



**BITCOINS**

# INTRODUCTION

- A cryptocurrency is a virtual currency. It is a generic name – Bitcoin is like a brand.
- First launched in 2009, Bitcoin is a digital currency that exists completely online.
- The currency is decentralized without a single central bank to administer it.
- Bitcoin is created, distributed, traded, and stored with the use of a decentralized ledger system, known as a blockchain.
- Despite being devised as currencies that should enable one to buy goods and services, cryptocurrencies aren't yet considered legal tender.
- In April 2018, the RBI virtually banned cryptocurrencies and prohibited all regulated entities from allowing anyone to trade in them. So, one could no longer transfer funds from bank account online to a cryptocurrency exchange for buying a Bitcoin or any other cryptocurrency. But in March 2020, the Supreme Court said that such curbs are illegal.

## HOW DOES IT WORK



X wants to transfer money to Y. X opens a bitcoin wallet on his computer or mobile phone, and copy/scan Y's address. This is pretty similar to how email works, except that Bitcoin addresses are used only once.



Bitcoin wallets keep a private key, which is used to sign transactions, providing a proof that they have come from the owner of the wallet, and it prevents alteration of transaction once issued.



Bitcoin miners run complex computer rigs to confirm the transactions called blocks. Upon success, these blocks are added to the blockchain record and the miners are rewarded with a small number of bitcoins.



The nodes verify the result and propagates the block, and Y receives the confirmation of receiving the bitcoin from X.

## PRICE OF BITCOIN GOING UP

- **Higher demand and limited supply** lead to higher prices. Bitcoin has limited supply and a very high demand. Bitcoin's price shot up more than 400% between March 2020 and January 2021.
- Another reason for Bitcoin's price appreciation is its **growing adoption as a payment method**. Recently, PayPal (PYPL) announced that it would soon allow its users and merchants to buy, sell, hold, and accept Bitcoin as a form of payment.
- **Publicly traded companies purchasing Bitcoin** shows a high level of confidence in its appreciation. Most notably, MicroStrategy, a business analytics company, converted \$425 million worth of cash in its treasury to Bitcoin.
- The total maximum supply of Bitcoin is 21 million. The **Bitcoin halving** happens every four years and cuts the number of coins miners receive for adding new blocks to the Bitcoin blockchain in half. The halving is significant because it marks another drop in Bitcoin's dwindling finite supply, thereby increasing the prices.
- There are **major names embracing the cryptocurrency**. JPMorgan is one of the biggest examples, which said Bitcoin is solidly competing with gold, and "the potential long-term upside for Bitcoin is considerable."

## Bitcoin jumps to record \$44,000



- **Tesla announced that it has invested around \$1.5 billion in bitcoin** and is expecting to begin accepting payment for its cars and other products with it in the near future.
- The decision is part of its broad investment policy as a company and was aimed at diversifying and maximizing its returns on cash.
- It said it had invested n bitcoin under the changed policy and could "acquire and hold digital assets from time to time or long-term".