

# THE INFLUENCE OF BITCOIN ECOSYSTEM ON DIGITAL ECONOMY

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*Abstract:-Bitcoin is a digital currency, a decentralized anonymous part, not supported by the government or organizations and not provided by gold or other raw materials. To maintain integrity, you need a daughter and encrypted network. Proponents say Bitcoin has many features that can make it the ideal currency for consumers and retailers in today's digital economy*

**Keywords:** - cryptocurrencies, fiat currencies, gold, bitcoin (BTC), blockchain, digitaleconomy..

## INTRODUCTION

Bitcoin is a digital, decentralized, partially anonymous currency, not supported by any government or legal entity and not provided with gold or other goods. It relies on a peer-to-peer network and cryptography to maintain its integrity. The proponents claim that Bitcoin has many properties that could make it an ideal currency for consumers and merchants in a modern digital economy.

Digital currencies operate in a quasi-legal field in most countries, but this may be national law, tax evasion, illegal financing, money laundering, illegal trafficking and the threat of child pornography. This feature should be considered as one of the safest risks to the functionality of the Bitcoin ecosystem.

Thus, Bitcoin is similar to dozens of other digital currencies because it is a viable digital medium for end users and can be replaced by other digital and anonymous assets. Money is money that is not endowed with gold and other precious metals, and their nominal value is determined and guaranteed by the state, regardless of the material costs associated with production. Usually cannot be replaced with gold or silver. But Bitcoin has some key features. The ecosystem does not have a central place to issue new currencies or mislead the owners (for example, if you promise to keep some, keep some reserves). This is a decree, not a commodity currency. This is difficult to establish because there is no central governing body. The miner identification algorithm was successful. This provides potential general anonymity for electronic transactions.

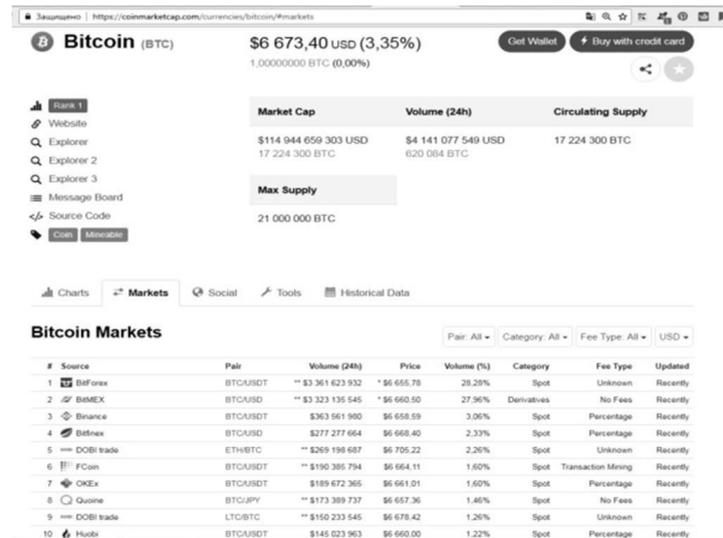


FIG 1. List of crypto currency exchanges from the top 10 in terms of bitcoin trading (SOURCE: <https://coinmarketcap.com>)

Currently, Bitcoin and Altcoin can become major players in the market of micropayments, virtual trading systems and computer games around the world. They may also include organizations, opposition governments, and more. Treasurer without the risk of withdrawing funds or sanctions from financial participants.

Bitcoin and Altcoin believe that they can succeed regardless of the need for a product and the lack of direct support from government agencies. But potential consumers and investors should be aware of all the risks associated with the use of young finance, such as information technology and blockchain.

Let's take a closer look at Bitcoin's competitive advantage over two classes of products: one that offers e-commerce and the other that announces gold. Since consumers are not interested in the anonymity offered by Bitcoin and prefer prices to compare goods and services, is it unlikely that Bitcoin and alternative digital currencies can hardly compete significantly with electronic payment systems in the traditional e-commerce market? In the currencies they use most

often, they are more protected from fraud, which currently does not have digital currencies such as bitcoins.

