Has bitcoin's limited supply driven its rally? Experts weigh in

The price of bitcoin topped $100,000 for the first time last week.

By [Max Zahn](#)
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Bitcoin supply limit complicates its future The founder of the world's largest cryptocurrency, Satoshi Nakamoto, whose real-life identity remains unknown, set the limit at its creation in 2009.

When the price of bitcoin sailed past $100,000 for the first time last week, many observers attributed the milestone to crypto-friendly President-elect Donald Trump, including Trump himself.

"YOU'RE WELCOME!!!" Trump posted on Truth Social.

The focus on a surge of demand for the world's largest cryptocurrency, however, risks overlooking the ever-present role played by a steadily approaching limit in bitcoin's supply, some experts told ABC News.

Digital architecture erected at the founding of bitcoin set a limit of 21 million bitcoins. As of now, about 19.8 million bitcoins have been created, leaving a fraction of the total left to be mined. A pre-set timeline for the availability of future bitcoins makes for a slow release of the remaining currency, with the limit expected to be reached around 2,140.

The price of bitcoin, like any asset, is driven by supply and demand. Experts who emphasize the role played by bitcoin's limited supply say scarcity makes up a key driver of the price, just as it would for water in a desert or an athlete's game-worn jersey.

Others point to the ebb and flow of investor appetite as the key price-setting force.

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"The limited supply of bitcoin makes it attractive," Nikhil Bhatia, a professor of finance and business economics at the University of Southern California who studies cryptocurrency, told ABC News. "That's why you see Malibu properties that go for $100 million-plus. People liked prized assets."

Bitcoin founder Satoshi Nakamoto, whose real-life identity remains unknown, set the rules for bitcoin at its creation in 2009. The algorithm underlying the cryptocurrency allowed for the release of 50% of yet-to-be created bitcoins every four years.

That approach made for a release of the majority of coins over bitcoin's initial years, followed by a long process of adding the outstanding currency that will stretch on for more than a century. Miners create new bitcoin by completing difficult computational tasks that require significant resources. For their work, they earn rewards paid in bitcoin.

The slow creation of new bitcoins makes the cryptocurrency sensitive to demand, since there is no source of readily available supply, Bryan Armour, the director of passive strategies research at financial firm Morningstar, told ABC News.

"When new demand is generated, if people aren't willing to sell, then that just means they'll have to pay a higher price to satisfy that demand," Armour said. "It has been a huge contributor to the price increase."

Some skeptics of cryptocurrency also point to the finite supply of bitcoin as its saving grace, since the digital asset has yet to be widely adopted for use in transactions.

"If one thinks about the underlying value proposition of bitcoin, it is driven entirely by scarcity," Eswar Prasad, a professor at Cornell University and the author of "The Future of Money: How the

Digital Revolution is Transforming Currencies and Finance," told ABC News.

"That is a fundamental underpinning of its value, because bitcoin has no intrinsic value since it isn't working very well as a medium of exchange," Prasad added.

In this July 27, 2024 file photo Republican presidential nominee former President Donald Trump speaks at the Bitcoin 2024 Conference in Nashville, Tenn.

Mark Humphrey/AP, FILE

By contrast, some analysts say the well-known trajectory of bitcoin supply is already baked into the asset's price. Instead, they point to ever-expanding investment in bitcoin by everyday people and financial institutions.

"Supply has played no role at all and the reason is very simple: The dwindling supply of bitcoin is predetermined so people have a very good understanding of how it evolves over time," Christian Catalini, founder of the MIT Cryptoeconomics Lab, told ABC News.

A surge in demand for the cryptocurrency over time may owe to investors' desire to share in the asset's gains, a belief in its utility as a store of value like gold or a hope for its eventual adoption as a means for buying and selling, some experts said. Regardless, they added, the demand for bitcoin makes up a crucial factor in setting its price.

"Even though bitcoin is scarce, it could be that people don't want to own this and its price could go to zero," Ariel Zetlin-Jones, an economics professor at Carnegie Mellon University, told ABC

News.

The price of bitcoin surged nearly 50% after the election of Trump, who has vowed to deregulate cryptocurrency and establish the federal government's first National Strategic Bitcoin Reserve.

Previous gains this year appeared to be propelled, in part, by U.S. approval in January of bitcoin ETFs, or exchange-traded funds. Bitcoin ETFs allow investors to buy into an asset that tracks the price movement of bitcoin, while avoiding the inconvenience and risk of purchasing the crypto coin itself.

"As you see the price go up, there's obviously been demand," Armour said. "It's a very momentum-driven asset. When the price goes up, it generates more demand. When the price goes down, you see speculators either taking profits or cutting losses."

"It ends up resulting in large price swings, which are synonymous with bitcoin," Armour added.

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As recently as 2021, bitcoin suffered a downturn that cut its value in half. The same thing happened a year earlier, when the initial outset of the pandemic triggered a panic among investors. After topping $100,000 last week, the price of bitcoin has dropped below $96,000.

As with other other goods, it's difficult to determine the precise role played by supply or demand in setting the price of bitcoin, Zetlin-Jones said.

"In some ways, that's the final issue of all economics: What drives prices, supply or demand? It's really hard to disentangle," he said.

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