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IMPACT OF CRYPTOCURRENCIES ON INTERNATIONAL MARKETS

Dr Nayan Deep*

*Assistant Professor in Economics,
S D Mahila Mahavidyalya Narwana,
Haryana, INDIA
Email id: nayan.anurodh@gmail.com

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ABSTRACT

Cryptocurrencies, which have gained a lot of popularity owing to their decentralisation ideas, as well as the possibility for large returns, are still very volatile, and their losses are more likely. The price of Bitcoin, for example, climbed from $1,000 to a peak of almost $19,000 in 2017, before falling to roughly $3,000 in 2018. 1 Then, in the summer of 2021, Bitcoin fell to roughly $30,000 before rising again until the fall of 2020, reaching new highs of over $60,000. Digital or virtual currency known as "cryptocurrency" is meant to be used as a form of payment. Prefixing "crypto" refers to the fact that cryptocurrencies rely on cryptography to protect transactions and create new currencies (coins). For example, encoding something that can be deciphered with a key but impossible to read without a key implies that coins can be difficult to manufacture but transactions can be easily verifiable.

KEYWORDS: *Cryptocurrencies, Impact Of Cryptocurrencies On International Market*

INTRODUCTION

Unlike conventional currencies, cryptocurrencies are straightforward to use and may be exchanged in real time. Cryptocurrency may be a novelty to Americans and Europeans, but many nations' national currencies are mismanaged. Examples include the totalitarian state in Venezuela, where inflation has soared to such an extreme level that millions of people are unable to pay their bills [1].

The term "blockchain" is for an immutable and pseudo-anonymous database that no one can update (except under extreme circumstances when direct edits are made). As a distributed ledger, the blockchain makes it nearly hard to create a fake coin due to the number of nodes required to verify its authenticity. As a result, it is possible to track each single transaction between two anonymous accounts or wallets.

For Americans, the wild fluctuations in Bitcoin and other cryptocurrencies may seem dangerous, but for Venezuelans, whose national currency has been steadily declining for years with little indications of improvement, the fluctuations may be manageable. To put it another way, because the total quantity of cryptocurrency coins in circulation is finite, many people throughout the world may view them as a form of inflation protection.

