokens help enable interoperability
  - ERC20/721 feature many additional features, approval mechanism for composing with other contracts

There are plenty ERC20 templates on the internet

This is a widely adopted standard, and so tons of tools/service will “just work” if you adhere to ERC20 standard

http://lmgtfy.com/?q=erc20+token+template

https://github.com/bitfwdcommunity/Issue-your-own-ERC20-token/blob/master/contracts/erc20_tutorial.sol

https://github.com/OpenZeppelin/openzeppelin-solidity/tree/master/contracts/token/ERC20

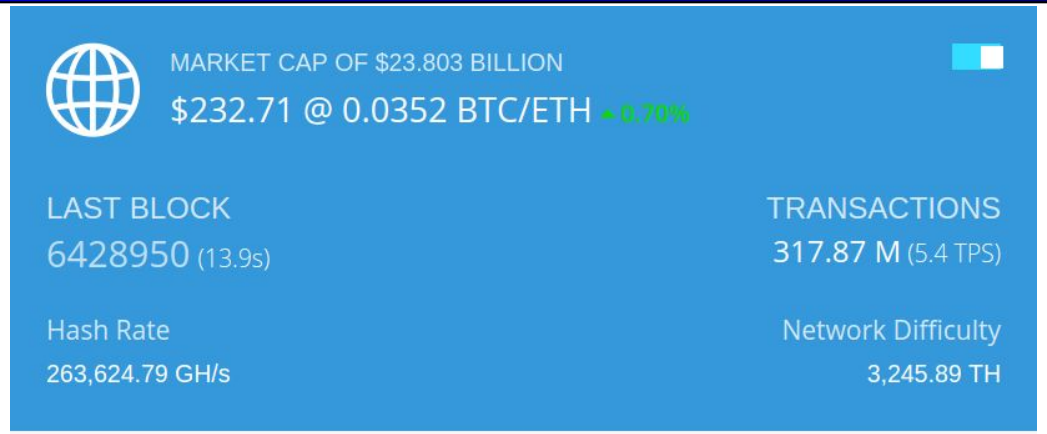
Bonus: Ropsten / Metamask Run-through

Ropsten / Metamask Run-Through

Beforehand - install Metamask

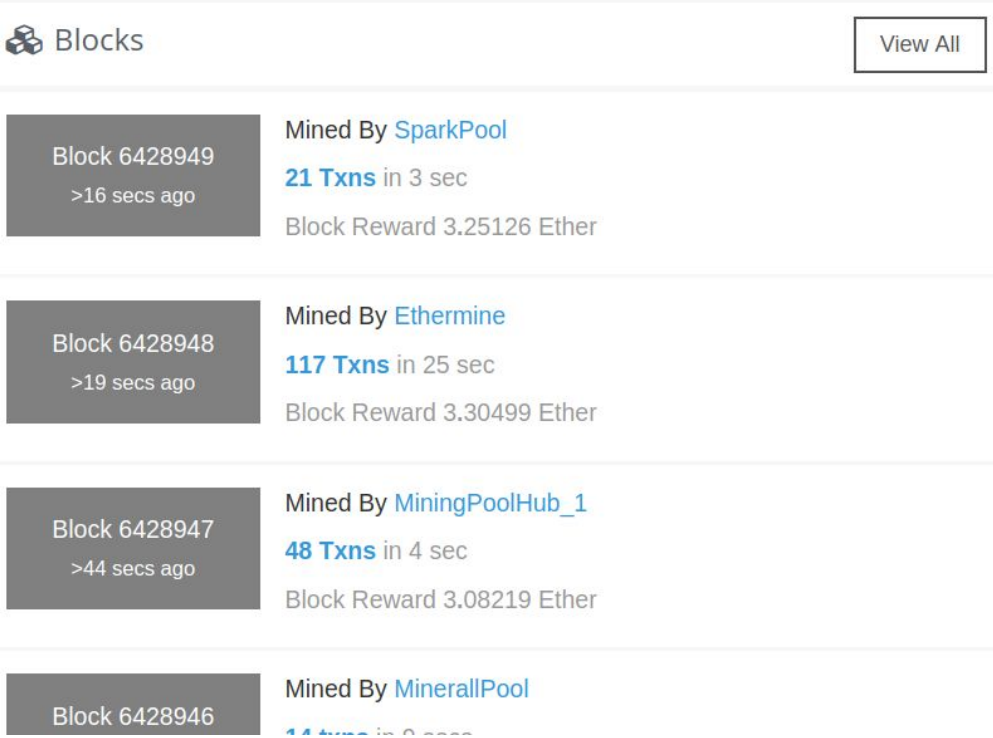
In this demo:

