



New Virtual Currency Bitcoin Its Past, Present, and Future

Gew-rae Kim, Ph.D.

Department of Finance, Ernest Trefz School of Business
University of Bridgeport, Bridgeport, CT

Abstract

Bitcoin is a peer-to-peer payment system and digital currency introduced in 2009 by developer Satoshi Nakamoto.

Unlike other currencies, Bitcoins are created by solving math puzzles called mining. There are finite number of bitcoins – 21 million – and All are expected to be mined by 2014.

In a key development in 2011, BitPay, a payment processor that allows e-commerce merchants to accept bitcoins, begins operating. BitPay allows both users and senders to remain anonymous by transferring bitcoins between digital wallets that can be set up on computers and mobile phones. The program tracks each bitcoin to prevent counterfeiters.

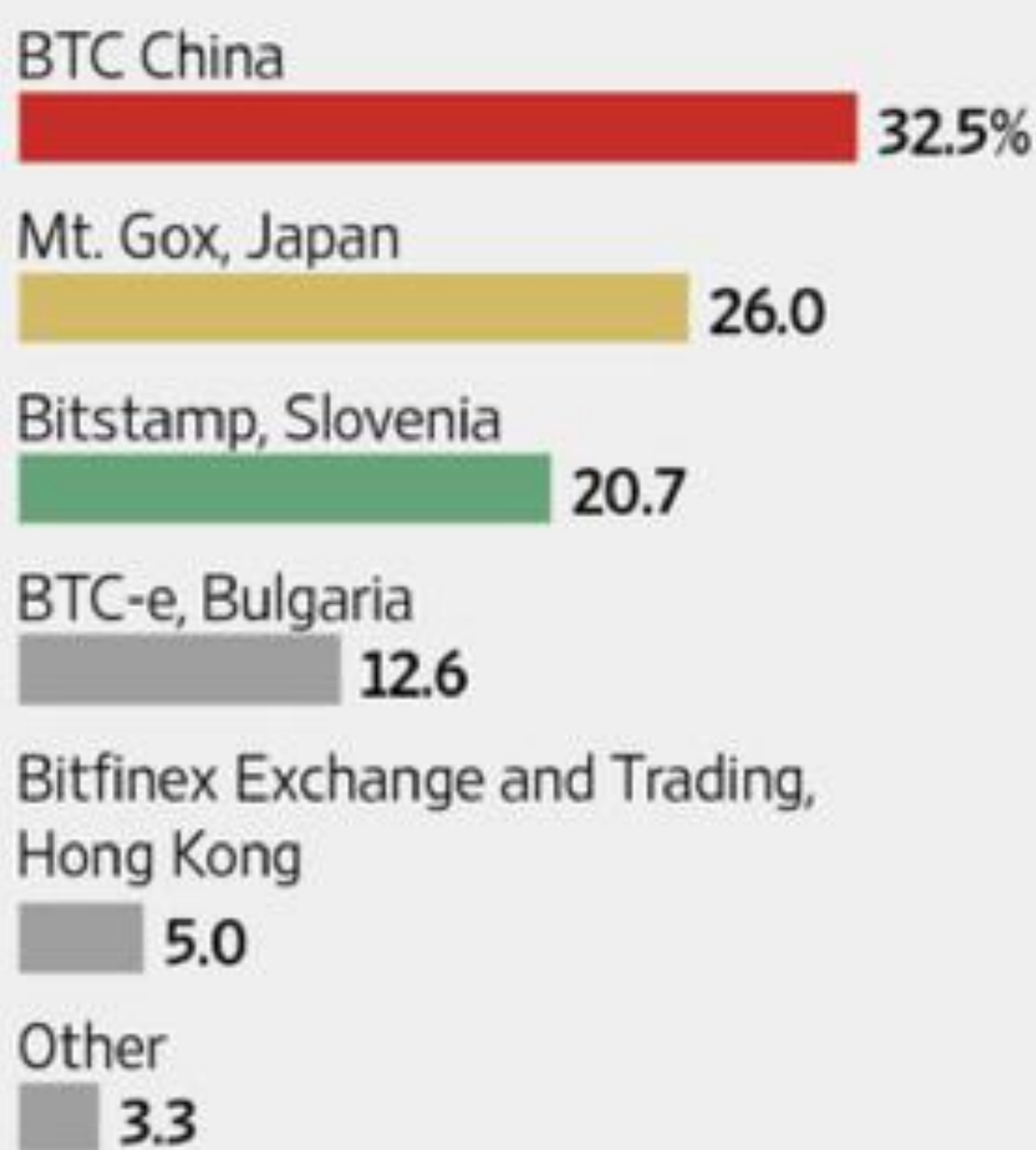


Volatility and Exchanges

Bitcoin prices have rebounded globally since a plunge in December after the People's Bank of China took a strict stance toward the currency. Chinese buyers had flocked to bitcoin exchanges, sending prices soaring, but after the central bank acted prices fell by half. One big driver of the rebound was a decision by social-networking game site Zynga ZNGA +0.18% to accept bitcoin as payment for its games such as "Farmville 2".

