

## **Bitcoin A Careful Design of Bubble or Legit Currency: Analysis Based on Indian Economy**

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**Abstract:-***This paper sets out a brief discussion about the bitcoin being a bubble or legit currency on Indian economy. The study was mainly focused on the impact of bitcoin and legit currency in the Indian economy and also the major factors that leads the currency to the growth of the economy The Indian merchant's uses bitcoin transaction for the purchases and sale of goods and services. Few people states that bitcoin is not bubble but a corruption of real currencies. The sudden rise of bitcoin, and the bitcoin market, has examined the currency as a furor, a bubble, or a scam. Critics also states that there is an absence of central bank advocacy that's makes bitcoin a pointless, that shows an absence of considerate about how currency work in the bitcoin market. The study is mainly focused on Indian economy as whole.***Keyword:** - Bitcoin, bubble, legit currency, blockchain, cryptocurrency.

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### **I. Introduction**

Bitcoin is a decentralized virtual cryptocurrency, launched in 2009 by an unidentified person known as Satoshi Nakamoto. It does not rely on any central services for managing the creation or flow of money. It relies on cryptographic algorithms in order to prevent abuse of the system. It is abbreviated as BTC and is powered by a peer-to-peer network in the public domain both in terms of issuing and valuation. In last several years we have witnessed the Introduction of crypto currencies the digital currencies that rely on cryptography to ensure the security which can't not be accurately defined as either commodity or fiat money. Crypto currency is the only currency in the world which is being decentralized and has its share of problem in the industry. Crypto currency with increased consciousness is known as one of the most easy, comfortable and reliable way of making transactions. The currency faces number of problems even though the world is developed. One of the most widely used crypto currency is a bitcoin, the virtual currency has gained lot of popularity and a lot of people have invested in it considering its increasing value, just like other crypto currencies even bitcoin has its own share of flaws and uses. The blockchain uses economic incentives to drive members of the network to certify every transaction which differentiates ccs from the digital version of fiat currencies. Currently, the crypto-currency is neither illegal nor legal in India. The government is considering the introduction of a regulatory regime for virtual or crypto-currencies, such as Bitcoin, that would enable the levy of the Goods and Services Tax on their sale. The new regime may possibly bring their trading under the oversight of the stock market regulator, Securities and Exchange Board of India (SEBI). The idea is to treat such currency in a manner similar to gold sold digitally, so that it can be traded on registered exchanges in a bid to "promote" a formal tax base, while keeping a tab on their use for illegal activities such as money laundering, terror funding and drug trafficking. Crypto-currency is a digital currency that allows transacting parties to remain anonymous while confirming the transaction is valid. It is not owned or controlled by any institution – governments or private. There are multiple such currencies — Bitcoin, Ethereum and Ripple are some of the popular ones. Currently, they are neither illegal nor legal in India. "One bitcoin today is worth as much as 60 grams of gold. The market cap for all crypto-currencies has just crossed \$100 billion, with most of the increase coming in the past few months. On April 1, 2017, the total market cap was just over \$25 billion, representing a 300% rise in just over 60 days," said a senior government official.

"The discussion on whether crypto-currencies should be banned or regulated has been on for some time. The pros and cons for both aspects were put forth in the meeting chaired by Finance Minister Arun Jaitley last month," the official told The Hindu. A proposal to ban such currency altogether was also considered at the meeting, but found few takers among top officials from the Ministries of Finance, Home Affairs and IT as well as SEBI, the Reserve Bank of India, the State Bank of India and NITI Aayog. Bitcoins were in the news recently when during the two global cyber ransom ware attacks Wanna Cry and Petya attackers sought about \$300 in bitcoin as ransom. Crypto-currency can also be used for a lot of legal activities depending of which retailers accept such currency. Even as economies like Japan and Russia move to legalize the use of Bitcoins, India, despite being at the cusp of a digital revolution is yet to officially recognize the cryptocurrency. India's central

