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Bitcoin-A Historical Perspective of the Effects of the New Currency on the Global Economy with the Future Speculated

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Abstract

The global economy has seen many ups and downs since the global economic crisis (2007-2011). After this crisis, another crisis in the EU (European Union) led to the emergence of new forms of solution which were totally different from the conventional ones. Bitcoin is one of the rescue methods being adopted now-a-days. With people losing confidence in the traditional fiat money, transactions are taking place in the technological form. Bitcoin is the currency used online for purchase of commodities and even other transactions. This paper tries to analyze Bitcoin's origin, its use and the consequences which are both negative and positive. It tries to shed some light on its future prospects too.

Key Words: Bitcoin, European Union, currency, ATMs.

Introduction of the Bitcoin and a Brief Informative Data about It:

The first Bitcoin ATM was installed in Oct. 2013 in Vancouver, British Columbia Canada. Bitcoin which was introduced in 2008 by Satoshi Nakamoto is a system of payment which decentralized distributed networks through a hidden system of communication called cryptography. Each of the transaction that takes place is recorded in a database of the public ledger and consecutively each Bitcoin transaction forms a block chain (25 Bitcoin/ block). Bitcoin also involves "mining". Of course, this mining does not involve digging underground for coal heaps but only taking part in block chains. The transactions of Bitcoins can be conducted through BITCOIN ATMs for liquidity. Even the cryptographic system of keys which is generated for Bitcoins helps to make wallets

for Bitcoins i.e. a digital wallet. While on one hand software wallets are generated, hardware wallets too are generated on the other hand.

Methodology:

The study is exploratory and analytical by nature, where attempt has been made to explore the concept and its consequences on the world economy and to forecast its future prospects too.

Bitcoin's Performance in the Past and Some Future Speculations:

As earlier mentioned Bitcoin was introduced in 2008, it gradually came into the limelight by May 2011 when there was a bubble in Bitcoin as its value rose from

US \$ 0.3 to US \$ 32 and then a subsequent bust when it fell to a mere US \$ 2. Then

came the crisis in Cyprus, when its price rose from US \$ 266 on April 10, 2013 and again a bust phase of only US \$ 50.

Bitcoin's Movements:

The frequent boom and bust cycles were the main reasons behind the common man using it for his own transactions. The global financial crisis (2007-2012) had made the people skeptical about conducting their transactions through banks and people around the world were looking for options other than banks which had themselves seen the dooms day in countries like Greece, Cyprus where were closed down. Even a child after being battered by any elderly does not go to that very person with the same comfortable mind set. Therefore, people resorted to Bitcoin's usage as a good alternative after so much austerity. As Bitcoin is an unregulated currency, many measures were taken by security agencies to stop transactions being conducted by its usage. In May 2013, assets of Mt. Gox were seized by the Department of Homeland security. Mt. Gox is the company which gathered online exchanges of Bitcoins. Even after that on 19th November 2013, the value of Bitcoin peaked to US \$ 900 after its use being legitimized by the US Senate committee. In China it traded for RMB ¥ 6780(US \$ 1100). Thus, its prominence and popularity became a threat to fiat money and financial regulating agencies began taking steps to control its usage by prohibiting transaction through it.

Speculated Effects In Future:

As Bitcoin has become a secret method to conduct transactions, people are using it as great reliever from the tracema they suffered

at the hands of global economic crisis when a few banks were shut down in the EU(European Union) and millions of bunks of people in banks were being withheld from being withdrawn in times of austerity . As it is said "once bitten twice shy", many people have lost faith in banks in the western countries, therefore they tend to resort to easier methods of transactions and at this very time the Bitcoin has come to play the role of a rescue ranger. Therefore, if the frequency of its usage rises higher and higher, it can put a cap upon inflation because when the fiat currency is less in use the supply of money too will contract and hence help in lessening inflation. For e.g. when few people of Argentina used Bitcoin instead of the regulated currency, it helped to curb inflation as there was a very tough control on capital. In trading too Bitcoin is traded by speculators who target at obtaining profit from short term prices to medium term prices. Many institutions to deal with futures contracts in Bitcoins instead of many currencies to deal with.

