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Research Paper

Cryptocurrency: Exhilaration in the Virtual Currencies

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ABSTRACT:
Cryptocurrency is known as a virtual or digital currency which is backed by cryptography. Cryptocurrency is safe and it acts like the medium of exchange for transactions. The ownership of each coin was recorded in a ledger that was kept in a computerized database. Cryptography is a skillful and efficient way of preserving transaction records, regulating the production of new coins, and dealing with ownership transfers. The management of cryptocurrency is decentralized, and it is not governed by the financial system of a central bank. The decentralized mechanism is based on the blockchain technology. There are a slew of cryptocurrencies on the market, like Bitcoin, Ethereum, Litecoin, and Libra, that have seen steady growth in value amid the bad economy. When central banks were engaged in quantitative easing, the economy was flooded with low-interest-rate credit. Speculative transactions were at an all-time high, and financial institutions and individual investors alike put their money into cryptocurrencies. Cryptocurrencies, like gold, have served as a buffer against volatility due to supply constraints. As the majority of economies were struggling with fiscal deficits and debt, cryptocurrencies took off, and the well-known bitcoin saw a 200 percent increase in value before December 2020.
KEYWORDS: *Cryptocurrency, blockchain technology, digital transaction, speculation*

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I. INTRODUCTION

In the twenty-first century, the financial market is undergoing a revolution, with disruptive technologies acting as a driving force. Since the introduction of Bitcoin in 2009, there has been a lot of interest among investors, and virtual currencies have set out to create a decentralized financial system. Digital currencies have the ability to be used for those who may not have access to conventional financial products. Satoshi Nakamoto, an expert coder, launched Bitcoin in January 2009 as an open-source financial network that was decentralized and peer-to-peer, with no central authority.

After experiencing subdued development for a few years, bitcoin began its upward trajectory, outpacing other blockchain counterparts, and reaching euphoric status throughout the pandemic. The digital revolution is in its early stages, and it will gain traction in the coming years. Bitcoin, Ethereum, Tether, Litecoin, and other cryptocurrencies have the ability to evolve and become useful to astute investors. Digitization is the globally, with China leading the way, followed by Korea, Japan, Germany, the United States, and India. Demonetization in India in November 2016 and Digital India since 2015 sent a warning to the general public that online transactions are a viable choice and that a cashless economy is not a distant dream. Monetized economies may benefit the elderly, who may struggle to understand digital processes. For the younger generation, the demonetization movement served as a trigger to transition to an online mechanism. Digital account maintenance is simpler, less expensive, which takes less time.

Despite the fact that the majority of central banks, including the Federal Reserve of the United States, the European Central Bank, the People's Bank of China, the Bank of Japan, the Bundesbank, and the Reserve Bank of India, have remained skeptical of cryptocurrencies and have cautioned people about the risks associated with investing in digital currencies. There have been problems of speculative investing, the formation of bubbles, governance difficulties, and risk control. Central banks are concerned and want to believe that the advent of bitcoin will disrupt their hegemony on the stock sector. People are losing faith in currency as increasing inflation continues to depreciate currency value and central banks around the world begin to print currency to increase money supply in the economy in order to combat recession. During the pandemic era, when expansionary monetary policy eroded currency value, the reserve currencies suffered greatly.

II. CASE CONTEXT

Virtual money is a byproduct of the digital revolution in the twenty-first century. Old principles and traditions are fading into obscurity, while new theories and approaches are vying for center stage. It is a digital wave of the twenty-first century that is spreading through all economic spheres. As the economy in developing and emerging markets continues to be digitized, online transactions have gained popularity because the method is fast, cost efficient, and free of time constraints and geographical constraints. Fintech firms around the world have worked hard to ensure financial inclusion and have achieved traction in the financial industry by providing a multitude of services and creative technologies to customers. During the pandemic, there was an increase in dependence on technologies all over the world. The use of money has decreased significantly, although online payment and settlement has increased dramatically. People will favor paperless investment and contactless payment options in the post-pandemic era as well. FinTech firms are constantly working to democratize financial markets and make financial services accessible to the most disadvantaged segments of the population in an equitable and open way.

A decentralized token economy is on the rise, which could spark a tectonic change for full-fledged use of digital currencies. Blockchain technology is gaining traction as a means of enshrining a new economic model. People of the twenty-first century have also begun to invest their time in the virtual universe. The pandemic had replaced old economic patterns and developed a modern style of school, employment, transaction, entertainment, and investment that had never been seen before. When the lockdown brought economic activity to a halt, governments around the world were forced to invest massively to fund hospital institutions, assure the provision of basic services, and expand social security coverage or welfare programs to the general public. The exchequer suffered massive losses, and the central bank was forced to print dollars, lower interest rates, and raise financial liquidity in order to avoid a contraction. The US dollar and other major currencies have taken a pounding, and buyers are looking for safe havens. Volatility was observed in a number of asset groups. The stock index, oil price, and real estate value all collapsed, while gold, silver, platinum, and palladium all increased significantly in value. The global stock market gradually stabilized, and the increase in oil prices relieved the pressure on oil producers by the end of 2020 and beyond. In 2020, Bitcoin and other cryptocurrencies had sparked a boom of staggering returns.

