Course: Global business environment 2
Assignment 2: Currencies and exchange rates in the news
Name: Klaas Joris Schut

Link to the article

http://www.economist.com/blogs/schumpeter/2014/06/bitcoin

Analysis and opinion

The article discussed a technical weakness of Bitcoin (a crypto currency) which could influence the price of this currency. As the result of a recent even in which a consortium of so-called miners got a majority of the Bitcoin mining power the author explores the effects this could have had on Bitcoin as a currency. Given the hidden nature of the currency the system uses computational power to encrypt all transactions. This encryption requires vast amounts of computational power. To create incentives for users to encrypt the transactions rewards are given to the people that encrypt transactions in the form of Bitcoin. However, if a single user or consortium possesses more than half of the computational power it can impose rules onto Bitcoin users. For example, this could include transaction costs. These rules give the consortium so much power it is no longer interesting for users to use this currency causing a virtual bank run and a collapse of the exchange rate to other currencies. To me, this incident shows the strong experimental nature of Bitcoin. Combined with the high volatility of the currencies exchange rate, it is a clear indicator this currency has not matured yet and is far from being seen as a regular form of payment.