

Bitcoin will crash

The price of bitcoin hit yet another lifetime high last week breaking the \$6,000 mark for the first time across major exchanges. Many market experts now believe that the price of the digital currency could touch \$10,000 very soon. Interestingly, [the rise of bitcoin](#) has also been seen as a serious challenge to national fiat currencies issued by central banks as well as physical gold.

'Bitcoin is no rival to gold'

While bitcoin has indeed proved many of its critics wrong over the years, its immediate and long-term prospects may not be too bright. This is for at least two reasons. One, the volatility witnessed in the price of bitcoin against major national currencies like the dollar does not suggest that the private currency's trading price is reflective of its fundamental value. The fundamental value of any money, as a medium of exchange that helps in the exchange for goods and services, usually exhibits a fair amount of stability as people are willing to accept it in repeated transactions; if so, trading prices that track them are likely to reflect the same kind of stability. Bitcoin's extreme volatility could thus be a sign that many, if not most, bitcoin buyers purchase the currency solely for the purpose of gambling. It might, however, be that many bitcoin investors believe that the currency's fundamental value as a medium of exchange could increase significantly in the future and are thus accumulating it now. This might justify bitcoin's current price and volatility, but one will have to wait and watch to see if the thesis turns out to be true.

Two, even if bitcoin were to hold some fundamental value as money, as it very well might if bitcoin speculators are right in paying its current price, the political risks facing the currency are simply too huge to allow its long-term survival. National fiat currencies like the dollar allow governments, through their central banks, to easily tax their citizens by printing a fresh supply of money whenever they need it. Bitcoin strikes at the root of this centuries-long monopoly power over money held by governments, and the consequences are unlikely to work out in bitcoin's favour. In other words, it is hard to fathom governments voluntarily allowing market-based currencies like bitcoin to out-compete their own fiat currencies.

Why bitcoins are a bit risky

When bitcoin will meet its end, of course, is very hard to say. Perhaps its future price might come to reflect its actual fundamental value as money, if it is indeed allowed by governments to survive in the fringes of the monetary system. It is another matter, however, whether governments are right to target bitcoin and other private currencies. A free market in money can bring in serious competition that can improve the quality of our money; either by reining in inflation or by making it more predictable. Speculative frenzies can indeed occasionally occur in such markets, as they do in fiat currencies issued by central banks already. But it is simply bad public policy to fully dismiss the market's tremendous ability to regulate our money.

The new U.S. Fed Chairman is unlikely to opt for policies that might upset the President's plan

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