



AMC	-6.67%	AMZN	+2.13%	GME	+0.81%	TSLA	+1.33%	AAPL	+1.45%	AMC	-6.67%	AM
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## MARKETS

## What Is A Cryptocurrency?



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It wasn't long ago that very few people had heard the word “cryptocurrency,” and even less knew what it meant. These days, the word is ubiquitous; the dramatic rise of bitcoin’s price raised the level of interest in that and other cryptocurrencies to amazing heights.

Now seemingly everyone wants to know more about cryptocurrencies, or just “cryptos” for short.

### What Currency And Cryptocurrency Is

First, let’s look at the word itself. Digital currencies are secured using cryptography and combining that with their role as a currency gives us the compound word **cryptocurrency**.

To understand what a cryptocurrency is, rather than just the what the word means, you

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the pieces of paper we carry in our wallets, purses or pockets. It only has value because we believe it does.

In the modern age, however, there is no need for that token to be a physical one. For a long time now, many transactions have not involved the transfer of actual cash. Even before computers, writing a check meant allowing a bank to reduce your balance and increase somebody else's by updating a ledger, and debit cards are a more modern version of that. No cash changes hands in these transactions.

Cryptocurrencies are in many ways just a version of that, updated to allow for the widespread use of the internet, but with a couple of crucial differences.

### How Are Cryptocurrencies Different?

First, they are not issued by the government. They are created and controlled by computer programs, or algorithms. Those algorithms lay out how transactions are made and recorded, and how new coins or tokens are found and released. People and organizations known as miners keep records of every transaction and attempt to solve complex computer problems that, when solved, reward them with new coins as payment.

In effect, it is the users themselves and their vast combined computing power that record transactions directly between peers, rather than through banks or other intermediaries. That system is known as a [blockchain](#) and the transactions, and even the currencies, are sometimes referred to as "peer-to-peer."

The second major difference, and one that must be understood to appreciate the value of cryptos is that, unlike conventional currencies, the total amount that can ever be in circulation is limited. Government-issued currencies such as the U.S. dollar are created at the whim of those who are in power. As the economy grows, more dollars are created to allow for that growth. Simple economics tells us that as the supply of something is increased, the value of each unit falls.

That explains why, for example, a house that cost a few thousand dollars a few decades ago will now cost hundreds of thousands of dollars. It is what is known as inflation, and conventional currencies work on an inflationary model.

Cryptocurrency, in contrast, works on a deflationary model. Because the total supply of the currency is restricted, you do not use more coins to pay for goods and services, but less. Something that costs one coin now will cost only a fraction of a coin in the future as the economy (the supply of goods and services) grows, but the number of coins in circulation remains essentially static.

### Common Cryptocurrencies

The above concepts are hard for many people to grasp but the other bewildering fact is

the largest by market cap and therefore the most commonly used are Bitcoin, Ethereum, Ripple and Litecoin. Let's take a very quick look at each:

**Bitcoin** is the big daddy of cryptos and the one that most people are aware of. It [was created in 2009](#) by the still mysterious and pseudonymous Satoshi Nakamoto. There are actually now two types of Bitcoin, the original and Bitcoin Cash which came about as a way of solving the high transaction times on the Bitcoin network.

**Ethereum**, also known by the name of its token, Ether, is similar in that it uses a blockchain, but was created more with an eye to what are known as "smart contracts," rather than use by everyday consumers. Smart contracts replace the need for paper contracts between parties to an agreement and remove the need for signing and amending contracts written on paper.

**Ripple** is aimed at payments made between financial institutions. These payments have until now typically taken days to process and have been expensive, particularly when they involve low-value, high volume payments. The blockchain makes those transactions faster and cheaper.

**Litecoin** is probably the closest to Bitcoin in that it is designed as a general use currency. Adherents will tell you that it is an improved version, as it allows for a greater volume of transactions and performs them faster.

As we've seen, the price of all cryptocurrencies will fluctuate, often violently. Some, no doubt, will not survive, but with big companies and Wall Street institutions getting involved, it is clear that cryptos are here to stay.

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