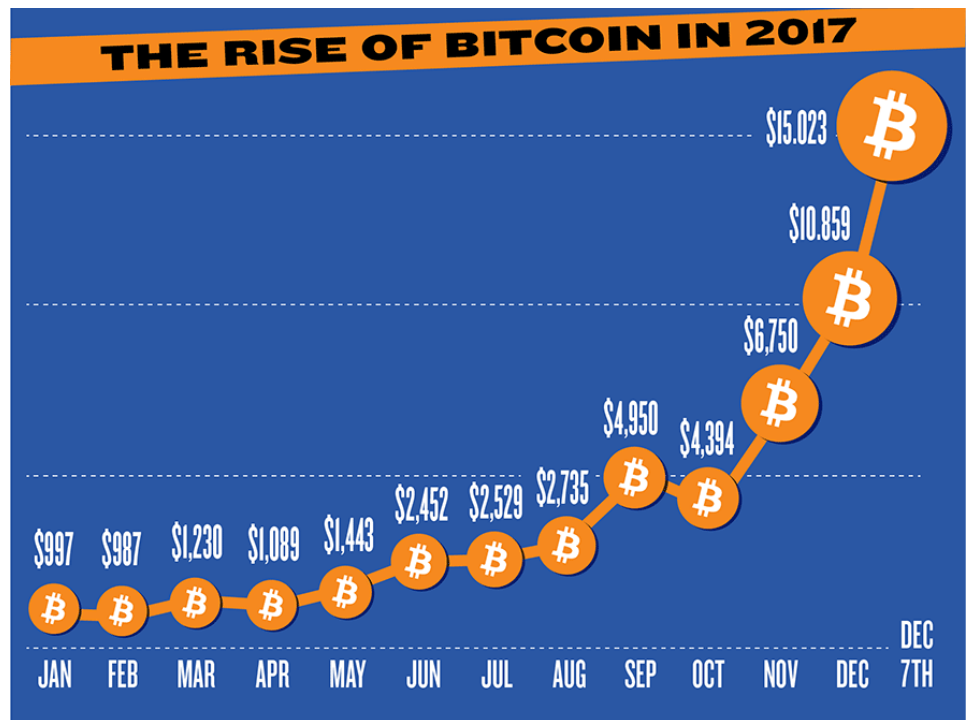


No end in sight for meteoric bitcoin rise

Could bitcoin replace traditional currency? The cryptocurrency's value has doubled in a fortnight. One bitcoin is now worth over \$15,000. But some believe the revolution has only just begun.



Controlled supply: About 16 million bitcoins have been mined out of a possible 21 million.

Picture the scene. It is January 2012. A friend comes to you with a recommendation. "Have you heard about bitcoin? It's a kind of online currency — it might get pretty big." Feeling brave, you invest \$500.

You would now be a millionaire.

Having begun the year with a value of under \$1,000, one bitcoin is now worth over \$15,000. Only on Wednesday its value leapt by 27% from \$11,000 to \$14,000. Its rise threatens to overturn all the rules of economics. What is bitcoin? And what on earth is going on?

Created in 2008 by an unknown person using the pseudonym **Satoshi Nakamoto**, bitcoin is a digital currency that is stored electronically. Unlike conventional currencies issued by **central banks**, bitcoin is "mined" by computers using complex algorithms.

According to Jordan Hiscott, chief trader at social trading platform Ayondo Markets, bitcoin's growth model is a sign of "shifting paradigms in the world of finance". At present,

most bitcoin investors are simply ordinary people.

So what would happen if bitcoin replaced traditional currency?

There would be some advantages. Cryptocurrencies' value cannot be manipulated as easily as fiat currency (which a government has declared to be legal tender, but is not backed by a physical commodity like gold).

And in a future where our transactions with shops and services are automated, cryptocurrency removes many of the intermediaries that would take their own cut.

But it could be a disaster for unprepared economies. Once bitcoin takes over, cash will not be able to close the gap and would rapidly lose value. Established institutions might not be able to pivot to the new status quo in time.

Governments will be hit hard, as they will no longer exercise the same level of control over money. The idea of printing more money is always raised in response to financial turmoil, but that option would disappear as the number

of bitcoins in existence is limited to 21 million. Could this really happen?

Fools' gold

No way, according to legendary investor Jack Bogle. He says: "Bitcoin has no underlying rate of return. There is nothing to support it except the hope that you will sell it to someone for more than you paid for it." Security is another problem. Bitcoin exchanges are frequently **hacked**. When was the last time you heard of a gold depository being robbed?

But Jim Reid, Deutsche Bank's lead strategist, believes that fiat currency may be doomed, and that bitcoin may replace it. "It's possible that inflation becomes more and more uncontrollable and the era of fiat currencies looks vulnerable as people lose faith in paper money," he has said, adding that bitcoin's "open structure and decentralised system" are an advantage in the modern era.

Q & A

Q: What do we know?

A: The price of bitcoin, a cryptocurrency created in 2009, has skyrocketed in 2017. At the start of the year, one bitcoin was worth \$997. Two

weeks ago it was worth over \$8,000, and now it is worth over \$15,000. We know that most economists do not expect this rise to continue at this trajectory

Q: What do we not know?

A: Experts are split on whether the next step is

merely a "correction", or whether bitcoin truly is a bubble that is about to burst. Should the price stabilise, before rising at a steady rate, the next question will be how great a threat bitcoin poses to fiat currency, and whether bitcoin can ever replace gold as the world's primary reserve currency.

YOU DECIDE

1. Will bitcoin take over the world?
2. And would it be a good thing if it did?

ACTIVITIES

1. Look at the graph above. Imagine that, in January you had purchased 7 bitcoins. How much would your purchase be worth on December 7th, and what is the increase as a percentage?
2. Write down three similarities and one difference between bitcoins and gold as the basis for a currency.

SOME PEOPLE SAY...

"Cryptocurrency is such a powerful concept that it can almost overturn governments."
Charles Lee, founder of Litecoin.

WHAT DO YOU THINK?

WORD WATCH

You would now be a millionaire – On January 4th 2012, one bitcoin was worth \$5.57. Yesterday it was worth \$15,775. This means that your investment would now be worth \$1,416,068.

Satoshi Nakamoto – He was claiming to be a man born in Japan in 1975. There is still a

great deal of mystery around his identity. In the past he has used a German IP address; he appears to work east-coast American hours and uses British English spelling (ie, rather than US English).

Central banks – Institutions with functions usually established by national law to manage monetary policy, issue bank notes and cash, and regulate commercial banks. The UK Bank of England and the US Federal Reserve, for

example, are described as instruments of the government but act independently (ie, within the framework set by the government but free from government direction).

Hacked – Only this week it was reported that nearly \$64 million in bitcoin was stolen by hackers who broke into Slovenian-based bitcoin mining marketplace NiceHash.

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