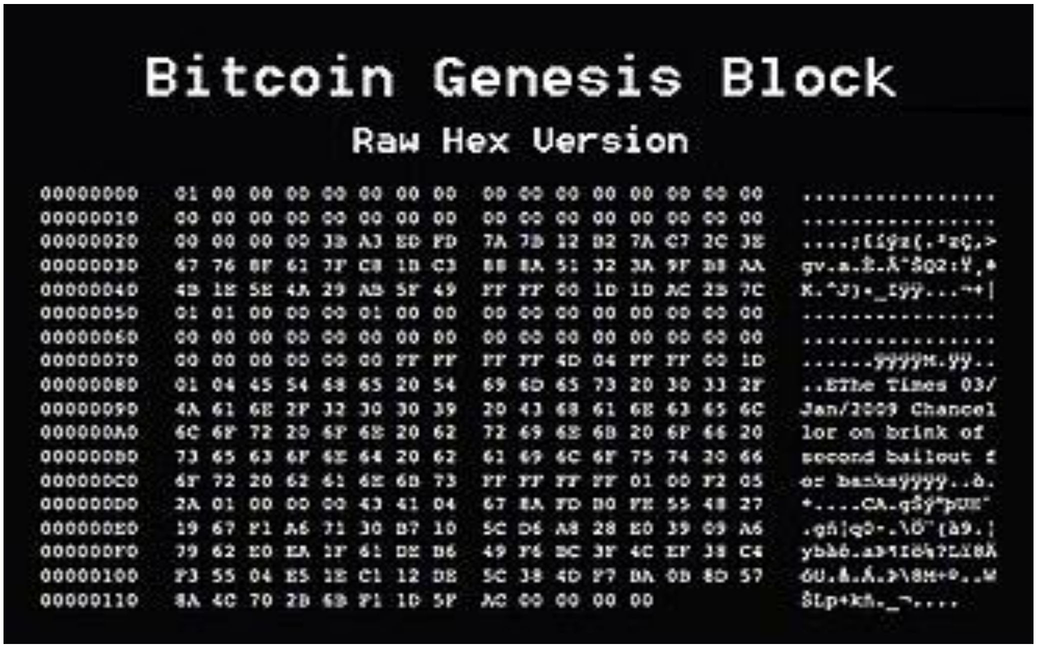

Figure 1 : Bitcoin Block

Other governments use capital restrictions and/or hefty taxes to keep a tight rein on the flow of money. As a result of these capital limits and taxes—legal or not—cryptocurrencies have become increasingly popular with both consumers and companies. As a result, several nations have begun to crack down on the illicit use of cryptocurrencies for tax avoidance or illegal purchases or transactions in other jurisdictions.

Responses by the Government

There has been a lack of enthusiasm from central banks and financial institutions when it comes to cryptocurrencies. Many central banks, despite the fact that certain organisations have supported them, are wary in light of the market's extraordinary volatility. Concerns about tax evasion and capital controls have also been raised.

Technical difficulties like governance and risk management will be critical before cryptocurrencies become mainstream, according to Jerome Powell, the chairman of the US Federal Reserve.

Bitcoin has been compared by some to the Dutch "tulip" boom of the 17th century, and the European Central Bank's former vice president Vitor Constancio has made the same comparison, as have other governors.

There are "ripe circumstances" for cryptocurrencies in China, but the People's Bank of China wants complete control and is cracking down on the country's cryptocurrency industry.

