

The rise and fall of bitcoin

Cryptocurrencies have witnessed a massive fall in prices since they hit a peak in December last year. Bitcoin, by far the most popular cryptocurrency on the planet, is currently trading below \$7,000 as compared to its peak price of over \$19,000 — a loss of two-thirds of its value from the peak. Other cryptocurrencies have witnessed a similar steep fall in their prices over the last quarter as investors have pulled out of the market. Remarkably, the present crash follows a year of extraordinary returns when cryptocurrencies saw their prices rise multifold owing to investors' expectations over their future prospects.

Many have viewed the rise of bitcoin and other cryptocurrencies as a massive bubble similar to the dotcom and other bubbles in history which saw asset prices increase without any fundamental reason. Goldman Sachs, for instance, warned investors in February that most cryptocurrency prices are headed to zero as they lack intrinsic value. So, to sceptics, the crash now will likely vindicate a belief that markets eventually mark down the prices of assets that have no real value, to zero. Cryptocurrency enthusiasts, on the other hand, view the crash as just another healthy correction that is part of any asset's rise over the long run. In fact, they point to similar steep crashes in the price of cryptocurrencies in the past that turned out to be short-lived. Thus they see the present crash as a good chance to buy cryptocurrencies cheaply before their prices begin to rise again.

Technically, cryptocurrencies are still trapped in a downtrend which began in mid-December amid increasing fears of a regulatory crackdown by governments. Though unlikely, this downtrend may come to an end if investor sentiments suddenly change in favour of cryptocurrencies once again.

Many believe that the biggest hurdle facing cryptocurrencies is their poor fundamentals. None of the cryptocurrencies, for instance, has yet proved its fundamental value as a currency that will be readily accepted by a huge population as a medium of exchange. This is in contrast to national currencies such as the U.S. dollar which are widely accepted by people as money. So cryptocurrencies, in essence, continue to be viewed as a gamble by most. Governments across the world have also not been too keen on allowing cryptocurrencies to be used as alternative money as they view private currencies as a threat to their sovereignty. The Reserve Bank of India, for instance, imposed a ban last week preventing banks from dealing with cryptocurrencies. The present crash has only managed to bring these risks to the fore.

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