However, Bitcoin is very competitive in the micropayment market and in the virtual global market, where consumers are less worried about prices in foreign currencies. Bitcoin may appeal to those who prefer monetary currencies. Its value does not depend on the voluntary actions of the central bank, but on the availability of virtual, but limited resources. Such investors are called "gold beetles".

It is known that the growth of the Internet is causing demand for electronic payment systems. PayPal and similar systems allow consumers to process their online orders with credit cards or bank transfers. However, Bitcoin does not look competitive in the traditional e-commerce market because most consumers are not worried about anonymity or decentralization. They do not want to buy real products at bitcoin prices, not dollars or other common currencies. Bitcoin has no built-in anti-fraud protection, and PayPal has invested millions of dollars in anti-fraud protection. However, bitcoins and other digital currencies have the advantage of low transaction costs. But even if the percentage of credit card users on the Internet continues to decline, there is no reason to believe that leaders of electronic payment systems such as PayPal will not reduce transaction costs, even if Bitcoin is under pressure.

One type of e-commerce is offered through micropayments, called micropayments, for example, when paying for digital goods. Since the cost of transactions through a payment processing system available on the Internet is sometimes three times the amount of the payment itself, that is, because the payment is converted, for example, from 10 hryvnias to 40 hryvnias, it's not practical Bitcoin can compete in this area due to low transaction costs.

In addition to traditional e-commerce and micropayments, "virtual games" are often sold as buying or selling digital weapons, such as strategy games. Alternative e-money has not yet reached a leading role in the traditional world of e-commerce, but it is growing rapidly. Online games based on electronic currency have significant revenue among publishers. On the other hand, creating and maintaining safe and fake virtual game currencies requires significant investment in technical and legal expertise, as well as time. These gaming challenges are also associated with the central control of the game owner. Because Bitcoin can solve or fix some of these problems, Bitcoin can become the real standard for certain currencies and virtual games.

Some business people and investors are attracted to cryptocurrencies because of their political beliefs and personal investment ratings. They believe that central banking institutions, such as the Federal Reserve, which

have the right to print more money, do not believe in government-supported currencies because they damage the economy and contribute to inflation.

Therefore, these people prefer to keep their assets and exchange them for the currency (usually gold) that the product offers. In the West they are called "golden beetles"

By analyzing this trend compared to open bitcoin. In the past, many currencies were originally valuable (gold or silver coins). To facilitate the transportation of large coins, some governments, banks or private companies have prepared banknotes that can be purchased for a certain amount of gold or other items. In other cases, some governments introduced accounts that were not supported by the product. This currency is valuable because it defines government support as legitimate. Of course, these governments can sometimes print more currencies and increase supply in terms of demand, lowering the value of the currency and, consequently, contributing to commodity prices, that is, inflation. As mentioned above, cryptocurrency has been introduced in large numbers by several private technology companies over the past decade, some have advanced the electronic transactions described above, and others have been introduced to meet the needs of "unreliable" investors.

Bitcoin's economic capitalization reached \$ 110 billion (as of August 2018), and in December 2017 almost tripled to almost \$ 333 billion. (Figure 2), the question remains. Of course, this tablet is symbolic, but all the money is symbolic. There are many ways to measure your Bitcoin market capitalization. In particular, since blockchain is the main technology of banks and enterprises, this audit can be significantly expanded to include all ecosystems associated with the ecosystem.

Gold has been used for millennia, measured by its actual weight, and its value is well known. Like other currencies, bitcoin is a form of abstract money and can only be measured in units. Keep in mind that this can be an asset or a Fiat benchmark for a sustainable value. Despite the active development of bitcoin prices in 2017, there are several levels of price volatility that are very volatile. The size and depth of foreign cryptocurrency markets are hidden behind the gold market of \$ 7 trillion, but the latter is 22 times higher.