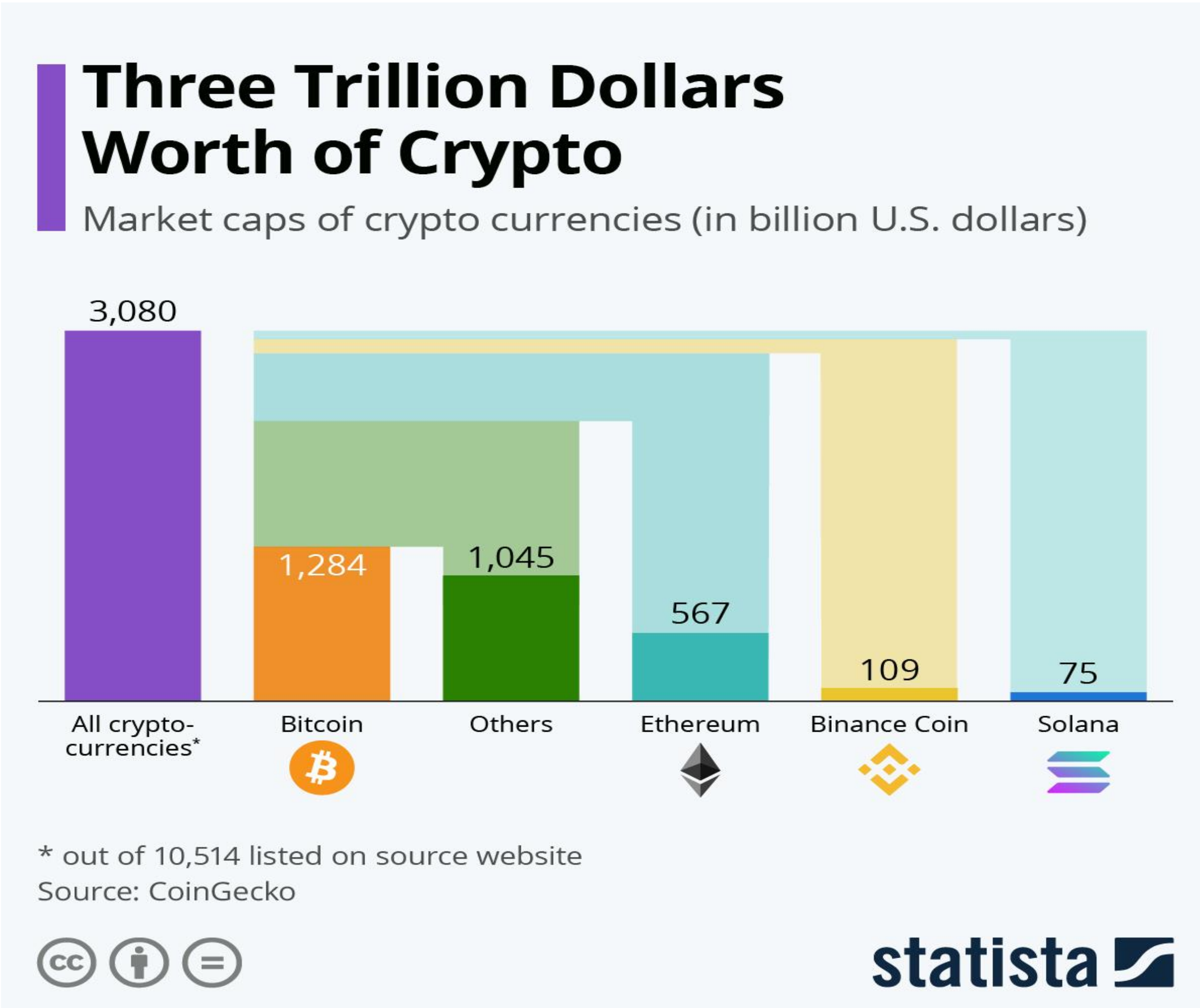

Figure 2 : Statista Research Analytics

Currently, the Bank of Japan does not envision a market for digital currencies.

A few central banks, including the Bank of England under Mark Carney, have come out in favour of cryptocurrencies, calling them a "revolution" in finance.

In 2018, the Venezuelan government announced its own cryptocurrency, the "petro," which is supposedly backed by crude oil barrels. Analysts are suspicious about these estimates, and the United States has banned US people from acquiring cryptocurrencies.

In the year 2020, the petro will have yet to achieve its full potential as a medium of exchange [2].

Global Investments Are Affected

Many investors are adding cryptocurrencies to their diverse portfolios because of its ease of use and ability to manage inflation. Because of the market's lack of correlation, cryptocurrencies can act as a risk hedge, akin to gold. For this precise reason, many bitcoin ETFs and ETNs have been created.

Experts on the other side worry that a cryptocurrency fall might have a negative influence on the broader market, comparable to how mortgage-backed securities precipitated a worldwide economic catastrophe. Some huge public firms, including Meta (previously Facebook) and Amazon, have market capitalizations more than the total market capitalization of all cryptocurrencies, which is now between one and two trillion dollars. The fresh and dynamic nature of cryptocurrency as an asset class means that it has the potential to go in any way. There are a number of reasons why investors are interested in cryptocurrency, but the scale of the sector does not pose a systemic concern until 2021.

The term "cryptocurrency" refers to a type of digital currency that is often decentralised and geared for usage on the internet. In the ten years since its inception, cryptocurrencies have gained in popularity as digital alternatives to government-issued money. On Binance, the world's largest cryptocurrency trading platform, most individuals "buy and sell" their currencies.

It is possible to "extract" an ever-increasing amount of bitcoins from the internet nowadays. Libra, a new virtual currency tied to the American Facebook behemoth led by Mark Zuckerberg, has also recently received great attention and is expected to further alter the cryptocurrency economy [3].

Bitcoin is now the most widely used and well-known virtual money. It was founded in 2009, and since then, it has steadily grown in relevance and prominence in all facets of the Internet world. Since its inception in 2009, Bitcoin's value has steadily risen, hitting a high of $20,000 in 2017. With this money, you can now purchase anything, invest, trade stocks, and, regrettably, use it to unlawfully obtain items and services of any sort on the Dark web.

Cryptocurrency's Economic Implications

Since cryptocurrencies' use is currently so low, we cannot argue that they have significant influence on monetary policy when discussing their economic effects, despite the fact that transaction volumes and market prices are rising. Bitcoin and other virtual currencies must be accepted as a form of currency in order for its volume to have an impact on the financial markets. One country, though, has already embraced cryptocurrencies as a means of payment. The Republic of El Salvador is the first to legalise the use of cryptocurrencies as a form of payment. Bitcoin is widely accepted as a form of payment in El Salvador. Since cryptocurrency use differs from one state to the next, other nations can't enact a restriction on them.

