

The Use of Cryptocurrency in the Development of the Digital Economy: Advantages and Disadvantages

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Abstract

First of all, this article contains information about the most popular cryptocurrencies today, as well as detailed information about cryptocurrencies and bitcoins.

Keywords: Blockchain technology, cryptocurrency, stock, digital currency, virtual miner, bitcoin technology, hash function.

Introduction. Cryptocurrency is a type of Digital Currency whose internal units of account are provided by a decentralized payment system (no internal or external administrator or other administrator) and its counterpart operates in fully automatic mode. Cryptocurrency itself does not have any special material or electronic form - it is simply a number indicating the amount of these units of account recorded in the corresponding position of the data packet of the data transfer protocol, and often, even unencrypted, as well as all other information about transactions between system addresses.

As the Internet developed, people began to pay money "remotely". It is impossible to give money from hand to hand. Therefore, it is necessary to turn to "partners", that is, electronic payment systems, banks or couriers.

Any "partner" will be paid for the practice he performs, because no one wants to work for free. The more money you transfer, the more you lose in taxes. As information technology developed, people wondered: "how to reduce costs and run a business with a 100% increase in FIK?".

There were many offers, but all were rejected, after all, even after removing the transaction taxes, how can you protect yourself from fraudsters - how can you prove that it was you who transferred or received the money?

The solution was found in 2009 when Satoshi Nakamoto released a new payment system based on mathematical calculations. The currency used for payment was bitcoins. They are stored in special wallets and can be downloaded and used in another wallet.

"Bitcoin" is virtual money that has no material equivalent and is simply a collection of records in a database.

In order to determine whether money has been sent or received from a Bitcoin wallet account, experts have suggested publicly showing how many bitcoins have been sent and received from one wallet or another address. That is, when you connect to the cryptocurrency network, you will be able to see all Bitcoin transactions. Also, all wallets are anonymous (they don't tell you who owns them), so you'll never know if someone doesn't tell you they own a wallet.

In general, "Bitcoin" is virtual money that has no material equivalent and is simply a collection of records in a database. Because both the base and the technology on it are so reliable, it could be of great value to humanity. Cryptocurrencies are created on the basis of the base called "BlockChain". We will try to explain how it works:

- The basis of the idea is to create a decentralized database (which does not have a main server like bittorrent) and store copies of the data encrypted on the server of all participants of the system. In Bitcoin, it is the transaction base of all operations performed in cryptocurrency units. All registered and this information is available to all participants;
- All new information in the database corresponds to the existing copies of the participants. Synchronization and consensus building algorithms work. In order to steal it, it is necessary to change the data of at least half of the participants, which is almost impossible to do in millions of networks;
- In order to use a counterfeit payment system, it is necessary to change the distributed bases stored in the block chain (thousands of computers), and for this, access to all computers is necessary.
- But technology is technology and money is money. Materially available. Certain rules were adopted when creating the cryptocurrency called "Bitcoin":

1. Initially, it was intended to limit the amount of this virtual money so that "Bitcoin" does not suffer from strong inflation. Therefore, the concept of virtual gold equivalent was introduced, which can be acquired by buying or mining. The method of obtaining new "Bitcoins" is called "Mining" ("virtual miners", but they work on their own computers and specially designed systems, not with the help of picks).

2. To make Bitcoin more like gold, acquiring it has been made as difficult as mining for gold. Otherwise, new units will be added to the existing chart of the cryptocurrency. For this, all miners ("virtual miners") perform very complex calculations using their computers or a special system - they throw the calculated numbers into the given template using a special formula called a hash function.

3. The template is determined by such a calculation that a new unit of "Bitcoin" appears once every 10 minutes in any number of miners. Every two weeks, the system introduces corrections in order to complicate the "mining" of the next units of the cryptocurrency, which helps the desired pattern to rise or fall.

4. The person who adds a new unit of cryptocurrency will be paid for the expenses incurred (in "Bitcoin"). Over time, this amount decreases, but the growth of the cryptocurrency rate easily compensates for this.

5. People who give their computers for mining simultaneously help this system to make transactions (payments), as well as synchronize the database between all participants of the system.

6. Each user of the system is given a special address (a cryptographic account created on the basis of a simple key) and a secret key. Through this, he can move transfers from one address of the

system to another. It's just like a regular wallet, except transfers are transparent and everyone can see how much has been transferred to whom.

Advantages and disadvantages of Bitcoin:

Currently, due to the very high rate of the Bitcoin currency, calculations are carried out in a small fraction of it. "Satoshi" is often used in greetings. Its value is equal to 0.00000001 Bitcoin.

Independent. The system is completely autonomous and does not need anyone's help. You can see the transfer of funds from one wallet to another, but you cannot ban or block it. Even if these people are members of society.

Limited. According to the algorithm by which the cryptocurrency was created, a total of 21,000,000 Bitcoins can be found, after which the production will stop. No one knows what will happen as a result of this, unless there is a financial explosion, the cryptocurrency will remain in circulation and will change its rate all the time.