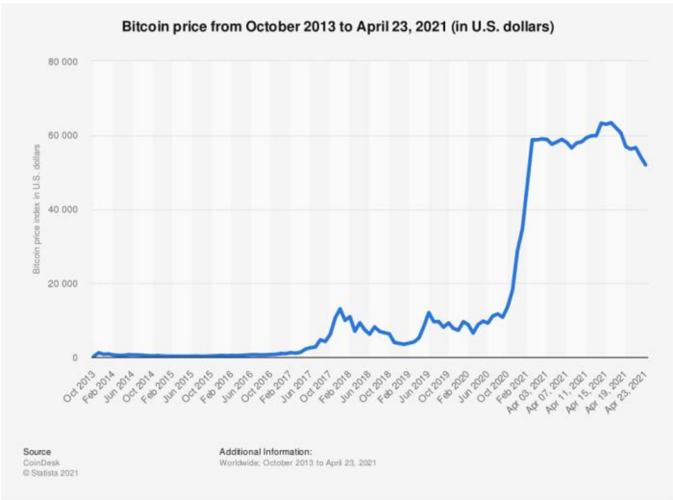

Figure 1: Time series data for Bitcoin, April 2021

The above graph of bitcoin price movement bears witnesses to the recent bitcoin obsession, especially in 2020, when a pandemic battered economy beyond comprehension. The rise in skepticism about the US dollar and other reserve currencies has resulted in the development of bitcoin. In 2020, the Bitcoin industry is expected to be worth about $700 billion. During the pandemic year, the value of bitcoin increased by 300 percent. Speculative trading and uncertainty remained major concerns, but more payment sites became more liberal and began embracing bitcoins. Younger people in their twenties and thirties showed unwavering interest in bitcoin and traded as never before. Although older generations largely opposed this glitzy investment path, seeing it as speculative tech investment. Investing in bitcoin and other cryptocurrencies represented a nationalist uprising against the monopoly of the government and central bank for the younger generation.

This bitcoin euphoria demonstrated young investors' preference for unconventional assets, the strength of decentralized mechanisms, and confidence in blockchain-based open and stable data encryption among peer-to-peer networks. Finally, the allure of obtaining a means of transaction or medium of communication through a digital medium stood ideal for the demonetised world.

III. RECENT DEVELOPMENTS

There has been a need for reform in order to provide an alternative to fiat money. There was an imminent repercussion for central banks' extravagant currency printing. Growing debt for the economy has also been a source of concern. Currency depreciation prompted people to look for substitutes, and tech-savvy individuals discovered a new interest in cryptos.

Investing in cryptocurrencies proved to be a brave decision and something to be proud about. To feed their risk appetite, risk-taking young generations investigated cryptos and traded in adrenaline-fueled bitcoin. Defying central bank warnings added to the excitement as astronomical returns become worth their reckless gamble. The global meltdown of 2008 revealed flaws in the financial system, and those flaws were re-established in 2020, when the world economy was shaken by economic downturn, asset valuation depreciation, and mounting debt load. Across the globe, the quest for a feasible solution that would be out of the clutches of the government and banks was intense. After the 2008 global recession, bitcoin arose to fill the vacuum. Elon Musk, Jack Dorsey, and Mark Zuckerberg, among others, voted in favor of it and invested in bitcoin with optimism. Facebook, a social media corporation headquartered in the United States, created a ripple by proposing the introduction of cryptocurrency Libra in 2021.

IV. CONCLUSION

Any commodity or investment opportunity has a cost and a profit. Furthermore, assets are evaluated through the prism of risk and return. Along with liquidity and affordability, the legitimacy of the issuer and the validity of the commodity are scrutinized. Cryptocurrencies attracted consumer confidence and proved to be a serious danger to the fragile conventional banking structure, whose fragility was shown between the economic crisis of 2008 and 2020. Cryptocurrency awareness and a greater understanding of blockchain can prove to be a blessing for new era investors. Despite its volatility, as was evident in 2018 when the price of bitcoin plummeted, cryptocurrency may be seen as a protection towards inflation. However, in the long run, it proved to be a satisfying experience with an unrivaled return. Traditional currency lost value as discounting forces such as inflation weighed it down.

Whereas bitcoin's popularity has continued to rise due to its tamper-proof nature, finite availability, low transaction fees, ease of maintenance, and lack of government interference. Investors' identities are not revealed, and accounts can be held in private Bitcoin wallets. Cryptocurrency would be appropriate for capitalist economies because it’s worth is determined by the market. The rate of adoption is astoundingly high, with more industry groups such as Microsoft, AT&T, Virgin Galactic, Tesla, Norwegian Air, and Twitch expressing their willingness to embrace it. As the internet in the 1990s, blockchain-powered cryptocurrencies led by Bitcoin disrupted the industry in the 2020s. Central banks can either recognize their authority and sanction market transactions in cryptos, or they can establish their own in order to retrench regulatory control in the financial market.

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