Coincidence between cryptocurrencies and financial markets may be seen across various industries, even though the influence is limited. For example, the usage of bitcoin technology in education is on the rise. Some colleges in Cyprus, Switzerland, the United States, and Germany have recently begun accepting cryptocurrency as payment for educational services on their websites. As a result of the ability to purchase airline tickets, hotel bookings, car rentals, and cruises using this money, the system's adoption has accelerated [4].

Blockchain technology is also attracting attention from the retail industry. This began with Overstock.com, a website that sells furniture, accepting Bitcoin as a form of currency. This is followed by the possibility of shopping with bitcoin at various retail sales portals such as prominent merchants such as Crate & Barrel, Nordstrom and Whole Foods

As a final benefit to game publishers and creators, Bitcoin has opened up new doors. When it comes to cryptocurrency trading, Project Big ORB, a game that allows players to convert their in-game money into other assets (including cryptocurrencies) and then trade it for real money, is an excellent illustration of this practise in action.

While the history of cryptocurrencies is still in its infancy, the economic impact of Bitcoin and other currencies cannot be ignored. Within a few years, a successful alternative to the world financial system has been created. We do not yet know if these external stimuli can do good or harm to the entire financial system and if they can affect the delicate balance that holds between the various world powers. One thing is certain, stopping the expansion of cryptocurrencies is currently unthinkable. On the other hand, their regulation and increasingly widespread use are more likely, starting with individual citizens up to governments around the world [5].

A noticeable rise in the use of cryptocurrencies has occurred since Bitcoin's inception in 2009. Since its creation, the new form of money has grown in popularity and relevance throughout the world due to its portability and independence. In order to provide a more secure means of payment, many varieties of cryptocurrencies have been developed.

More than 2000 coins are expected to exist by January 2020. In addition, 36.5 million people in the United States hold or invest in money. Bitcoins and other cryptocurrencies like them are popular because they offer a more modern and digital money. There are no third parties involved in transactions on these sites. As a result, the buyer and seller may conduct business directly. Low transaction costs and faster processing have also been praised for Bitcoin. That explains why hundreds of billions of dollars have been moving into new kinds of currency in recent years. Blockchain, the technology that underpins bitcoin, has also made its way into the public [6].

It's a win-win situation for entrepreneurs all across the world, thanks to cryptocurrency. Entrepreneurs no longer have to limit themselves to the domestic market in order to expand their businesses internationally. As a result, sellers in developing countries have been able to build connections and trust with customers they would not have otherwise been able to reach. There were around 287 thousand verified Bitcoin transactions every day in the final three months of 2020 throughout the world.

There are still drawbacks to this new kind of money, preventing it from progressing further. Failure to safeguard purchasers is a key problem with online currencies. Some purchasers are duped as a result of the sites' aversion to delegating transactions to a third party. Bitcoin is currently accepted by a limited percentage of internet shoppers [7].

Cryptocurrency has given rise to a new business model based on technology. As a result of the market, many new buyers have entered the market, making it easier for businesses to conduct business across borders. Even while the market has been on the rise, it still has a long way to go before it becomes a more commonly accepted form of cash.

The latest assessment from Russia's central bank warned that the anonymity of cryptocurrencies facilitates unlawful activities such as money laundering, terrorist funding, and drug trafficking.

This isn't quite the case, however. Public blockchains, such as Bitcoin and Ethereum (the two largest by market capitalization), have transaction histories that can be viewed by anyone with an internet connection.

Large private blockchain analytics corporations are working with governments to keep track of individuals' cryptocurrency wallet addresses and transactions. Money laundering and tax evasion are kept to a minimum [8].

Find out more here: Regulators throughout the world are realising that Bitcoin is currency.

Most cryptocurrencies, in contrast to common notion, are pseudonymous rather than anonymous. If a central contact point, such as a cryptocurrency exchange or an email, links a person's identification to their wallet address, that wallet may be tracked back to that person.

There is no significant illegal usage of "privacy coins" that protect users' anonymity, according to research commissioned by Zcash but carried out by the Rand organisation.

Future Directions Determined By Policy

It is becoming increasingly commonplace as an economic asset class, technical infrastructure and a societal experiment in non-state-based technology. As a result, the cryptographic community is gaining clout in discussions on public policy. Because of the efforts of crypto proponents, an important federal government infrastructure bill in the United States was put on hold in 2017.

