



Crypto Currencies: As The New Legal Tender Of The Modern Economics

¹Dr. Vinay Kumar Jain, ²Sonali Arya, ³ Ms Pooja Bahuguna

¹ Associate Professor, Department of Commerce, Graphic Era Deemed to be University, Dehradun, Uttarakhand. Vinayjain124@rediffmail.com

²Scholar Department of Commerce, Graphic Era Deemed to be University, Dehradun, Uttarakhand , sonaliarya113@gmail.com

³ Assistant Professor, School of Management, Graphic Era Hill University, Dehradun.

Abstract

The present paper involves the study of the new form of the asset that people own and create value from be it through capital appreciation or from the retail sales , this paper will look in depth into the knowledge as to how the money has worked in the present times and can the crypto currency could be taken as the new advancement in the money forms used by the people and how the recent jump and belief can lead to the next generation of the legal tenders and what are the advantages and disadvantages of accepting such a form of currency

Keywords: cryptocurrency, blockchains, financial system, digital currency .

1. INTRODUCTION

The cryptocurrency basically are the money encrypted into the codes which is valued as a medium of the transaction to gain the better understanding of it the lets recap the concept of money right from the beginning, first the medium of exchange used by the people was the barter system ie the system where goods are exchanged for other goods and services but it had its own disadvantage such as the no way to exchange the equal value of goods, difficulty in storing and list goes on and hence the introduction of these promissory notes issued by the government when people used to deposit gold with them and hence people started trusting these notes as the measure of value and exchange of medium since then money notes are used the medium of exchange though now days not necessarily needing to be backed up by gold and now the next revolution of the money is money existing in the blockchains i.e in the digital systems and people can come into transactions if both the parties trust the cryptocurrency without the intervention of the banks

Now the introduction of the crypto currency ways back to 2008 the subprime mortgage crises when one of the Americas largest banks went bankrupt and hence the introduction of the money existing digitally was introduced by Satoshi Nakamoto and the idea and whole algorithm of the of the cryptocurrencies such as bitcoin coin was introduced and which became more popular in the recent years and the starting years the asset had some problems and that were rectified by the Satoshi’s team and now is used as one of the largest digital assets the limit of issuing bitcoin into the system is of 22 million dollars and the bitcoin miners are the people who update the ledger of the blockchains and there is whole full transparency and decentralization of the authority as now the money is not held by the banks and the bitcoin miners could mine the bitcoins by solving a mathematical problem and by solving it the miners update the ledgers and take their payments in the way of the bitcoins hence this was the whole functioning of how the transactions are held and updated into the ledgers

Now the question arises that would it be considered as the new legal tender , will it replace the fiat currency that we use these days will this be considered as the next revolution in the financial system and many countries have recognized cryptocurrencies and the related digital asset as legal but there is a difference in being legal and being used as the legal tender and the only country that have recognized cryptocurrency as the new legal tender is El Salvador alongside with its us dollar that is the fiat currency that is used in the country but what to we mean when we are considering the cryptocurrencies as the legal tender it means that the citizen have trust in the currency as being used in the normal markets that means you could walk up to the nearest store and can have goods purchased in exchange of the crypto that it is accepted if offered in the payment of the debt but it has a long way to go to gain that position because it will demand in the entire shift in the economy and different economies have different population and hence cryptocurrencies becoming the legal tender in many other markets may take time when we finally see people carrying crypto as the medium of exchange.

2. LITERATURE REVIEW

S.No.	Authors	Year	Topic	Publication
1	Martin Quest	2018	Cryptocurrency Master : Everything you need to know about cryptocurrency and bitcoin trading , mining.	CreateSpace Independent Publishing Platform

			investing and the blockchains	
2	Andreas M. Antonopoulos	2017	Mastering Bitcoin unlocking Digital cryptocurrencies	O'Reilly
3	Tapscott , Don , Alex	2018	Blockchains Revolution : How the Technology behind Bitcoin and the other Cryptocurrencies is changing the world	Portfolio

3. OBJECTIVES

Objectives of the proposed research paper

1. To understand what are cryptocurrencies and the bases of the currency existing in the Blockchains
2. Understanding the mechanism under which the whole machinery operates
3. To research it being the new revolution to the financial systems
4. To gain an understanding between being legal and the legal tender in the economy
5. To understand the basis under which the El Salvador have introduced cryptocurrencies as the new legal tender
6. To understand the factors that may play an important role in shifting the currency from the fiat money to the blockchains
7. understanding of the benefits and disadvantages of cryptocurrency
8. To understand the need for this shift in the economy and money existing digitally

4. NEED FOR THE STUDY

As the technology have paced in every sector of the economy it also have touched the financial machinery that is the money existing in the blockchains that means in the technology so there is a need to understand its way towards the next revolution in the money and till when would

this be considered as the legal tender and how the introduction of the cryptocurrency will change the financial mechanisms and the decentralization of the money flow from the Banks to the Blockchains that means the entire wipe out of the banks that have been there for the whole growth and development and circulation of the money into the financial economies and what Impact will it have in the Economy while also unravelling the benefits and the disadvantage that the cryptocurrency could bring about into the markets and researching on the factors that may help in developing it as the legal tender and also the changes that would be needed into the markets and the mindsets of the people to change the way they perceive the cryptocurrency and would accept it as the medium of exchange

5. HYPOTHESIS

H0: the cryptocurrency should be taken as the new legal tender in the economy

H1: the cryptocurrency should not be taken as the new legal tender in the economy

6. Cryptocurrency should be taken as the legal tender with example to the factors considered by the El Salvador (The only country to have accepted the crypto currency as the new legal tender) and its impact in the country

Being the new hype in the markets many are looking up to the effects and the benefits of the cryptocurrency as this is the new level of the currency under which the important and the team leaders of the world economy are playing hence let us take in depth knowledge of what factors this country have taken into consideration while accepting bitcoin as the new legal tender.