Many eminent economists have termed such situations only as bubbles coming up to get burst out in future.

Another use of Bitcoin which many people may prefer is as an investment destination. There could be a high risk in investment as Bitcoin may somewhere down the road be stopped from circulation altogether but few investors like the "Winklevoss twins" made a US \$ 1.5 million personal investment.

The supply of Bitcoins can help to regulate the supply of fiat money in circulation and as result it may stop buying through the regulated currencies. It has been estimated

that currently 13million Bitcoins are in circulation.

John Quiggin has stated that the value of Bitcoin may tend to become zero as the booms in its value are estimated by both Alan Greenspan and Quiggin as a sham.

Many firms like “Overstock.com”, the “Sacramento Kings”, “Tiger Direct”, “Zyna” etc. already accept Bitcoins and it is believed that many other firms will follow suit.

As Bitcoin has been accepted by many people and even large firms, some governments have tried their best to regulate the Bitcoin and in use on the other hand others have done the opposite i.e. tried to kick it out of use by banning it in their respective countries. Laws for the curbing of malpractices passed by agencies like “US department of treasury’s financial crimes enforcement network” which added other value to that substitutes for currency” its definition of “money services businesses” can also prove to be a hindrance in

Bitcoin’s emergence as an easily transaction mode. Practices like money laundering insider trading, terrorist financing may not become prevalent, this has to be monitored by the government therefore, control over Bitcoin can be seen as a step.

Even the “U.S. Commodity Futures Trading Commission” Stated in March 2014 that it has been considering regulation of digital currencies criminal activities which are often associated with cybercrimes too could gain a stronghold in future. Recently it had been found that hackers had gained access to the accounts of some of the users of Bitcoins and stolen away other digital currencies like Maxcoin, Megacoin. Thus, the prospects of the use of Bitcoin in future often seem to be bleak when such issues come forward. Some Ponzi schemes have also come into play through the use of Bitcoin which have harassed the users of this virtual currency.

The following chart shows the summarized form of the negative effects of Bitcoin through the respective negative uses.

Form of Uses	Effects
1- Money-Laundering	As Bitcoin can be easily used online it can be put to use for criminal proceedings and then easily transformed into legitimate money.
2- Ponzi Schemes	As many people are already skeptical about the financial institutions regulating fiat money, (after the global economic crisis), they are trusting Bitcoin easily, therefore many fraudsters many gain advantage through their false schemes by duping people.
3- Terrorist Activities Financing	As the world has been witnessing terrorism everywhere, there is little doubt that terrorist activities may be spread through financing of terrorist activities secretly by the use of

	BITCOIN.
4- Thefts	Hackers can gain access to anybody's account. Therefore, there is no argument over the fact that they can steal money online.
5- Loss of Production	As people may tend to carry out transactions online, they will emulate one another and start stealing this digital currency online. This may stop them from working for the fiat money at their workplaces and thus lead to an unproductive economic phase.
6- Closure of Banks and Financial Institution	It is evident that as banks would not be approached by people for financial transactions many would get closed down due to inadequate liquidity but this seems to be a prediction with a very less probability.
7- Betting Being Promoted	Recent study has shown that betting has increased manifold in gambling , online games of casinos through bitcoin transactions. Many more malpractices would be waiting in the wings in future through the frequent bitcoin use.

Conclusion:

Thus, Bitcoin is the digital currency which has new prospects, both positive as well as negative. It is not guaranteed whether this currency is here to stay in future. Although its presence has made the regulating

agencies very skeptical about its use and they have been warning time and again about its usage being shunned, but people who have gained access to it are not backing out. Whether Bitcoin will be the leading currency or a loser currency, it remains to be seen.

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