Complete privacy. It is impossible to know who owns a Bitcoin wallet by its numbers, which opens the way to illegal money laundering and fraud.

Absence of "partners". Bitcoins are transferred without a third party (bank). This serves to quickly "sign" the deal. But this compromises its security and the transferred funds cannot be recovered.

Not provided. Cryptocurrency, like real money, is not provided with a constant reserve, and for other reasons, it is not out of the question that the Bitcoin rate will suddenly drop to zero.

Official does not work. "Bitcoin" can have a bad effect on the financial system, which is why many countries look at the cryptocurrency with distrust. In Russia, a law has been prepared to prosecute those involved in the cultivation of Bitcoin, but it has not yet come into full force. But recently, Venezuelan President Nicolas Maduro approved the initial issuance of the country's official cryptocurrency, El Petro.

As you can see, the future of cryptocurrency is not clear yet. However, this situation does not prevent the desire of many people to earn money.

How to use cryptocurrency?

The easiest way to talk about the use of cryptocurrency is to use the example of the most famous - Bitcoin. The difference between other systems is that they are less popular and therefore less accepted as a means of payment.

The first thing to start using or earning bitcoins is to install a special client program (or "wallet"). There are "light" and "full" clients. The first ones take up little space and are ready to work almost immediately after installation and work by requesting data from the Bitcoin network servers. The full client requires tens of gigabytes of free space and synchronizes data with the blockchain for a long time before the first launch. But with the following work, the full client takes less time, especially with slow internet connections.

When the wallet is installed and you are registered in the system, all that remains is to buy bitcoins and top up your account in one of three ways:

- purchase;
- receiving as a gift.

With money in the account, you can pay for services and goods or use bitcoins as an investment, because their value is growing steadily and rapidly due to the growing demand and limited amount.

Criticism:

- CryptoCurrencies are often compared to Pyramid Schemes and Economic Bubbles, such as the real estate bubble Template:Np5 In 2017, he stated that digital currencies are “nothing more than baseless mania. or perhaps a pyramid scheme) is based on the desire to give weight to something that has little or nothing to it, except that people will pay for it” and includes the Tulipmania pyramid scheme, the South Seas Companies and The Dotcom Bubble. There are also examples of blatant fraud in this area. : Parasitizing the public's lack of awareness of the characteristics of cryptocurrencies, the OneCoin system was created, positioned as a cryptocurrency, but at the same time, it was originally a financial pyramid; all information was centralized only in the issuing company, and the latter could change any information arbitrarily, because there was no blockchain, it was only the usual the database is simulated by SQL.
- Robert Shiller, an American academic economist and winner of the Alfred Nobel Prize in Economics, suggests that Bitcoin is similar to an economic bubble. At the same time, any commerce that uses cryptocurrencies suffers from their high volatility.
- Former Fed Chairman Alan Greenspan called bitcoin a bubble with no intrinsic value.
- On March 14, 2014, businessman Warren Buffett called bitcoin a "mirage" on the TV show "Squawk Box" and advised him to "stay away from it."
- “Bitcoin is the best example of a pure bubble,” according to Buffett in The Bitcoin Bubble and Bad Hypothesis by Australian economist John Quiggin. Like any monetary asset, from gold to tobacco, bitcoin retains its value as long as people are willing to accept it. But the willingness to acquire an asset always depends on the asset's value, not just on other people's desire to own it, but on its use. Tobacco can be smoked, gold can be made into jewelry, the US dollar can pay off obligations to the US government. But Bitcoin has no source of value. If bitcoins are no longer accepted as payment for goods and services, their value is guaranteed to be zero. At the same time, bitcoins demonstrate a failure of the Efficient Market Hypothesis, according to which the market value of an asset is determined by the current valuation of the services or income stream provided by the asset. creates. Cryptocurrencies do not directly generate income, which means their price should be zero.
- Goldman Sachs investment bank experts have compared Bitcoin, Ethereum quotations and shares of companies that have announced the introduction of blockchain technology in their business and concluded that a big bubble has appeared around it. crypto industry.
- Ksenia Yudaeva, First Deputy Chairman of the Central Bank of the Russian Federation, stated: payment instruments are "hundreds of times more efficient than traditional payment systems.

Conclusion

You don't need to understand how a cryptocurrency works from the inside to use it. At the very least, you shouldn't know more than you know about how the bank card system works.

A simple explanation of how cryptocurrency works can be compared to the banking system, except that all payments are anonymous. In both cases, it is a complex system that allows you to transfer funds and receive them from others, keep track of transactions and balances, and transfer all information electronically.

The main difference between cryptocurrencies and bank transfers is that instead of banks and governments regulating circulation and issuance, in the field of digital currency Money, an algorithm plays this role.

A bubble that bursts in an instant, leaving thousands of people broke, or a revolution in the world of electronic payments - the attitude towards cryptocurrencies today is completely different. Today, you can hear about cryptocurrencies at every turn, but not everyone fully understands what they mean and how to use them.

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