

A Case Study on Cryptocurrency Driven Euphoria in 2020-21

Subhendu Bhattacharya^{1*}, Kitty Rana²

^{1,2}Amity Global Business School, Mumbai, India

Abstract: Cryptocurrency is considered as the virtual currency which is protected by cryptography. It is safe and acts as medium of exchange. The ownership of individual coin remained stored in ledger which is held in computerised database. The adroit and efficient cryptography preserve transaction details, regulate creation of new coins and deals with transfer of ownership. The control of cryptocurrency is decentralised and doesn't come under the purview of central bank financial system. Decentralised mechanism follows sophisticated blockchain technology. There are host of cryptocurrencies in the market such as Bitcoin, Ethereum, Litecoin, Libra which showed progressive journey in valuation despite dismal economic situation. When central banks were busy in quantitative easing, market got inundated with low interest rate based credit facility. Speculative transaction went high and financial institutions along with retail investors parked their investment in cryptocurrency. Due to supply constrain, cryptocurrency like gold acted as hedge against uncertainty. When majority of economies struggled with fiscal deficit and debt burden, cryptocurrency made a rapid stride and well-known bitcoin ended up with 200 percent hike in value till December end 2020.

Keywords: Blockchain technology, Cryptocurrency, Digital transaction, Economic slump, Euphoria, Non-approval of central bank, Speculation.

1. Introduction

Financial market is in transformation in 21st century and it is led by innovative technology acted as driving force. Since inception of Bitcoin in 2009, curiosity among investors remained high and virtual currencies set out to constitute decentralized financial system. All virtual currencies have potential to be accessible to those devoid of traditional financial products. Expert coder, Satoshi Nakamoto introduced Bitcoin in January 2009 as an open-source financial network that remained decentralised, peer-to-peer system devoid of authoritative control. After subdued growth for couple of years' bitcoin make its progressive journey, outpaced other contemporaries in the field of cryptocurrency and reached euphoric status during pandemic. Digital revolution is in nascent phase and it would gain momentum in coming years. Like Bitcoin, Ethereum, Cardano, Tether, Litecoin and others have potentiality to grow and emerge valuable for nifty investors. Digitisation is on rise worldwide with China in the lead followed by Korea, Japan, Germany, USA and India in the stream. Demonetisation drive in India in November 2016 and

Digital India since 2015 sent the signal to common mass that online transaction is viable option and cashless economy would not be a distant dream. Monetised economy might go down well for elderly generation who would find it difficult to perceive digital process properly. For younger generation demonetisation drive acted as catalyst to switch onto online mechanism. Digital maintenance of account is easier, economic and less time consuming. Although majority of central banks such as Fed Reserve of US, European Central Bank, People's Bank of China, Bank of Japan, Bundesbank, Reserve Bank of India remained sceptical about cryptocurrencies and warned people about perils involved in investment in digital currencies. There had been issues related to speculative trading, bubble creation, difficulty in governance and risk management. Central Banks are worried and remained under impression that their monopoly over financial market is threatened with arrival of cryptocurrency. It is people who are losing trust on currency when rising inflation keeps on depreciating currency value and to tackle recession central banks across the world continue printing currency to enhance money supply in system. So called reserve currencies suffered badly during pandemic time when expansionary monetary policy led to erosion of currency value.

2. Case Presentation

Digital currency is by product of digital revolution in 21st century. Old concepts and practices are passing into oblivion and new ideas and techniques are on a rush to take the centre stage. It is a digital wave of current century sweeping through all economic spheres. As economy proceeds to be digitised in developed and emerging market, online transaction found more takers as the process is fast, cost effective and devoid of time specification and locational stringencies. Fintech companies across the world acted deftly to ensure financial inclusion and gained traction in financial market with plethora of services and innovative solutions offered to users. There was rise in reliance on technology during pandemic across the globe. Use of currency reduced substantially and online payment and settlement rose sharply. People would prefer paper less investment option and contact less payment in post pandemic time as well. Fintech companies is in constant endeavour to democratise financial services and made financial services available to vulnerable section of populace in fair and

*Corresponding author: subh.econ@gmail.com

transparent manner.

A rise of decentralised token economy is on the horizon which may cause a tectonic shift with full-fledged use of digital currency. Blockchain technology is becoming pervasive to enshrine a new economic paradigm. People of new century have already started to spend more time in virtual world. Pandemic had replaced old economic pattern and set up new style of education, work, transaction, entertainment, investment never experienced earlier. Economies across world tripped and tumbled when lockdown brought economic activities to a standstill and government had to spend excessively to support healthcare facilities, ensure availability essential services and extend social security benefits or welfare services to wider mass. Loss of exchequer was humongous and central bank had to print currency, reduce interest rate, increase liquidity in market to avert recession. US Dollar and other significant currencies took a beating and investors scrambles for safe heaven. There was volatility noticed in several asset classes. Stock market, oil price and real estate value plummeted whereas gold, silver, platinum, palladium rose in value to great extent. Stock market across the world recovered eventually and oil price rise eased the tension of oil producers by end of 2020 and afterward. Bitcoin and other cryptocurrencies had created a revolution in 2020 with staggering returns.

