

BITCOIN



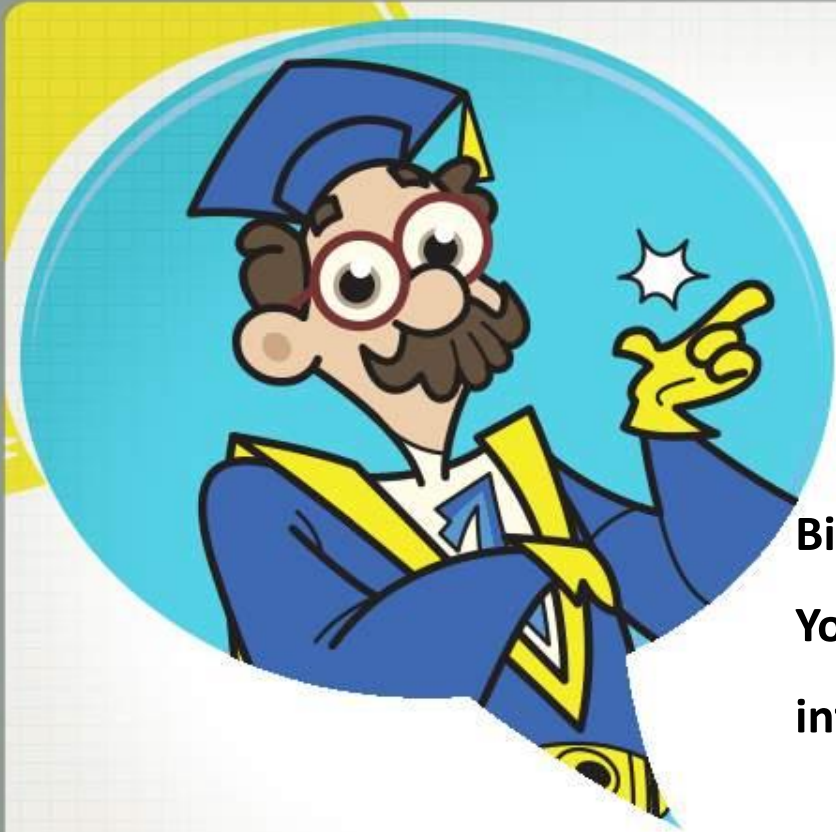
vEcoSys

BITCOIN

Bitcoin is the latest rage in the online world. It has been around since 2009 but all of a sudden it has become the new buzzword.



WHAT ARE BITCOINS?



Bitcoin is a form of **virtual currency**.

You can think of it as 'cash' for the internet.

Bitcoin (capital B) refers to the entire system whereas **b**itcoins (b in lowercase) refers to the currency itself.



WHAT ARE BITCOINS?

Bitcoins can be stored electronically on computers and mobile phones across the internet. It is also a means to circulate, share and transact, just like PayPal or VISA.

Like Bitcoin, similar examples of virtual currencies are *peercoin*, *litecoin*, *anoncoin* and *ripple*.

Bitcoin has been a subject of scrutiny due to its association with the Silk Road - an illegal online black market that used bitcoins to obtain illegal items easily and anonymously.



HOW ARE BITCOINS PRICED?

Pure **demand** and **supply** for bitcoins is what determines its price. Since there is no centralized authority that sets relative value, they keep fluctuating in value relative to other currencies.



HOW ARE BITCOINS PRICED?

Just as the Indian rupee fluctuates against the US dollar, bitcoins too exhibit price volatility.

In the absence of any governing body, the onus is on the seller to give a fair price to the buyer based on the rates traded elsewhere.

Within five years of coming into existence, bitcoin has become the world's most expensive currency.



HOW DOES ONE OBTAIN BITCOINS?

The most common methods to obtain bitcoins are

1. Sell goods and accept bitcoins as payment.
2. Buy or sell bitcoins through Bitcoin exchanges available online.
3. Buy and sell bitcoins for traditional currencies (with a legal tender status) like rupees, dollars etc.

One can get started by obtaining a '**Bitcoin wallet**'- an App that stores bitcoins needs to be installed on the phone or computer.



WHAT ARE THE ADVANTAGES OF BITCOIN?

1. **Allows sending and receiving any amount of bitcoins instantly anywhere in the world at any time.**
2. **Bitcoin payments are currently processed with either no fees or extremely small fees as compared to PayPal or credit cards.**
3. **Bitcoin transactions are secure, irreversible and do not contain customers' sensitive or personal information. Bitcoin uses cryptography, a kind of a secret code to secure the transaction.**
4. **It is possible to know the amount of money supply in the bitcoin system. Thus making it quite transparent and predictable.**



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**Here is an example of a typical
Bitcoin transaction.**



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- **Santa owns an online jewellery store that accepts bitcoins as payment.**
- **Banta wants to buy a diamond ring worth Rs. 90,000. Let's assume the rate for 1 bitcoins to be Rs. 45,000.**
- **Santa has priced the ring at 2 bitcoins on his website.**



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- Banta creates a new Bitcoin address through his wallet. He can see Santa's public Bitcoin key on Santa's website.
- Banta then instructs his Bitcoin wallet to transfer 2 bitcoins to the Santa's address. This is the transaction message.
- Banta's bitcoin wallet will electronically "sign" the transaction request with the private key of the address from where he is transferring his bitcoins.



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- Every user has a unique public and private key. While Banta's public key is available to anyone for signature verification, his private key is only known to him. Without the private key, he can't spend his bitcoins. This is critical as it allows Bitcoin to be a secure payment system.
- Banta's transaction is broadcast to the Bitcoin network and is verified in few minutes. The 2 bitcoins are successfully transferred from Banta's address to the Santa's address.



Note: Bitcoins are extremely volatile and risky instruments. The legal status and tax implications of trading in bitcoins is currently unclear. The RBI advised caution on bitcoins and urged the general public to refrain from buying it.

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Hope you have understood the
concept of Bitcoin.



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