1. El Salvador is betting that being the first country to open its Doors to the bitcoin will help boost its economy

2. The country is optimistic that this will encourage investors with the Cryptocurrencies to spend more in his country and is also planning to have geothermal utility use of energy from the countries volcanoes to mine bitcoin which would help in printing and mining of the bitcoin which consumes a lot of energy

3. El Salvador has been installing 200 Bitcoins ATMs to allow to convert cryptocurrency into dollars and hence creating it easy for the citizens to easily convert crypto currency into money

4. In addition, increasing the level of the public confidence by introducing the digital wallets such as the Chivco and provide subsidy to the people worth over 30 million dollars so as to induce people to use the bitcoin as the medium of exchange

Hence the country was trying to introduce the bitcoin in order to take an competitive advantage of the craze of the digital assets in the market and it is also due to the El Salvador facing the cash flow problems and low GDPs and being in debt due to over lending from the IMF and hence it was introduced as the new hope to boost the economy with new investment

and profits since the cryptocurrencies were becoming popular day by day but there were many problems and the factors that were needed to be considered before taking bitcoins as the legal tender as the first 50 days after the introduction did not went well for the country and today also it has its repercussions

The factors that have led to the problems in the introduction of the Bitcoin as the new legal tender:

1. First that government has to create in a short period of time a digital wallet – software that stores user’s information, payments and holdings of the currencies and this crashed several times

2. Further the current bitcoin legislation had so many loopholes where it could be used in an unconstitutional way as the laws and regulations surrounding the bitcoin have not been introduced and discussed with the public and they are not educated for the implementation and application of the Bitcoins

3. There also is the threat to the safety of the information’s of the users of the digital wallets leaving the users vulnerable to the identity theft

4. Since have a little transparency in the system since the it has made bitcoin legal with the US dollars, which is an element of the monetary policy and usually run by the central banks however the chivco wallet is run by the private companies and hence there is no clarity on how the transparency of the money is being maintained

5. Before the current monetary experiment, bitcoins almost non-existent in the economic transactions of the El Salvador

6. Bitcoin is highly volatile and is not backed up by any authoritative body as it is not the currency but and digital asset and hence would be difficult to maintain the value if there are changes in the currency value consistently

7. the usage of the cryptocurrency was mandatory and not voluntary and many survey done by the agencies have revealed that 95.5 % of the population agreed that the usage should be voluntary and not mandatorily ;71.2% that they have interest to use US dollar’s rather than the bitcoins and 89.8 % firms declared that they did not have any sales with bitcoin and 76.9 percent of the consumers did not make any purchases with the bitcoin

7. Cryptocurrency should not be taken as the legal tender:

1. since the cryptocurrency are highly volatile it could not be used as the legal tender since it would not be easy to assign a fixed value to the currency and hence could not be accepted or traded

2. A huge shift in perception of the people is needed and education is needed prior to the implementation of the cryptocurrency as the legal tender which would cost the country a lot of money

3. Decentralization of the money flow is a good concept but taking controls from the Banks and shifting the financial mechanism into the Blockchains may not be that simple and hence could not be taken as the legal tender

4. There is no administrative authority backing and regulating the cryptocurrencies as it is the digital asset not the digital cash

5. Trained people and huge software's would be needed in order to control and implement bitcoins as the legal tender which would not be cost effective

6. Mining and printing the bitcoins consumes a lot of energy and hence many countries may not be able to suffice with the power consumption

7. The basic composition and implementation of the bitcoins have a lot of loopholes and hence there is time before it could be taken as the legal tender

8. TESTING OF THE HYPOTHESIS

As evident from above it seems that there is huge level of consideration further needed and improvement in the crypto currency system in order to ensure its proper functioning and hence 'H1' would not be evident in the present market as we research and there is a lot more scope for the cryptocurrencies to grow and develop in the economy since many countries are taking it as legal it is taking steps and moving forward in the economies acceptance and may in the near future also be taken as the legal tender whereas 'H2' is more compatible in the present economy and it rather have more implications rather than benefits to be introduced as the new legal tender or new face of the currency.

9. CONCLUSION

As understood from the study that the cryptocurrencies are the new form of making transactions and holding assets and creating Blockchains for the transaction to be held and for updating the ledger of the transactions it is rather a fascinating change in the financial economy but as of now could not be seen new financial system and has many loopholes to improve and work upon but many countries are trying to introduce their own more stable and fixed coins in the markets and are implementing adjustment into the cryptocurrencies to introduce them as the safer mode of transactions to adopt them while ensuring domestic and financial stability , regulating the protection of the data privacy and create new ways for cyber security , innovation and environmental sustainability of the new technologies and hence we can conclude that the cryptocurrencies will become the new tender in the economies and accepted by the different countries in the near future when the countries are capable enough to make the necessary adjustments and are able to monitor , record , maintain and regulate the transactions

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