bank, the Reserve bank of India or the RBI, which regulates Indian rupee, had earlier cautioned users, holders and traders of Virtual currencies (VCs), including Bitcoins. "The creation, trading or usage of VCs including Bitcoins, as a medium for payment are not authorised by any central bank or monetary authority. No regulatory approvals, registration or authorisation is stated to have been obtained by the entities concerned for carrying on such activities," the central bank had said. In March, RBI Deputy Governor R Gandhi warned against cryptocurrencies such as Bitcoin. "They pose potential financial, legal, customer protection and security-related risks," Gandhi said. "Payments by such currencies are on a peer-to-peer basis and there is no established framework for recourse to customer problems, disputes, etc. Legal status is definitely not there," he added.

## **II. Background**

Launched in 2009 by a person or group known as Satoshi Nakamoto, bitcoins are encipher sets of digital data produce past transaction. Supply of bitcoin is through internet which raises at percentage known to all people in advance and cannot exceed the specified limit. These bitcoin can't be changed by the government, political bodies and it can't be inflated or deflated. In India there is no central authority that issues bitcoin each and every transaction are in a straight line between the two parties who are involved, there is no financial mediator so that the transaction cost is very less. The reason why bitcoin is popular in India is because the expenses are irrevocable; of those made by predictable methods of debit or credit cards. In April 2012 there was almost 11 million bitcoins in subsistence and in every 8 minutes bitcoins were added as on 11 April 2012. In the present reports 2140 there will be around 21 million bitcoins. The currency has seen a large interest from March 2012, the worth of the bitcoin was around \$100 as on 1 April 2013 up from \$13 at the beginning of the year. When the demand increased and the supply got limited the digital currency increased sharply before it had to be crashed.

## **III. Bitcoins**

India being a technology advanced country the use of smart phones and internet availability which allows flowing the information at a much faster rate. The technology start-ups are mainly interested in Bitcoin because it can be integrated into almost any software and can be monetized. In India there are about 2000 active bitcoin users. Most of the users are individuals who want to scrutinize the possibility of an investment opportunity. Bitcoins in India are not accepted by the ecommerce websites many Indian admirers use these payments system for the trade of goods and services from other online websites. The demand for bitcoins is mainly from venture expecting to gain from the growing value of the currency. The bitcoin economy is currently all traders rapture because the coin does not attract VAT (value added tax). The scammers and fraudsters find the bitcoin transaction so useful because bitcoin transactions are irreversible. Bitcoins are increasing its gain in India. Observing at the number of downloads, India has moved to 16th rank in the world. Indian government is employing a wait and watch policy for bitcoin. RBI has clearly advised general public not to buy or sell virtual currency. Reserve Bank of India feels Bitcoin will help to spread black money internationally, as it is very simple to conduct without leaving any traces. 1.It is unacceptable and uncontrolled in Indian financial system. The Bitcoin community is small in India and they want RBI to step in to create policies to improve the 2.safety of the consumer. They have also suggested to the government to set up its own exchange, just like the stock exchange, where all Bitcoin traders can trade, as they trade with other currencies of the world. RBI along with central banks of the world is unable to track economic activities of this crypto currency. They are much worried about this unpredictable and unregulated form. It is impacting the banking, fin:

## **IV. Why Bitcoin Isn't A Legit Currency**

Bitcoin is not considered as a legal currency until it gets a centralized state. It is not yet considered as a legal currency because not all countries, world bodies have 3.accepted or recognize it. Bitcoin is not a legit currency; it is not centralized and regulated and also not created and implemented by the government, so it cannot be legalized. People across Indian Territory do not accept bitcoin as legal recognition. Anonymity is a factor which causes bitcoin not to be a legal currency in the Indian 4.economy. In Indian economy, the bitcoins are used in criminal activities as medium of payments. To be accepted as currency there are 2 main factors the first factor is it is difficult to profitably counterfeit. And the second factor is people have to believe it is valuable. There are 3 main reasons why bitcoin is now a legitimate (legit) currency.

