

# What is bitcoin? A look at the digital currency

November 29 2017, by The Associated Press

---



In this Monday, April 7, 2014 file photo, Bitcoin logos are displayed at the Inside Bitcoins conference and trade show, in New York. The price of bitcoin, the most widely used virtual currency, rose above \$10,000 on Wednesday, Nov. 29, 2017 for the first time, breaking a symbolic threshold in what has been a vertiginous ascent this year. (AP Photo/Mark Lennihan, File)

The price of a single bitcoin has pierced the \$10,000 level and some experts say it could rise further. The world's most popular virtual currency allows people to buy goods and services and exchange money

without involving banks, credit card issuers or other third parties.

It has a fuzzy history, having been used by hackers to demand ransom and for the purchase of illegal drugs online. But recently it's become more popular with a different crowd: speculative investors.

As its price keeps rising, here's a brief look at bitcoin.

---

## HOW BITCOINS WORK

Bitcoin is a digital currency that is not tied to a bank or government and allows users to spend money anonymously. The coins are created by users who "mine" them by lending computing power to verify other users' transactions. They receive bitcoins in exchange. The coins also can be bought and sold on exchanges with U.S. dollars and other currencies.

---

## HOW MUCH IS IT WORTH?

Bitcoin was trading over \$11,000 Wednesday before dipping to around \$9,800 later in the day, according to coindesk, a website that monitors the price. That's about a tenfold increase from the start of the year, when it was worth under \$1,000.

The value of bitcoins can swing sharply, though. A bitcoin's value plunged by 22 percent against the dollar in just three days earlier this month.

---

## WHY BITCOINS ARE POPULAR

Bitcoins are basically lines of computer code that are digitally signed each time they travel from one owner to the next. Transactions can be made anonymously, making the currency popular with libertarians as well as tech enthusiasts, speculators—and criminals.

---

## IS IT REALLY ANONYMOUS?

Yes, to a point. Transactions and accounts can be traced, but the account owners aren't necessarily known. However, investigators might be able to track down the owners when bitcoins are converted to regular currency.

---

## WHO'S USING BITCOIN?

Some businesses have jumped on the bitcoin bandwagon amid a flurry of media coverage. Overstock.com accepts payments in bitcoin, for example. The U.S. exchange operator CME Group said in October that it plans to open a futures market for the currency before the end of the year, if it can get approval from regulators. Still, its popularity is low compared with cash and cards, and many individuals and businesses won't accept bitcoins for payments.

Some high-profile banking executives have spoken against bitcoin, with JPMorgan Chase CEO Jamie Dimon calling it a "fraud."

That said, JPMorgan is starting to use the underlying technology behind bitcoin, known as blockchain, as a potential way for banks to more accurately track trading and assets.

---

## SHOULD I OWN BITCOIN?

There are basically two reasons why an individual would want to buy bitcoin: to use it as a form of payment, or as an investment to store value.

Bitcoin's usage among mainstream merchants is limited. Microsoft accepts it as a form of payment on its Xbox and Windows Store platforms. Overstock.com accepts it. But don't expect to spend it at Wal-Mart or Amazon.

The virtual currency is a matter of debate among investors. Some, like Dimon and billionaire Mark Cuban, are strongly against it while others are enthusiastic about it. Wall Street is starting to build products around it. The more grounded investors see bitcoin as a highly speculative, highly risky investment that a person should not put all their money into, not unlike gold, commodities or traditional currencies.

---

## HOW BITCOINS ARE KEPT SECURE

The bitcoin network works by harnessing individuals' greed for the collective good. A network of tech-savvy users called miners keep the system honest by pouring their computing power into a blockchain, a global running tally of every bitcoin transaction. The blockchain prevents rogues from spending the same bitcoin twice, and the miners are rewarded for their efforts by being gifted with the occasional bitcoin. As long as miners keep the blockchain secure, counterfeiting shouldn't be an issue.

---

## HOW BITCOIN CAME TO BE

It's a mystery. Bitcoin was launched in 2009 by a person or group of people operating under the name Satoshi Nakamoto. Bitcoin was then adopted by a small clutch of enthusiasts. Nakamoto dropped off the map as bitcoin began to attract widespread attention. But proponents say that doesn't matter: The currency obeys its own internal logic.

An Australian entrepreneur last year stepped forward and claimed to be the founder of bitcoin, only to say days later that he did not "have the courage" to publish proof that he is.

© 2017 The Associated Press. All rights reserved.

Citation: What is bitcoin? A look at the digital currency (2017, November 29) retrieved 2 May 2024 from <https://phys.org/news/2017-11-bitcoin-digital-currency.html>

|  |
|--|
| <p>This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.</p> |
|--|