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Teacher I. Summary of Bitcoin and Beyond The Possibilities and Pitfalls of Virtual Currencies The article en d Bitcoin and BeyondThe Possibilities and Pitfalls of Virtual Currencies explained the dynamics of virtual currencies of bitcoins and how many establishments, sports team and institutions have accepted bitcoin as a medium of exchange. Its dynamics was explained by David Andolfatto including how they work, and other relevant questions that the public may be interested to know.
Bitcoin as a digital currency was created by Satoshi Nakamoto. Satoshi Nakamoto is suspected to be just an alias of the individual or team behind the program. As an online currency, Bitcoin serves as a mode of currency in a digital format that can be used by anyone online to receive and make payments for goods and services bought online. It works and can be used just like a regular currency. Anyone can start using bitcoin. The process of using bitcoins begins with having an online wallet which can be downloaded online for free. Just like the physical wallet where it can be kept anywhere in the house, the digital wallet can be stored as file in hard drives, USB and even smartphones and users can also have several digital wallets similar to having multiple bank accounts. The transaction involving bitcoin online however is different from the traditional mode of payment. The system have volunteers called miners who checks the transaction using bitcoin and decides whether to approve or decline it. If approved, it is then recorded to a blockchain which is a ledger that contains the history of such wallet.
The Vice President and economist with the St. Louis Fed David Andolfatto explained that bitcoin is a good investment by citing its stability compared to traditional currency. As an example, he cited the trend of the purchasing power of purchasing power of each currency to 100: the yen, the euro, the U. S. dollar and the Zimbabwean dollar. The currencies were extremely volatile compared to bitcoin underscoring the stability of the currency.
The theory of nominal exchange rate indeterminacy was cited to help explain why bitcoin is a good investment. It was cited that there is no single economic theory that dictates the relative price of two intrinsically two objects such as bitcoin and currency. The value assigned to currencies therefore are relative.
Bitcoin in fact is secure compared to regular currencies because the presence of digital wallet in someone else’s computer will allow the transaction history of such digital wallet to be viewed and therefore, could be linked and traced to its users which could help authorities to catch illicit activities using bitcoin.
The article however cited some challenges involving the use of bitcoin and that is the issue of regulation. Regulating bitcoin could be a challenge because it does not have a central authority. It is because it is an open source network that made bitcoin physically impossible to regulate.
II. Evaluation of the article
The subject discussed in the article may be a little intimidating because it attempts to explain the economics behind bitcoin. It is however written in a reader friendly manner that made the article digestible to its readers albeit the topic is heavy. It simplified the explanation of the dynamics of bitcoin that made the read engaging and very interesting.