

Payment Channel

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Payment Channel is a medium between two or more parties that allows them to transact bitcoins amongst them a number of times without sending all these transactions to the base layer, i.e., Bitcoin's blockchain.

A payment channel essentially is a 2-of-2 [multi-signature](#) wallet where parties interested in transacting with each other commit funds and this is called funding transaction that happens on-chain.

Once this on-chain transaction is complete, many transactions can happen between the two parties involved in the payment channel. But the transactions can only happen when both the parties sign thus updating the state of the channel (or you can say an offline shared ledger between them)

Thus many signed but broadcasted transactions can be exchanged between the parties involved in the payment channel.

In simple terms, you can think of a payment channel as duct or pipe which is open from both the ends and there are two individuals on each side with 10 pearls with them.

So through this duct or pipe, these guys can send the pearls to each other number of times and when they don't want to transact they can simply close the duct or pipe.

Source: [Payment Channel](#)

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