

# **Bitcoin : A Volatile Market – Ashhar Rizwan Shaikh**

**The new era of the transaction from one address to another.**

Bitcoin is an alternative financial system that would be based on software technology and would be outside the control of third parties that is central banks or government control. Bitcoin is known as a type of cryptocurrency because it uses cryptography to keep it secure.

There are no physical bitcoins, only balances kept on a public ledger that everyone has transparent access to (although each record is encrypted). All bitcoin transactions are verified by a massive amount of computing power via a process known as “mining.” Those who run this process are called “miners”. Bitcoin is also decentralized; there’s no one computer that holds the ledger. With Bitcoin, every computer that participates in the system is also keeping a copy of a ledger known as Blockchain.

Bitcoin was initially worthless; only a handful of people knew about it. In its early days, the general public mostly perceived Bitcoin as “fun money for geeks” rather than as a phenomenon that could challenge the present-day financial system. Only a few understood the true purpose of Bitcoin. And although a lot more people understand the purpose today, the number is still low in global terms.

## **Bitcoin Mining:**

Bitcoin mining is the process by which new bitcoin are entered into circulation; it is also the way that new transactions are confirmed by the network and a critical component of the

maintenance and development of the blockchain ledger. “Mining” is performed using sophisticated hardware that solves an extremely complex computational math problem. The first computer to find the solution to the problem is awarded the next block of bitcoins and the process begins again.

In the Bitcoin network, a miner’s goal is to add individual blocks to the blockchain by solving sophisticated mathematical problems. This pursuit requires enormous computational and electrical power. While many miners compete to add each block, the miner who solves the problem will add the block—along with its approved transactions—to the blockchain. This miner receives a reward of 6.25 bitcoins (the block reward is cut in half roughly every four years).

## **Bitcoin ATM’s:**

There are two main types of Bitcoin machines: unidirectional (one-way) and bidirectional (two-way). Only about 30% of all crypto ATMs worldwide are bidirectional, and less than 23% in the U.S. Both types are connected to the Internet, allowing for cash purchase and/or sale of Bitcoin. Some machines use a paper receipt and others move money to a public key on the blockchain. Bitcoin cash kiosks look like traditional ATMs, but do not connect to a bank account and instead connect the user directly to a Bitcoin wallet or exchange. While some Bitcoin ATMs are traditional ATMs with revamped software, they do not require a bank account or debit card. On average, transaction fees are 10-20% but can go as high as 25% and as low as 7%.

Buyers will typically scan a quick response (QR) code corresponding to their bitcoin wallet address, to which purchased coins are transferred. If the buyer does not yet have a wallet, a new one can be generated. After the purchase, a record of the bitcoin will appear in the customer’s wallet, though this may take several minutes to process.

Customers are charged a service fee for using a bitcoin ATM. This fee is typically charged as a percentage of the transaction rather than a fixed dollar value. The Consumer Financial Protection Bureau (CFPB) has warned that fees to use Bitcoin ATMs can be very high, and the exchange rates offered may not be as competitive as what consumers could find elsewhere.<sup>3</sup> Bitcoin ATM operator CoinFlip says its average fee for purchases is about 7% higher than the spot price for Bitcoin.

## **El Salvador became the first country to use Bitcoin as legal tender:**

El Salvador has become the first country in the world to make the cryptocurrency Bitcoin legal tender. It was President Nayib Bukele, the president of El Salvador, who introduced the Bitcoin law into the legislative system. It passed the congress's vote and has now been adopted as law and the law is interesting because it gives some of the reasoning around why El Salvador wanted to adopt Bitcoin as a legal currency. Because in there 70% of the population does not have access to traditional financial services and bitcoin is seen as a way to potentially help solve that problem.

"We must break with the paradigms of the past," the president said Monday in a statement translated from Spanish. "El Salvador has the right to advance toward the first world."Bukele also has said that using Bitcoin would be an effective way to transfer the billions of dollars in remittances that Salvadorans living outside the country send back to their homeland each year, the Associated Press reported. El Salvador's government holds 550 Bitcoin, Bukele said, which is equivalent to about \$26 million.

## **Bitcoin during a pandemic:**

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During the COVID-19 pandemic, bitcoin surged by 300% in 2020 amid speculations in the financial market that investors were piling the digital currency—due to the low-interest rate in the market (Bloomberg, 2021). The upward gains were partly influenced by financial market investors who saw the potential of using bitcoin to hedge against recent inflation due to the global pandemic. Bitcoin and cryptocurrency more broadly have benefited from the economic chaos of the pandemic and the national bills piling up to be paid in the future. Although Bitcoin is more of a known quantity than it was five years ago, it is still a speculative investment and should be approached with that level of caution by individual investors.

## **What future hold for Bitcoin:**

As for future potential, many experts believe that Bitcoin has the means and power to become the global universal payment method. As we mentioned already, millions of people use this cryptocurrency daily, and its infrastructure just keeps growing and shows no signs of stopping.

These experts state that as Bitcoin's popularity rises, governments around the world will have no other option than to make it an official legal payment method. And due to the advantages that Bitcoin has over the FIAT currencies (which we are about to take a look at), a majority of the world's population will use Bitcoin, thus enabling governments to make it the global universal payment method.

Bitcoin's price has taken a wild ride so far in 2021, from a high point of \$60,000 in April to less than \$30,000 as recently as July. More recently, Bitcoin has climbed back toward \$50,000. This volatility is a big part of why experts

recommend keeping your crypto investments to less than 5% of your portfolio, to begin with.