Bitcoin attracts institutional investors:-According to market capitalization, bitcoin is the top currency; small investors are adopting bitcoin to expand their investment portfolio. As a conditional investment, risk is involved because of the high uncontrollable nature of bitcoin prices in this economy. This also indicates that to buy bitcoin and sell them at higher price the risk involved for anticipating price fluctuations

Bitcoin as haven assets: - bitcoin has achieved a status. The main reason is based on the law of supply and demand. The supply of bitcoin being fixed and limited, demand explode so this increase in price for the bitcoin, which decreases supply.

Impending (approaching) bitcoin Exchange Trade Fund decisions:- the rise in bitcoin prices rises due to speculation about the securities and exchange commission decision .The Exchange Trade Fund would boost the legitimacy of bitcoin and make it accessible for individuals and fund managers ance, and economies of the world. These are the backbone of every country's.

### **V. Objectives Of The Study**

- The study was mainly focused on the impact of bitcoin and legit currency in the Indian economy
- To study about major factors that leads the currency to the growth of the economy

### **VI. Impacts Of Bitcoin**

2016 was the year of bitcoin, and there was a growth up to 79%, the world principal currencies. As a result it emerged as a better stake for investors. There are many reasons why the impact of bitcoin is relevant today.

Reduce to allowance: - The government is implementing confined list of policies which hold back the amount made from other countries or vice versa either by made from other countries or vice versa either by increasing the charges and implementing new guidelines. The fear not transacting money to the family members.

There is a control over the capital: - many selfgoverning currencies and their practice outside home country is being supervised and blocked, there by propulsive the demand for bitcoin.

Better acceptance: - today in India more people are using bitcoin because of this more business and companies have started accepting bitcoin in India as a mode of payment. The online customers and investors are using bitcoin regularly.

Corruption: - digital cryptocurrency such as bitcoin have much usage because of the crackdown on corruption India also banged their uppermost value and still circulating bank notes in order to pay wrong activities and make accumulated black money useless. This led to the demand for bitcoin, enabling them to make payments without having any control of any authorities.

### **VII. Present Scenario And Future Growth**

Bitcoin was created in 2008 global financial crisis to operate outside the Governments, central banks and financial institutions. Then, bitcoin take many challenges to bring this under control. This led many countries in banning it or makes it illegal while in some other countries, it remained observant and regulated its operations. We need to understand about bitcoin and cryptocurrency in general in the economy. Compared to fiat currencies, cryptocurrencies are also used as a means to transfer value. There are several advantages like accessibility, immutability, faster settlement, lower/ negligible transaction fees, prevention and anonymity. There are some other factors that drive growth of bitcoin and cryptocurrencies in the economy. Higher visibility and adoption: Bitcoin has been recognized as a legal method of payment in countries like Japan. They treat it has an asset not as a currency. Bitcoin has a great demand in Japan and in economy.

Political instability and mistrust: In terms of politics, economic instability and uncertainty has recognized a lot in the economy. Bitcoin became a heaven for many people. There are huge bitcoin opportunities in India. 1.Economic growth in India creates more demand and opportunity for bitcoin .the effect of bitcoin in India. Bitcoin is a decentralized virtual cryptocurrency .after the bitcoins invention, online transaction can be done without any intermediary in the economy. Bitcoin has a solution for the problem of double spending without any influence of the third party. In bitcoin economy every transaction has a block and contains information about the block forming a blockchain .this is to verify that whether the bitcoin being transacted has been previously spent or not.