Bitcoin price from October 2013 to february 16, 2021
(in U.S. dollars)

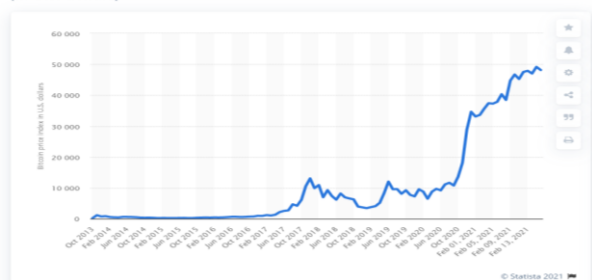


Fig. 1. Time series data for Bitcoin price
Source: Statista, February 2021

The above figure of bitcoin price movement bears the testimony of bitcoin fixation viewed in last couple of years and specifically in 2020 when pandemic battered economies beyond imagination. Rise in scepticism on US dollar and other reserve currencies led to growth of bitcoin. Bitcoin market is estimated to be about \$700 billion in 2020. Value of bitcoin rose by 300% in the pandemic year. Speculative trade and volatility remained a prime concern but more payment platforms turned liberal and went in favour of accepting bitcoins. Younger people in their 20s and 30s showed unabated interest and invested in bitcoin like never before. Although older generation mostly avoided this fancy investment avenue considering it as speculative tech investment. For younger generation, investing in bitcoin and other cryptos acted as populist revolt against hegemony of government and central bank. This bitcoin euphoria showed preference of young investors for unconventional asset, power of decentralised mechanism, trust on blockchain based transparent and secured data encryption among peer to peer network. Finally lure of securing a means of transaction or

medium of exchange in digital medium stood ideal for demonetised world.

3. Discussion

There had been yearning for change to bring an alternative of fiat currency. There had been an impending consequence for extravagant printing of currencies by central banks. Rising debt for economy also became a cause for concern. Erosion of currency value led people to search for alternatives and tech savvy people found new passion in cryptos. Investment in cryptos turned out to be courageous move and matter to be bragged about. Risk loving young generations explored cryptos and invested adrenalin driven bitcoin to satisfy their risk appetite. Defying warning of central banks added to new thrill when astronomic return became worth their risky bet. Global meltdown of 2008 showed imperfection of financial system and that shortcoming had been re-established in 2020 when world economy was rattled with economic contraction, loss of asset value and mounting of debt burden. Across the globe, quest for viable alternative went high which would be out of clutches of government and banks. That's where bitcoin emerged post 2008 global recession to fill the void. Tech geeks such as Elon Musk, Jack Dorsey, Mark Zuckerberg voted in favour of it and invested in bitcoin optimistically. US based social media company Facebook created a ripple by proposed launch of cryptocurrency Libra in 2021.

4. Conclusion

Any asset or investment avenue has its cost and benefit. Also, asset is judged under the lens of risk and return. Legitimacy of issuer and validity of asset is also examined along with liquidity and availability. Cryptocurrencies across the board gained confidence of investors and proved to be real threat to shaky traditional monetary system whose fragility laid bare amidst economic turmoil of 2008 and 2020. Knowledge of cryptocurrency and better understanding of blockchain can appear to be boon for new age investor. Cryptocurrency can be a hedge against inflation despite its instability which came clear in 2018 when bitcoin price plunged downhill. But in long haul it proved to be a rewarding experience and offered matchless return. Traditional money went down in value as discounting factors like inflation dragged it southward. Whereas bitcoin kept on growing in value as it is tampering proof, limited in supply, low on transaction fee, easy to maintain and free from government intervention. Identity of investors are not disclosed as account can be maintained in anonymous Bitcoin wallet. Cryptocurrency will be suitable for market economy as its value is market driven. The adoptability rate is amazingly high as more business groups such as Microsoft, AT&T, Virgin Galactic, Tesla, Norwegian Air, Twitch expressed their readiness to accept it. Like internet in 1990s, blockchain driven cryptocurrencies with Bitcoin in lead disrupted market in 2020s. Central banks either accept their legitimacy and approve market transaction in cryptos or create their own to retrench regulatory power in financial market.

References

- [1] Chuen, D. L. K., Guo, L., & Wang, Y. (2018). Cryptocurrency: A new investment opportunity? *The Journal of Alternative Investments*, Winter 2018, 20(3), 16-40.
- [2] Eric Lam (2018), 'What the world's central banks are saying about cryptocurrencies', Mint, Mumbai, January 29 2018
- [3] ET Bureau (2020), 'Don't get tempted by bitcoin frenzy', *Economic Times Wealth*, Mumbai Edition, 28st December, 2020, p. 7.
- [4] Hileman, G., Rauchs, M. (2017). *Global cryptocurrency benchmarking study*. Cambridge Centre for Alternative Finance, March 20, 2017, pp. 33-113.
- [5] Jei Young Lee (2019), 'A Decentralized Token Economy: How Blockchain and Cryptocurrency Can Revolutionize Business', *Harvard Business Review journal*, November 15, 2019, p. 12.
- [6] Liu, Y., Tsyvinski, A. (2018), 'Risks and returns of cryptocurrency', Working Paper 24877, National Bureau of Economic Research, August 2018.
- [7] Liu, Y., Tsyvinski, A., Wu, X. (2019). Common risk factors in cryptocurrency, Working Paper 25882, National Bureau of Economic Research, May 2019.
- [8] Marc Blinder (2018), 'Making Cryptocurrency More Environmentally Sustainable', *Harvard Business Review journal*, November 27, 2018.
- [9] Pavan Burugula and Nishanth Vasudevan (2020), 'Bitcoin Fever Grips India Amid Global Rally', *Economic Times*, Mumbai Edition, 21st December, 2020.
- [10] Rajeev Kumar (2021), 'Investing in Cryptocurrency? Risks, Safety Legal Status, Future in India – All you need to know', *Financial Express*, February 15, 2021.