

FinancialQuotient

What is cryptocurrency?

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WHAT DOES IT MEAN?

A cryptocurrency is a type of virtual currency that exists in electronic databases. Perhaps the most fa-

mous cryptocurrency is bitcoin, which was created in 2009.

Ownership of bitcoins is established by entries in a publicly maintained distributed database, called a blockchain. Bitcoins are created as an incentive for those who ex-

pend computing resources to process and confirm every transaction to maintain the blockchain.

Created bitcoins can be bought or sold through a variety of online exchanges, and are accepted by some retailers as payment for goods and services. However, there are many cryptocurrencies besides bitcoins. A well-known alternative is “ether”, based on the Ethereum platform.

WHY IS IT IMPORTANT?

Currencies are traditionally issued by governments, although there have been alternatives. Casino chips

are sometimes used as a form of currency in gambling towns, and prisoners of war have used cigarettes as currency. Governments derive considerable power from their nearly total control of the currency supply. They can increase or decrease the money supply to try to control the growth rate of the economy.

The rise of cryptocurrencies, as alternatives to government-issued currencies, could become a threat to government power. This could usher in a new era of liberation or criminality, depending on whether one views the exercise of government power as

benign or malevolent.

IF YOU WANT TO USE THE TERM, JUST SAY:

Some central banks are considering issuing cryptocurrencies in a bid to prevent private firms from controlling digital currency markets.

- The writer is associate professor and head of the Department of Finance at National University of Singapore (NUS) Business School. The opinions expressed are those of the writer and do not represent the views and opinions of NUS.