As a result, Bitcoin is still a small part of the global financial system, its reach is open and its price is very low. This is mainly because we do not take into account the unrest caused by the growth of speculative prices at the end of 2017. Unlike conventional currencies, each new form of money has an evolutionary level. Bitcoin is not easy to print,

with digital control and an algorithmic method, but creating a coin requires a lot of effort and energy, which mimics many of the major flaws. The special energy to maintain the value of gold and its insufficient value allows us to determine it and maintain purchasing power for a very long time in the history of money.

In the past, the money format has changed many times, especially with the ups and downs of the national currency. Cryptocurrency and Bitcoin itself have the same properties of gold, but retain the value that dominated gold compared to the currencies of the past. Like gold, BTC is a global currency that can be generalized in the future due to its digital nature. Even large world currencies, such as USD, GBP or EUR, cannot satisfy this requirement.



FIG 2. Capitalization of bitcoin as of September 2017 – August 2018 (SOURCE: <https://coinmarketcap.com>)

Bitcoin has become the center of innovative radical concepts, large investors, the attention of the “good” or “bad” media, as it finally exceeds the price of gold on several world cryptocurrency exchanges for the first time in 2017. But there are other important situations and serious obstacles to comparing bitcoins and gold.

Volatility due to the lack of pre-regulation and certification and the price of bitcoins.

Gold and silver can be measured in ounces, grams and kilograms. The Fiat currency or other abstract products or funds, including Bitcoin, cannot be measured in this way. Resumes can only be measured in units. Thus, gold and silver are the only forms of money that are traded in huge quantities. However, paper currencies cannot be measured in other currencies. Bitcoin was included in the same category since the US dollar was removed from gold, at least in 1971.

Gold is easy to track because it has a global tracking system. This helps reduce investment costs due to very complex fakes, theft or delivery errors. Unfortunately, this does not apply to bitcoins. In fact, the second largest “crash” in the bitcoin

market occurred because hackers stole millions of dollars in software bugs on MT.GOX, one of the largest cryptocurrency exchanges in 2014.



FIG 3. Price fluctuation of bitcoin in the period 2013-2018 (SOURCE: <https://ru.tradingview.com>)

In addition, Bitcoin cannot follow Bitcoin because it was originally designed to avoid government agents. As mentioned above, even if you refuse to pay taxes or are trying to finance some non-financial activity, this bitcoin is well suited. If the world government finally decides to regulate the cryptocurrency, it should be remembered that this could be a serious limitation for bitcoins.

There is no doubt that gold is rare, but bitcoin is less common on the path to the digital economy. There are many more questions that have not yet been answered, but their deficiency is built into the digital algorithm. Gold is the main commodity traded in the past, but Bitcoin is an extension of digital gold because it can only be produced thanks to blockchain technology, especially in very limited quantities.

Bitcoin Core software no longer pulls this limit, which affects price increases. This is important to understand because supply is limited and prices rise when demand is high. This is the basic principle of economics. On the other hand, gold prices fluctuate in supply and demand cycles, and high demand for gold forces mining companies to find new sources of gold. In addition, when gold is expensive, people all over the world make gold jewelry and coins. Many of these things have been combined to make pure physical gold.

Gold has a stable global exchange network, and cryptocurrency is still in its infancy and is in an unstable transition process. Bitcoin is in an unstable situation when the cryptocurrency market was overheated, when the cryptocurrency market overheated in 2018 and at the beginning of 2018, when prices fell sharply due to the situation on the

MT.GOX exchange in 2014. The incident caused a lot of negative reviews about bitcoins in the media, but also increased public awareness. When an event of this size occurs, it is a big difference, for example, from investment products traded on this exchange. Gold, on the other hand, also has a history of ups and downs, but much more in the long run. Gold may change in price, but everything is in order with the exchange.

The global network of gold exchanges is historically transparent due to clear and stable price signals. Bitcoin, on the other hand, is less transparent due to the foundations of modernity, decentralization, non-regulation, and digital technology. As already mentioned, in fact, there are serious cryptocurrencies that are different. But with the growing digitalization of the global economy, new opportunities open up when new global organizations and investors seek new solutions.