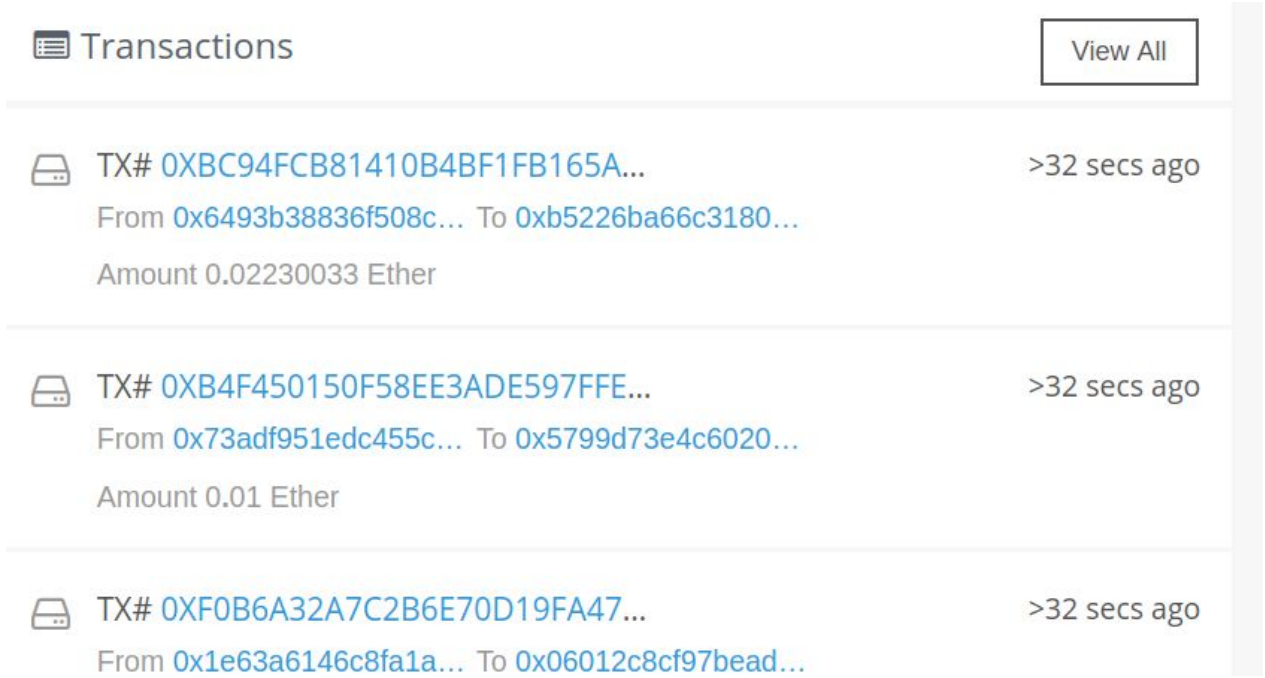
1. Create a new Ropsten (testnet) account in Metamask, copy the address
2. Visit the ropsten faucet, request Ether
3. View the transaction in Etherscan
4. Send a transaction to the instructor to complete the first challenge



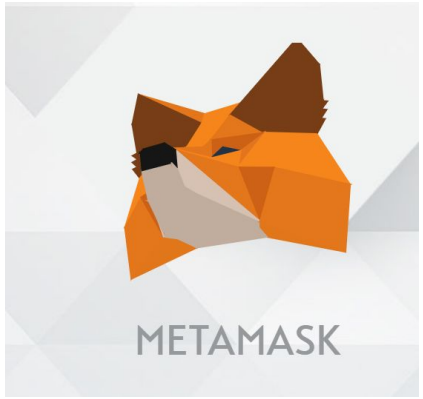
Etherscan
The Ethereum Block Explorer

https://etherscan.io/





Several links for creating a ropsten wallet



MyEtherWallet

Mnemonic Code Converter

Get testnet Ether from the faucet

MetaMask Ether Faucet

Ethereum Ropsten Faucet

Send some tETH (any amount) the instructor:

0x0974d3A22bDB7f73dCAb552a71896A2150DD2346

Basic datatypes available in Solidity

Integers:

int, int8, int16, …, int256

uint, uint8, uint16, …, uint256

Solidity is statically typed, like C or Java, but unlike python and javascript

```
uint8 x = 15;
uint8 y = 255;
return x+y;
```

Integer Conversions in Solidity

- Syntax most similar to python, but the behavior is like C
- Some restrictions on integer conversions, only change sign or size in one conversion

Question: what value will y take?

```
int x = -2;
uint y = uint(uint8(int8(x)));
```

Arrays and lists in Solidity

Statically sized array:

```
int32[10] memory fixSizeArray;
fixSizeArray[2] = 15;
fixSizeArray[5] = 30;
```

Dynamic length array:
(more expensive,
still can't change once created)

```
int32[] memory varSizeArray = new int32[](x);
varSizeArray[2] = 15;
varSizeArray[5] = 30;
```

Array in storage:
(persists across
transactions)

```
address[] listOfCallers;

function append() public returns(uint) {
    listOfCallers.push(msg.sender);
    return listOfCallers.length;
}
```

Basic datatypes available in Solidity

Strings and Bytes:

bytes32: fixed size, returned by hash functions

bytes memory: array of bytes

string memory: array of characters

abi.encode( ): flattens multiple arguments to a *bytes*

Fancier string libraries are available too

```
string memory s = "hello world";
bytes memory x = abi.encode(s);
bytes32 y = sha256(x);
bytes32 z = sha256(abi.encode(y));
```