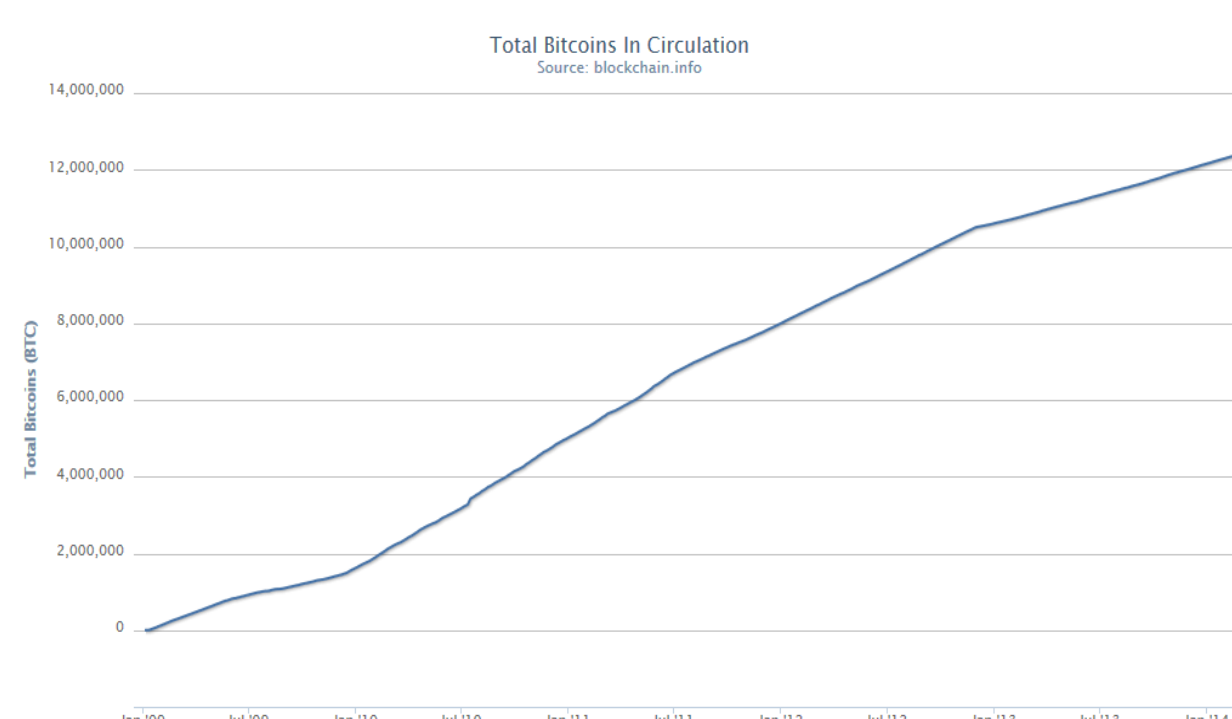


Market share of bitcoin exchanges based on trading volumes™



Finite Money Supply

There are a finite number of bitcoins – 21 million – and mining them is becoming more difficult. There are about 13 million bitcoins in circulation in 2013 and most are expected to be mined by 2014.



Competitors

Programmers around the world have been churning out new digital currencies that try to improve on the concept of bitcoin, the hot but controversial virtual money that has swept the Internet. Already, dozens of ideas are jockeying for the market. There are at least 36 so-called crypto-currencies exist and new ones are being added each month.

Virtual Reality

Alternative currencies are beginning to gain favor among traders, collectors and merchants.

	EXCHANGE RATE PER COIN	MARKET VALUE	SELECTED MERCHANTS ACCEPTING IT AS PAYMENT
Bitcoin	\$548	\$6.6 billion	OkCupid, WordPress.com
Litecoin	0.01331025 bitcoins	\$177 million	Bees Brothers
Peercoin	0.00161331 bitcoins	\$17.9 million	unknown
Namecoin	0.00164739 bitcoins	\$6.8 million	unknown
Bbqcoin	0.00000474 bitcoins	\$77,171	Stoney Creek Roasters

Note: As of Wednesday afternoon Sources: CoinDesk (Bitcoin exchange rate and market cap); Cryptsy (other coin exchange rates); coinmarketcap.com (other coin market capitalizations) The Wall Street Journal

Regulation of Bitcoin

While a few nations like Russia, Taiwan, Iceland has outlawed Bitcoin, others are unlikely to follow suit. Because Bitcoin does not involve traditional financial actors, and both issuers and software/hardware owners are non-financial private companies, traditional financial regulation is not applicable. US Treasury added other value that substitutes for currency to its definition of Money services businesses in July 2011. The 2013 G7's guidance defines "exchangers buying or selling digital currency for cash and warns "internet-based services that allow third party funding from anonymous sources may face an increased risk of ML/TF crimes.



Rise and Fall of Bitcoin

Increasing media attention helps drive the value of bitcoins to a peak of \$32 in June 2011 then goes into freefall, declining to \$2 in October 2011.

Formation of Bitcoin Foundation, a trade group focused on developing bitcoin standards, provide more stability and its value gradually rises more than \$13 by end of 2012.

The island nation of Cyprus plunging into crisis prompts some analysts to suggest residents might consider transferring their wealth into bitcoins. The value of a bitcoin soars to \$90 by March 2013.

A unit of Baidu Inc, the Chinese version of Google search giant, begins accepting Bitcoin for some Cybersecurity services on October 2013. After that Bitcoin soars to \$1,200 in 2013.



CONCLUSION

The online payment system viewed by many insiders as having the best chance of supplanting bitcoin, however, is not even on the list: Not just of a new currency, but also of a novel method to send money around the world has proved elusive for virtual currencies: involvement from more mainstream players in the financial system. The rapidly growing industry of alternative currencies owes a lot of credit to bitcoin's surprising success. Thus, bitcoin may not succeed, but open the door to new currency system.