

Cryptocurrency

A cryptocurrency or crypto, is a virtual currency secured by cryptography. It is designed to work as a medium of exchange, where individual ownership records are stored in a computerised database.

The defining trait of a cryptocurrency is that they are not issued by the government agency of any country making them immune against any interference and manipulation from them.

This article will further discuss the details of cryptocurrency within the context of the Civil Services Examination.

Definition of Cryptocurrency

In simplistic terms, Cryptocurrency is a digitised asset spread through multiple computers in a shared network. The decentralised nature of this network shields them from any control from government regulatory bodies.

The term “cryptocurrency in itself is derived from the encryption techniques used to secure the network.

As per computer experts, any system that falls under the category of cryptocurrency must meet the following requirements.:

1. Absence of any centralised authority and is maintained through distributed networks
2. The system maintains records of cryptocurrency units and who owns them
3. The system decides whether new units can be created and in case it does, decided the origin and the ownership terms
4. Ownership of cryptocurrency units can be proved exclusively cryptographically.
5. The system allows transactions to be performed in which ownership of the cryptographic units is changed.

Types of Cryptocurrency

The first type of crypto currency was Bitcoin, which to this day remains the most-used, valuable and popular. Along with Bitcoin, other alternative cryptocurrencies with varying degrees of functions and specifications have been created. Some are iterations of bitcoin while others have been created from the ground up

Bitcoin was launched in 2009 by an individual or group known by the pseudonym "Satoshi Nakamoto. As of March 2021, there were over 18.6 million bitcoins in circulation with a total market cap of around \$927 billion.

The competing cryptocurrencies that were created as a result of Bitcoin's success are known as altcoins. Some of the well known altcoins are as follows:

1. Litecoin
2. Peercoin
3. Namecoin
4. Ethereum
5. Cardana

Today, the aggregate value of all the cryptocurrencies in existence is around \$1.5 trillion—Bitcoin currently represents more than 60% of the total value.³

Advantages and disadvantages of Cryptocurrency

Cryptocurrency has the following advantages

- Funds transfer between two parties will be easy without the need of third party like credit/debit cards or banks
- It is a cheaper alternative compared to other online transactions
- Payments are safe and secured and offer an unprecedented level of anonymity
- Modern cryptocurrency systems come with a user “wallet” or account address which is accessible only by a public key and private key. The private key is only known to the owner of the wallet
- Funds transfer are completed with minimal processing fees

Cryptocurrencies have the following disadvantages.

- The almost hidden nature of cryptocurrency transactions makes them easy to be the focus of illegal activities such as money laundering, tax-evasion and possibly even terror-financing
- Payments are not irreversible
- Cryptocurrencies are not accepted everywhere and have limited value elsewhere
- There is concern that cryptocurrencies like Bitcoin are not rooted in any material goods. Some research, however, has identified that the cost of producing a Bitcoin, which requires an increasingly large amount of energy, is directly related to its market price.

Frequently Asked Questions Regarding Crypto Currencies

How does a Cryptocurrency work?

A cryptocurrency (or “crypto”) is a digital currency that can be used to buy goods and services, but uses an online ledger with strong cryptography to secure online transactions. Much of the interest in these unregulated currencies is to trade for profit, with speculators at times driving prices skyward.

How is money made from cryptocurrency?

The most common way of earning money from cryptocurrencies is buying coins such as Bitcoin, Litecoin, Ethereum, Ripple, and more and wait until their value rises. Once their market prices rise, they sell at a profit.

What is the main appeal of a crypto currency technology?

Central to the appeal and functionality of Bitcoin and other cryptocurrencies is blockchain technology, which is used to keep an online ledger of all the transactions that have ever been conducted, thus providing a data structure for this ledger that is quite secure and is shared and agreed upon by the entire network of an individual node, or computer maintaining a copy of the ledger.