Cryptocurrencies: Bitcoin

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Introduction

- Bitcoin (₿) is a digital currency used for exchange, just like how fiat currencies work.
- Bitcoin is decentralized since it does not have a single administrator or entity to control its market.
- Bitcoin was invented in 2008 by an unknown person(s) named Satoshi Nakamoto, and its use began in 2009 (Kirkby, 2018).
- The innovation of bitcoin has revolutionized the money and banking industry.
- Governments, businesses, and individuals have embraced the cryptocurrency in making or receiving payments

Creation/ Mining of Bitcoin

- According to Francis (2019), bitcoins are created and distributed through blockchain technology.
- The bitcoin system is made up of a collection of computers that may be referred to as miners or nodes.
- These computers run Bitcoin's code to generate bitcoins and store the bitcoin.
- The process of creating bitcoins is called mining.
- In bitcoin mining, all computers in the system have similar lists of blocks /transactions, which increases transparency & reduces irregularities.

Functioning of Bitcoin

- Any individual can run bitcoin nodes and see all transactions in real-time.
- This makes it hard for attacks or threats on the cryptocurrency if a party was to propagate an attack.
- Decentralization makes it hard for a malicious party to take advantage of Bitcoin (Francis, 2019).
- The bitcoin mining process verifies and adds transactions on the network, and rewards of bitcoins are released to miners.

Storage and Authorization

- Bitcoin balances are kept through private and public keys, which are encrypted through the algorithm that creates them (Francis, 2019).
- The private key is used to authorize Bitcoin transmissions which safeguard an individual's account.
- The public key in bitcoin cryptocurrency serves as the address to which other users may send bitcoin.

Peer to Peer Technology

- Bitcoin uses peer-to-peer technology (P2P) to help facilitate instant payments (Müller, 2012).
- Miners process the transactions to get rewards and transaction fees which are paid in Bitcoin.
- When miners oversee transactions, they act as part of the decentralized authority, and new bitcoins will be released to them at fixed nut periodical declining rates.

Benefits of Bitcoin

- Bitcoins are accepted as a form of payment and have widely been used to make and receive payments in making online purchases (Kirkby, 2018).
- Bitcoin offers employment opportunities for individuals or businesses specializing in selling or buying bitcoins.
- Offer an alternative method of payment that is secure and mobile.
- Lower transaction fees when making international payments.

Reasons People Prefer Bitcoin to Fiats

- Bitcoins promote independence due to its decentralization feature and has no entity to impose stringent regulations.
- Bitcoin has high liquidity, and its accessibility favors most users
- Bitcoin has a high return potential for investors.
- Allows users to make transactions anonymously and transparently (Francis, 2019).

Risks/ Disadvantages of Bitcoin

- Lack of government regulation does not guarantee legal protection from scammers.
- Bitcoin prices are volatile since they are affected by various factors such as happening in the markets (Bollen, 2016).
- Once transactions are completed, they are irreversible, leading to losses if people make payments to the wrong addresses.
- Few companies have accepted bitcoins, which limits the holder’s use..

Conclusion

- A bitcoin is a single unit of account in the bitcoin system.
- Bitcoins are generated through mining via nodes of computers. bitcoin transactions are usually recorded through blockchain technology which acts as a public ledger system (Francis, 2019).
- Bitcoins are refereed due to accessibility, convenience, the anonymity of parties, and its decentralized system.
- Bitcoin has several advantages; however, concerns have been raised about its potential to facilitate the trade of illegal items.

References

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