

# CHAPTER TWELVE

## *Cryptocurrencies*

---

Cryptocurrency

Blockchain

Is cryptocurrency money?

Cryptocurrency in the future

Cryptocurrency

Blockchain

Is cryptocurrency  
money?

Cryptocurrency in  
the future

# Cryptocurrency

## **Cryptocurrency**

A form of digital asset which is based on a network that is distributed across a large number of computers and is secured by cryptography.

Cryptocurrency is issued or mined by players all over the world who compete to find a very complex solution to a computer generated mathematical problem.

The first computer to solve the problem is designated as the computer to open the next block in the blockchain – it is awarded a predetermined amount of digital currency.

Cryptocurrency

Blockchain

Is cryptocurrency  
money?

Cryptocurrency in  
the future

# Blockchain

## Blockchain

A system in which a record of transactions made in cryptocurrency are maintained across computers which are linked to each other in a peer-to-peer network.

Digital resources are traded through blockchain.

Acts as a permanent ledger that records all digital currency transactions.

Cryptocurrency

Blockchain

Is cryptocurrency  
money?

Cryptocurrency in  
the future

## Is cryptocurrency money?

Cryptocurrency may sometimes function as money but there are inherent limitations.

Cryptocurrencies are a form of asset - prices appear to exhibit bubble-like tendencies.

Cryptocurrency is currently only accepted as payment by some companies, meaning it does not fulfill money's requirement to act as a medium of exchange.

The value of cryptocurrency highly fluctuates daily.

Cryptocurrency

Blockchain

Is cryptocurrency  
money?

Cryptocurrency in  
the Future

# Cryptocurrency in the Future

The growth of cryptocurrency is obstacle-driven.

Adding a new digital element to the currency circulating throughout the economy enhances the existing network that is currently in place.

A new digital currency would:

- improve transaction speed
- Improve efficiency throughout global banking systems
- replace much of the physical cash used today

Currently available cryptocurrencies are assets, purchased by exchanging other assets, not issued by a sovereign body. They do not increase the money supply.

A government issued cryptocurrency:

- Could increase the money supply, subject to monetary policy and the Fed funds rate
- Would expand the functionality of digital currency in the economy