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Bitcoin as Cryptocurrency

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Abstract

The article considers the use of bitcoin as cryptocurrency. The advantages and risks of bitcoin use are analyzed, the future prospects are suggested.

Keywords: bitcoin, blockchain, cryptocurrency, bitcoin futures, digital transaction.

Introduction

Bitcoin is a digital currency created in 2009 that uses decentralised technology for secure payments and storing money that doesn't require banks or people's names. It was announced on an email circular as a way to liberate money in a similar way to how the internet made information free.

Bitcoin works on a public ledger called blockchain, which holds a decentralised record of all transactions that is updated and held by all users of the network. To create bitcoins, users must generate blocks on the network. Each block is created cryptographically by harnessing users' computer power and is then added to the blockchain, letting users earn by keeping the network running. A limit for how many bitcoins can be created is built into the system so the value can't be diluted. The maximum amount is just under 21 million bitcoin. There are currently just over 16.8 million in circulation, each of which was worth around $9,000 at the time of writing. That puts its total value at around $180 billion. Bitcoin is has a range of uses, including funding companies, investing cash and transferring money without fees. It is commonly associated with criminal activity such as drug dealing, cyber crime and money laundering, since it can be near-impossible to tie a bitcoin wallet to any one individual.[1]

Bitcoin can be spent online and at select retailers in the UK. They include CEX stores, Dell's website, Your Sushi restaurants, and some pubs. They can also be withdrawn at a couple of dozen bitcoin ATMs. However, a surge of network activity has meant transaction fees spiking, meaning some retailers have lost enthusiasm.

The price of Bitcoin is highly volatile. Typical 30-day volatility is around 40 percent and 90-day volatility is close to 70 percent. These swings in value are hard to stomach for many people. Although the cryptocurrency has an upward trend, it's still risky.[2]

Good currencies have low volatility, as owning unstable currency or accepting it as a form of payment becomes too risky. If the government decides to declare owning Bitcoin illegal, people may find themselves in trouble. Currently, the government’s stance on cryptocurrencies is not clear and the danger is real as Bitcoin is not taxed. This is somewhat of a competition to government-issued currency. Other regulations could also make Bitcoin less attractive.

The disadvantage of Bitcoin is that it has no safety mechanisms. Typically, one can get a private key or random words which protect wallet. If you lose your key, your funds will be gone with it. There's no support to contact, no way to change the password, and no way you could verify your identity to get your account back.

The biggest risk of investing in BitCoin BTC is it’s instability. One does not know, whether he is going to get huge profit or huge loss. Yet people are making good profits out of BTC trading or mining.[2]

Conclusion

One of the biggest investment stories over recent months was the launch of bitcoin futures, which essentially offer exposure to the cryptocurrency, without actually having to own it. There’s also the risk that the bitcoin market could collapse if a stampede of futures traders all sell their contracts at once. Bitcoin futures got off to a good start immediately after their debut last month. But they’ve been on a downward spiral since the beginning of 2018, and now sit at the $14,000 mark, down from an opening price of $15,000 at launch, meaning many futures investors are set to face large losses when the monthly contracts expire tomorrow.

Despite the drop in price, it's likely we could see the creation of more futures markets going forward, as demand for crypto continues to grow.

References

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