

Free cash for Iceland, but it pays to keep cool about Auroracoin

February 12 2014, by Olafur Margeirsson



Its about to rain pennies from heaven in Iceland. Credit: Jokull Masson

The Bitcoin craze has hit Iceland, where an entrepreneur has set up his own cryptocurrency and announced plans to give every citizen a handful for free.

Baldur Odinson says he is setting up a new cryptocurrency called [Auroracoin](#) and that on 25 March each of Iceland's 320,000 citizens will have the chance to get their hands on around 31.8 coins each. Based on the handful of trades that have already been carried out with the new cryptocurrency, 31.8 Auroracoin is worth roughly 31,800 Icelandic

Krona, or 200 Euros.

Auroracoin is the newest cryptocurrency going around, but the most famous of them all is Bitcoin. Others such as [Litecoin](#) and [Dogecoin](#) began to spring up as soon as Bitcoin began to gain [traction](#).

Iceland, one of the smallest economies in the world, has become something of a poster child for the [economic crisis](#), and is striking out with something different. What sets Auroracoin apart from other cryptocurrencies is that it will, at least in the very beginning, be given to a whole nation for free.

Pennies from heaven

AUR, as the Auroracoin is to be abbreviated, will be 50% "pre-mined" so half of its total supply will already exist on the formal launch date. This stock will be shared out among the Icelandic population, making use of the publicly available national identity numbers that are assigned to each citizen. They'll then be free to spend their Auroracoin however they like.

By doing this, the makers of Auroracoin ensure there will be a stock ready for when formal use of the currency is to commence. The rest will be [mined like other cryptocurrencies](#).

This all sounds like a splendid idea. Who wouldn't want 200 Euros for free? But there are still a lot of questions left unanswered about Auroracoin.

For a start, nobody knows much about who is organising the whole show. Odinson has set up a website with a countdown to launch and a lengthy briefing on the economic mistakes made by the Icelandic government, but information about him and his background is thin on the ground.

That might not be a problem for cryptocurrency enthusiasts but the everyday Icelander might be more suspicious of taking virtual handouts from a stranger. It is also not yet entirely clear how the AUR will be handed over to the public. And even if that runs smoothly, things could get even more complicated after launch.

Given the circumstances, the Auroracoin bonanza comes with a high risk of speculation. People may start bidding up the worth of the currency in hope of being able to sell it at a higher price to "the greater fool". Bitcoin has its share of this particular problem, which causes its value to fluctuate, sometimes violently.

But the biggest concern ahead of the Auroracoin launch should be reciprocity. Cryptocurrencies need to be generally accepted to survive. It is not enough to blindly agree to being paid in Bitcoin or Dogecoin or Auroracoin. You have to be certain that you will be able to get rid of your coins too. The currency has to reciprocate, otherwise the number of people or organisations who will deal in it will get smaller and the value will fall. The fluctuation in the value of Bitcoin, as news has surfaced about governments banning or restricting its use, is a case in point about the importance of reciprocity if a currency is to be a viable medium of exchange.

This kind of risk doesn't affect standard currencies such as the Icelandic krona. Anyone can use Iceland's national currency and citizens need krona in order to pay their taxes to the Icelandic government. This creates demand for it amongst the Icelandic public, practically creating the reason for its very being. There will be no such tax-created demand for Auroracoin. This might severely limit the number of people that are willing to accept it as a means of payment.

Crazy, but it might just work

Despite these potential problems, Icelanders are normally quite open minded when it comes to new technology so it's a good place to start a cryptoeconomy.

The use of Bitcoin is, per capita, quite high in Iceland compared with other countries. The concept of Auroracoin is therefore not completely alien to some of us. Many Icelanders would also like to adopt another currency, as inflation of the Icelandic krona has always been a problem. Here is most definitely their chance.

If Auroracoin becomes generally accepted in Iceland, its introduction would be a most welcome addition for the economy.

It would, at least temporarily, boost aggregate demand because individual Icelanders will suddenly have money in their virtual pocket. The fact that it will be equally distributed to everybody also helps the poor relatively more than the rich, almost adding a sense of social justice to its introduction.

Like other cryptocurrencies, Auroracoin could have an impact, in the long run, on the development of banking and financial systems, in particular payment systems and credit intermediation. If all goes extremely well and speculation is kept to a minimum, we can even dare to hope that the new Auroroacoin will be stable enough for it to be a realistic store of savings for the average Icelander.

All in all, it should be safe to encourage Icelanders to accept Auroracoin into their lives. Its success in fact hinges on its ability to become a household meme. But for the love of Odin, Frigg, Thor and Loki, don't turn this into a speculation frenzy. Nobody will profit from that except he who finds the greatest fool. And that fool might be you.

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