With regards to policy and legislation, countries are taking a variety of approaches. Some countries, like China and Russia, see it as a budgetary and ideological threat to sovereign money. There are many who see it as a chance for new ideas, investment, and expansion.

The year 2022 might be a turning point for both the crypto business and those who want to either prohibit or embrace it, as diverse methods develop.

Bitcoin has been shown to boost the economies of nations that open their doors to it, bringing in new business ventures as well as tax revenue. Adopting bitcoin as a digital asset has the potential to open up new populations and improve treasury management efficiency [9].

While this is true, the consequences of policy and regulation on the business show that bitcoin isn't a wholly decentralised system that resides only within the blockchain.

As a result of this country's stance, A prospective "crypto friendliness" destination has emerged in the race to regulate yet gain from cryptocurrency: Australia. The Senate Select Committee on Australia as a Technology and Financial Centre produced a report in October that supports the use of cryptocurrencies.

It offers a regulatory framework for "decentr\alised autonomous organisations," or DAOs, as well as market licencing for cryptocurrency exchanges, simplified taxation, and a streamlined tax system. Blockchain technology and cryptocurrency tokens are used to control participation and enforce rules in a similar way to decentralised cryptocurrency networks.

The decision made by Australia is to take advantage of the immense economic potential of digitally decentralised assets. It's not clear how this will affect the economy of the United States. However, if the past can teach us anything, it's that policy has the power to influence the future.

Job Market Effects of Cryptocurrency

Throughout the world, there is now an entire business committed to ensuring that bitcoin exchanges are safe and secure. Some early adopters have become quite wealthy, whereas others have built businesses whose revenue is mostly derived from trading.

In 2017, the number of Blockchain-related occupations climbed from little over 1,000 in 2016. The Bitcoin business has consistently had the highest need for software developers. These occupations have remained popular, even though the labour environment has varied in recent years [10].

We should expect greater worldwide investments and job creation in the Bitcoin sector as it continues to be authorised outside of Western countries.

Unstable Domestic Currencies and Cryptocurrency's Economic Implications

There has been a steady decline in trust in American banks since the 1970s. In nations where the national currency is volatile, causing living standards to collapse, Bitcoin may be utilised to avoid these circumstances as well as those in which it is stable. In the case of cryptocurrency, each transaction is overseen by its peers without the intervention of the government.

Over one-seventh of a billion individuals do not have access to a bank account. Because of their financial plight, they are frequently forced to turn to risky lending tactics. The fact that so many people in this group own smartphones means that bitcoin might easily become a viable choice for them in the future.

Cryptocurrency's decentralisation makes it possible for inhabitants of nations where the currency is unstable to trade freely with citizens of more prosperous countries, establishing a level of economic equality for everybody.

Cryptocurrency has a positive economic impact because of low transaction costs. Aside from Bitcoin's present status, most cryptocurrency users' transaction costs are negligible, if not nothing. No additional expenditures are incurred since cryptocurrencies and Blockchain are decentralised and do not necessitate investment in physical property. This implies that, in contrast to a bank office, no utility costs, rental property, or employee compensation are required to be paid.

As a result, confidence in the system of cryptocurrencies grows, leading to increased usage of financial instruments, transactions, and a more global economy [11].

Through Transparency, Cryptocurrency's Economic Impact

As a result of the decentralised nature of blockchain technology and cryptocurrencies, it is impervious to human, corporate, or government intervention. People will have more control and independence as a result of this, and fraud and corruption will be less of a problem. Changing a system that can't be modified is impossible. This is especially advantageous to undeveloped nations and disadvantaged populations. It is possible for these folks to invest and trade in the global economy because of the utilitarian nature of cryptocurrencies.

CONCLUSION

Because of the currency's decentralised structure, bitcoin functions as a worldwide economy in which users may trade currency no matter where they are located. Entrepreneurs that are no longer limited to a domestic audience but one that is international, where monies may be traded without the burden of exchange rates and international legislation, will find this particularly significant. In reality, there are cryptocurrency companies that let African company owners conduct financial transactions with European, American, and Asian firms with the goal of expanding financial inclusion and promoting financial liberty through global exchanges.

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