There is no doubt that gold, as the main trading unit, has a solid foundation, but Bitcoin offers new opportunities for the digital economy, although some of them are speculative financial assets.

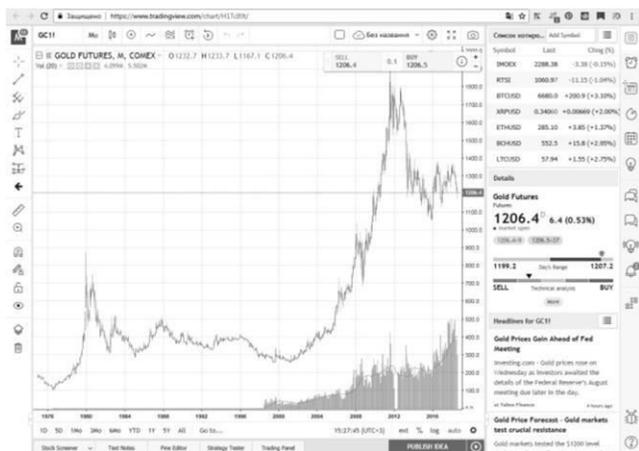


Fig. 4. Fluctuations in prices of futures for gold in the period 1976-2018. (SOURCE: <https://ru.tradingview.com>)

The most attractive investment in classic raw gold is that there will always be an industry, even a large one, in terms of basic needs and historical values in areas such as jewelry and art. In other words, gold is the main asset. Price cannot fall below a certain level. Otherwise, it affects the basic needs of mankind.

This should be compared with the fact that gold can be used in the fragile era of the economy, and this is also important, since in the past it was considered a traditional way of saving value. I can't talk about bitcoins, they are "imaginary", digital, and not for industrial use. It is simply an algorithm based on digital sign codes. It exists only on the Internet in the form of repositories of code and information on hard drives and servers. Therefore, it is important to consider various aspects of the existence of the Bitcoin ecosystem. Gold is universal because it has universal values around the world. People all over the world want gold. But this does not apply to

cryptocurrency. Some investors and traders are interested in this. This is important when analyzing key aspects of how bitcoin works and how gold works.

The comparison between bitcoins and gold seems wrong, but in the end the first is symbolic, and the second is officially recognized as a social value. Gold is a natural metal. Gold has historical reserves and is recognized worldwide. Given the evolution of mankind and changes in history as a whole, it makes sense to think about the development of money and financial value. The recent interest and huge price increases in the bitcoin market demonstrate the evolutionary aspects of monetary ideas. An analysis of these two aspects is more than justified and important for understanding social and financial investments and the new trading paradigm. In other cases, investors may fear or, conversely, want to invest in bitcoins. As in any other currency, there are ups and downs. By the way, according to the diagrams shown in Figures 3 and 4, certain correlations between gold and bitcoin prices are not payable during the period 2014-2018. In order to properly know the ecosystem, it is important to fully accept the nuances of this work and the many laws of Bitcoin functioning. Bitcoin is a currency based on the development of algorithmic technologies and, of course, many important innovative functions, but there are still many questions and caveats regarding this financial product and risk. All traders and investors should be careful when analyzing bitcoins as investments and gold.

There is no doubt that gold is still the only major commodity option in the world. In addition, gold is a commodity and financial asset that has been used in various societies and civilizations as a way to maintain value, taking into account the growth and fall of value over millennia. That's why gold is a classic investment and easier to convert to money, but Bitcoin is the new digital paradigm of the future, and it's interesting.

## CONCLUSION

In last few years in many countries the largescale Bitcoin-ecosystem and economy has developed with tens of millions of Bitcoins which daily change owners in electronic transactions. These funds still have a small amount relative to the rest of world's trading assets and economy. Today, while the digital currencies work in the semi-legal field in most countries, they may be a danger to national securities laws, be an instrument for tax evasion, illegal banking, money laundering, illicit drug trafficking, etc. This ability should be considered as one of the most unsafe risks of the functioning for Bitcoin ecosystem.

But this is just the beginning of transformations for globalized system, since both society, economy and finance will become fully digital.

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