

# Bitcoin Exchange

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## DEFINITION of 'Bitcoin Exchange'

A bitcoin exchange is a digital marketplace where traders can buy and sell bitcoins using different fiat currencies or altcoins. A bitcoin currency exchange is an online platform that acts as an intermediary between buyers and sellers of the cryptocurrency.

The currency ticker used for bitcoin is either BTC or XBT.

## BREAKING DOWN 'Bitcoin Exchange'

Bitcoin exchange platforms match buyers with sellers. Like a traditional stock exchange, traders can opt to buy and sell bitcoin by inputting either a market order or a limit order. When a market order is selected, the trader is authorizing the exchange to trade his coins for the best available price in the online marketplace. With a limit order set, the trader directs the exchange to trade coins for a price below the current ask or above the current bid, depending on whether s/he is buying or selling.

For example, on a bitcoin exchange, three coin sellers are asking for BTC/USD 2265.75, BTC/USD 2269.55, and BTC/USD 2270.00. A trader who initiates a market order to buy bitcoins will have his order filled at the best ask price of \$2265.75. If only five bitcoins are available for the best ask and 10 coins are available for \$2269.55, and the trader wants to buy 10 at market, his order will be filled with 5 coins @ \$2265.75 and the remaining 5 @ \$2269.55

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Online bitcoin marketplaces usually designate bitcoin participants as either makers or takers. When a buyer or seller places a limit order, the exchange places adds it to its order book until the price is matched by another trader on the opposite end of the transaction. When the price is matched, the buyer or seller who set the limit price is referred to as a maker. A taker is a trader who places a market order that immediately gets filled.

All bitcoin exchanges have transaction fees that are applied to each completed buy and sell order

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carried out within the exchange. The fee rate is dependent on the volume of bitcoin transactions that is conducted. For example, bitcoin exchange Poloniex has its rate ranging from 0 to 0.25%, GDAX fees range from 0 to 0.30%, Kraken's fees range from 0 to 0.36%, and Paxful charges 1% of the amount of a sale to the seller but buyers don't get charged.

To transact in bitcoin on an exchange, a user has to register with the exchange and go through a series of verification processes to authenticate his or her identity. Once the authentication is successful, an account is opened for the user who then has to transfer funds into this account before s/he can buy coins. Different exchanges have different payment methods that can be used for depositing funds including [bank wires](#), direct bank transfers, credit or debit cards, [bank drafts](#), [money orders](#), and even gift cards. A trader who would like to withdraw money from his or her account could do so using the options provided by his exchange which could include a bank transfer, [PayPal transfer](#), check mailing, cash delivery, bank wire, or credit card transfer.

Making deposits and withdrawals come at a price, depending on the payment method chosen to transfer funds. The higher the risk of a [chargeback](#) from a payment medium, the higher the fee. Making a bank draft or wiring money to the exchange has a lesser risk of a chargeback compared to funding your account with PayPal or a credit/debit card where the funds being transferred can be reversed and returned to the user upon his/her request to the bank.

In addition to transaction fees and funds transfer fees, traders may also be subject to [currency conversion fees](#), depending on the currencies that are accepted by the bitcoin exchange. If a user transfers Canadian dollars to an exchange that only deals in US dollars, the bank or the exchange will convert the CAD to USD for a fee. Transacting with an exchange that accepts your local currency is the best way to avoid the FX fee.

Foreign exchange spreads are important measures when transacting in bitcoin and vary depending on how [liquid](#) the bitcoin exchange is. For example, on May 31, 2017, the best bitcoin bid and ask on Kraken, a bitcoin exchange system, was XBT/USD 2,314.07 and XBT/USD 2,317.75, respectively. Another online exchange, GDAX, had its best bid and ask period for the same time window as BTC/USD 2314.99 and BTC/USD 2319.00. Clearly, the FX spread is wider for GDAX, but may not necessarily be so at all times of the day. (Note that the Bitcoin ticker is either XBT or BTC, depending on the exchange).

Note that a bitcoin exchange is different from a [bitcoin wallet](#). While the former offers a platform through which bitcoin buyers and sellers can transact with each other, the latter is simply a digital storage service for bitcoin holders to store their coins securely. To be more technical, bitcoin wallets store private keys which are used to authorize transactions and access the bitcoin address of a user. Most bitcoin exchanges provide bitcoin wallets for their users, but may charge a fee for this service.

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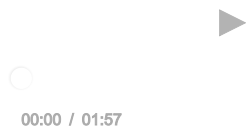
# Bitcoin

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Bitcoin is a **digital currency** created in 2009. It follows the ideas set out in a **white paper** by the mysterious Satoshi Nakamoto, whose true identity has yet to be verified. Bitcoin offers the promise of lower transaction fees than traditional online payment mechanisms and is operated by a decentralized authority, unlike government-issued currencies. Today's market cap for all bitcoin (abbreviated BTC or, less frequently, XBT) in circulation exceeds \$7 billion.

### Video Definition



There are no physical bitcoins, only balances kept on a public ledger in the cloud, that – along with all Bitcoin transactions – is verified by a massive amount of computing power. Bitcoins are not issued or backed by any banks or governments, nor are individual bitcoins valuable as a commodity. Despite its not being **legal tender**, Bitcoin charts high on popularity, and has triggered the launch of other virtual currencies collectively referred to as **Altcoins**.

### BREAKING DOWN 'Bitcoin'

Bitcoin is a type of **cryptocurrency**: Balances are kept using public and private "keys," which are long strings of numbers and letters linked through the mathematical **encryption** algorithm that was used to create them. The public key (comparable to a bank account number) serves as the address which is published to the world and to which others may send bitcoins. The private key (comparable to an ATM PIN) is meant to be a guarded secret, and only used to authorize Bitcoin transmissions.

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