

What is bitcoin? A look at the digital currency

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In this April 3, 2013 photo, Mike Caldwell, a 35-year-old software engineer, holds a 25 Bitcoin token at his shop in Sandy, Utah. Bitcoin is an online currency that allows people to make one-to-one transactions, buy goods and services and exchange money across borders without involving banks, credit card issuers or other third parties.(AP Photo/Rick Bowmer)

Australian police raided a home and office Wednesday that, according to technology websites, belongs to the founder of the virtual currency,

bitcoin. However, the origin of the currency remains murky, as is the identity of the founder. Here's a brief explanation of what bitcoins are, how exchanging the digital money works and why it's popular among some denizens of the web.

BITCOINS ARE VIRTUAL MONEY

Bitcoin is an online currency that allows people to make one-to-one transactions, buy goods and services and exchange money across borders without involving banks, credit card issuers or other third parties.

Transactions can be made anonymously, making the currency popular among people who want to conceal their financial activity. As a result, this exotic form of money has become popular with libertarians as well as tech enthusiasts, speculators—and criminals. Bitcoins are basically lines of computer code that are digitally signed each time they travel from one owner to the next.

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 and 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.

ALL I REALLY WANT IS A PACK OF GUM. WILL THIS BITCOIN COVER THAT?

Like any other currency, bitcoins are only worth as much as you and your counterpart want them to be. In its early days, boosters swapped bitcoins back and forth for minor favors or just as a game. One website even gave them away for free. As the market matured, the value of each bitcoin grew. At its height in late 2013, a single bitcoin was valued above

\$1,100. On Wednesday, it was worth about \$415.

I'VE ALWAYS HATED PENNIES AND I CAN THINK OF NOTHING BETTER THAN TO TRADE IN ALL MY CASH FOR BITCOINS RIGHT NOW

That would be a questionable decision. Businesses ranging from blogging platform Wordpress to retailer Overstock have jumped on the bitcoin bandwagon amid a flurry of media coverage, but it's still not as prevalent as cash. On the one hand, leading bitcoin payment processor BitPay works with more than 60,000 businesses and organizations—roughly three times more than it did last year. The total number of bitcoin transactions has climbed to over 200,000 per day, more than double the number at the start of this year, according to bitcoin wallet site blockchain.info.

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 IS VULNERABLE

Much of the mischief surrounding bitcoin occurs at the places where people store their digital cash or exchange it for traditional currencies, like dollars or euros. If an exchange has sloppy security, or if a person's electronic wallet is compromised, then the money can easily be stolen.

The biggest scandal involved Japan-based bitcoin exchange Mt. Gox, which went offline in February 2014. Its CEO, Mark Karpeles, said tens of thousands of [bitcoins](#) worth several hundred million dollars were unaccounted for. He was arrested on suspicion of inflating his cash account in August.

A RAID DOWN UNDER

Technology publications Wired and Gizmodo published reports this week claiming an Australian businessman is bitcoin's likely inventor. The Australian Federal Police said a search of the man's home and office Wednesday was related to a tax investigation and not recent media reports on bitcoin.

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