

Bitcoins - Explained

What is Bitcoin?

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- Bitcoin is a form of digital currency, created and held electronically. They aren't printed, like rupees or dollars.

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- **Satoshi Nakamoto** proposed bitcoin, which was an electronic payment system based on mathematical proof.

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- Bitcoin is **created digitally**, by a community of people that anyone can join. Bitcoins are '**mined**', using computing power in a distributed network.

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- It's the first example of a growing category of money known as **cryptocurrency**.

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What are its characteristics?

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- Bitcoin can be used to buy things electronically. In that sense, it's like conventional money, which are also traded digitally.

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- However, bitcoin's most important characteristic, and the thing that makes it different to conventional money, is that **it is decentralized**.

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- No single institution controls the bitcoin network. This puts some people at ease, because it means that a **large bank can't control their money**.

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- The bitcoin protocol, the rules that make bitcoin work say that **only 21 million bitcoins can ever be created** by miners.

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- However, these coins can be divided into smaller parts. The smallest divisible amount is **one hundred millionth of a bitcoin** and is called a 'Satoshi'.

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- Thus, a Bitcoin is decentralized, easy to set up, anonymous, completely transparent, fast, non-repudiable and its transaction fees are miniscule.

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How do people use bitcoins?

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- Like currency notes, it can be sent from one person to another, but without a central bank or the government attempting to track it.

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- The system depends on cryptography to control the creation of the currency.

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- Since no authority controls the generation of the coins or tracks them, the system itself is designed in such a way that **the network maintains a foolproof system** of the record of every transaction as well as tracking issuance of the currency.

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Who can you send bitcoins to?

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- You can **send bitcoins digitally to anyone** who has a bitcoin address anywhere in the globe.

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- One person could have multiple addresses for different purposes, say personal, business and the like.

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- Receivers can get to spend them within minutes of receiving the coins.

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- Once given away, like currency, there is no getting them back, unless the receiver decides to give them to you.

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- A bitcoin is not printed currency but is a non-repudiable record of every transaction that it has been through. All this is part of a **huge ledger called the blockchain.**

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Where do you get bitcoins?

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- Bitcoins are available in **bitcoin exchanges**. You could also purchase bitcoins from other users.
- **A bitcoin exchange traded fund** could be another source in the near future.
- You can become a bitcoin miner by investing in software and hardware.
- More the power of the hardware that helps with encryption technology, higher the probability of your earning bitcoins.
- **Unocoin** is a Bengaluru-based company that allows users to buy, sell, store or use bitcoins.
- While bitcoin usage is certainly not mainstream, there are said to be more than 500 merchants who accept bitcoins for payment in India.

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What is the value of one bitcoin today?

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- One bitcoin is worth roughly about **\$1,200 now**.
- An early investor in Snapchat has been quoted on the Web as saying that by 2030, **the value could be as high as \$500,000**.
- One of the reasons that could prompt you to buy a bitcoin today is not so much to use it for payment online but **as an investment**.
- And unlike traditional currency that is inflationary in nature, **the bitcoin is a deflationary currency**.
- In other words, if there are only so many bitcoins in use, and the demand for those rises, the value of a bitcoin would, logically, rise.

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India and Bitcoin:

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- Concerned over the adverse impact of virtual currencies such as bitcoin on the consumer, the government on April 12, 2017 **has set up a committee** to look into ways of regulating the fast-growing segment **to curb money laundering.**

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- Bitcoins have been banned in several countries on grounds that these currencies could be used for money laundering or financing terrorism.

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- The panel has been asked to suggest measures for dealing with virtual currencies including issues relating to consumer protection and money laundering.

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- **Since December 2013, the RBI had also cautioned users, holders and traders** of virtual currencies, about the potential financial, operational, legal, customer protection and security related risks that they are exposing themselves to.

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- The committee has been tasked to submit its report within three months.

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Source: The Hindu

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