### **VIII. Models**

We have referred the agent-based artificial crypto currency market model to study the bitcoin market in Indian economy. It analyses the mining process and the bitcoin transactions followed by an agent-based approach in the Indian economy. We then used a proposed model to 2.analyze the mining process in the Indian economy and how this affects the bubble in the economy. This model helps us to know the bitcoin transactions and the bitcoin price in the economy. It affects the bitcoin market as well. In this paper we have referred to Hymn Minsky Model. .He says on his theory financial fragility, it came forward in 2008 crisis. In his model, there are five stages namely displacement, boom, euphoria, profit-taking and panic phase. In displacement phase of the bubble came after Satoshi Nakamoto. He is the person or people credited with creating bitcoin, released the white paper on the first digital currency. Bitcoin was ruled by its hard core proponents known as bitcoin evangelists. In boom phase, it has been less of an enigma. This phase is characterized by price rising slowly at first. Then, it increased its value in the economy. In euphoria phase, the van der burgt said that when people launch to borrow their investments comprehensively to finance 1118% of the dynamic bitcoin investors have

financed their investments by credit card .In short; it also says that it increases its value in the economy. In profit-taking phase, it begins to head for the exits, leaving only one step left before the bubble pops. It increases profits to the economy. In the panic phase, the van der burgt said that when reality sets in and bitcoin's price would substantially crash.

### **IX. Theories Related To Bitcoin Bubble**

The Greater Fool Theory is been referred in this paper. The theory focuses on the buying of bitcoins because of many reasons and rising in price in the Indian economy. Bitcoin has reached a new stage. The stock market has been trading at high valuations based on long –term standard of profits in the market and in the economy. The results shows that the rise in the bitcoin bubble chart indicates more demand and the outlay will go up in the bitcoin bubble value in the economy, so more people will trade in bitcoin. The greater fool theory also says that people are buying bitcoin because they anticipate other people to buy it from them at a higher price.

### **X. Controversies**

Mr.skwirczynski says that “I would not call it as a bubble, the way I see this is a reflection of the corruption of real currencies so if anything I think the real currencies are a bubble”. He had stated this after the bitcoin smashed and he recorded in the last several months. By multiplying its value several times in the last year hitting a new record high of nearly \$ 20000 after starting 2017 at less than \$ 1000. The volatility has claimed the crypto currencies as a bubble and it is not a good investment in the mere future of commerce. The sudden raise of bitcoin, and in exacting of and the bitcoin market, has examine the currency as a furor, a bubble, or a scam. Until 2013, bitcoin was used more by drug dealers and others shady elements than the law abiding mainstream and now adoption of bitcoin by people that's only grown exponentially and today bitcoin is a part of historical association with drugs and crime.

Commoners and financial institution, In June 2011, a hack leads to manipulation of the asking price for bitcoin resulting in the sale of bitcoin prices as low as one percent – Mt.Gox.

An external agency determines the value of the money you hold and mismanagement can lead to give crises as a recession.

### **XI. Discussion**

Bitcoin acts as both a currency and a payment system like good commodity, as an asset. The bitcoin or the blockchain change the records of the economy if it is kept or made. In present literature is concentrated on the Indian economy which is going to be affected or being benefited from bitcoin bubble. The Indian merchants who uses bitcoin transaction through the famous website known as unicon. The use of bitcoin is to purchase bus tickets, meals, e-shopping vouchers and having a haircut. The largest merchants include sapna online, ETravel smart, mobile DTH data card reload, in soft and CYberis, tecdoc365 .

### **XII. Conclusion**

Bitcoin does not have any use outside of being a medium of exchange. The reason in which bitcoin and cryptocurrencies have in general is that the supply of cryptocurrencies is unlimited and is called a bubble. Bitcoin has a growing trend in the Indian economy. Bitcoin integration with the payment system is one which has sparked a renewed interest in the currency among people in the Indian economy. There are many benefits of using bitcoin in India as it reduces the transaction fees, no charge backs, there fraud prevention and getting paid quickly. Bitcoin creates more demand and opportunity in the Indian economy. Bitcoin is too volatile so, it is difficult to be a present value over a bunch of account this indicates the bitcoin is a bubble not a legit currency. Bitcoin can be accepted as a medium of exchange if it fulfil RBI regulations it can be taken as currency or securities in mere future. Bitcoin is not governed by any agency or country, it is just a peer to peer system. It lives with people faith there will be more bitcoin more than the currency. This lacks due to the lack of knowledge about technology and bitcoin, the bitcoin is been in a stable position, not too high nor demolished yet.

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