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### CAN BITCOIN BE A SECURE WALL OF ANOTHER ECONOMIC AND FINANCIAL CRISIS?

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#### **ABSTRACT**

Complementary currency, or community currency, is a means of exchange which operates in the same system as the national currency to perform functions that the national currency does not. Bitcoin is a digital currency (also called crypto-currency) and it is a medium of exchanged for goods or services with suppliers and sellers who accept Bitcoins as payment. This study aimed to understand the nature of the Bitcoin, and to find out what its advantages are over conventional currencies. In the light of the results presented, it is very clear the growing demand of the people to use this type of electronic currencies as a result of loss of confidence in the government's financial systems specifically after the global economic crisis that led to huge losses that financial systems have not been able to get out of it till now. In addition, people are looking for the safest way to investing their money without interference from external agencies that are looking for their own benefit.

#### **INTRODUCTION**

Sometimes business is misguided by the idea that customers depend on them, while the truth is the opposite. Many researchers and academia have mentioned the importance of customers in today's market [1]. Especially when it comes to the financial sectors, customer satisfaction is a very serious point

which is some time decides whether the institution will continue in the market or not.

In the past, the funds were generated in two ways. First, debt issued by the Central Bank, which supports in its assets. This can be done as a means of currency and low level of indebtedness, liquidity (ex; when buying government bonds), or when through a commercial bank debt [2]. This instrument of debt with the high degree of liquidity that has the capacity to be disposed of by a third party, provided that the body which has been given the authority of a solution without restrictions, and this is what is known on the basis of cash or foreign funds [3]. Later one a new way of money appeared which is Complementary Currency System. The complementary currency system aimed to create the frame work of sub-market in means of payment, which is prevents the occurrence of a leak in the system, and therefore to benefit to the maximum extent local workforce that work as virtual market protection [4]. Now days, we are facing a new technology innovation that work as medium of exchange, which is the digital currency [5]. It comes as a result of the expansion of the technology which is developed in parallel with governments experiencing financial and credit problems which causing a loss of confidence in their currencies.

Complementary currency is designed to move in specific areas, rather than leaving this region on the other, through the establishment of local action to develop more wealth in the community [6]. While the national currency outside of the economy when they are spent for non-commercial local ownership, or the assets that come from outside the community, local currencies are remain where they are, which increases the liquidity of funds. The parallel currencies in order to maintain the funds in a specific area are for longer time is called "multiplier effect [7]. As well as it has advantages, the complementary currency has disadvantages. The main disadvantages are having strong legal restrictions on issuing currency in most of the countries [8]. Also, there is no point of having local currency until it is widely accepted, which requires a huge investment in advertising to overcome the common tendency to see alternative currency as value much less than face value, or possibly even as valueless "play money". According to the European Commission, digital currency is defined as cash which is stored in an electronic device or in the form of a remote computer network service or, in other words, money exchanged and stored electronically [9]. When the term "digital currency", is mentioned, most people think of Bitcoin, but Bitcoin is not the only digital currency [10]. It's a currency system among a variety of systems. The European Central Bank divided digital currency into two categories: electronic money systems, which is the traditional currency units (i.e.: Euros or United States dollars), and virtual currencies which use "invented the currency" as a default unit [11].

Bitcoin is a digital currency (also called crypto-currency). Bitcoins is a medium of exchanged for goods or services with suppliers and sellers who accept Bitcoins as payment [12]. Bitcoin is created, held, and spent electronically. What make Bitcoin different from the conventional currency are its features as a decentralized currency. This means that there is no central

authority or government can control it. However, it isn't printed, like conventional currency. Bitcoins are produced by a lot of people from all around the world running computers using software that solves mathematical problems through a network. This network also processes transactions which take place with the digital currency, effectively making a payment network for the Bitcoin. It's the first example of a growing category of money known as crypto-currency.

Thus, in this work, study aimed to understand the nature of the Bitcoin, and to find out what its advantages are over conventional currencies.

## **METHODOLOGY**

This research follows the descriptive research methodology as an appropriate approach to understand the nature of the Bitcoin to achieve the objective of this paper. The research focused on discovering the significant features of the Bitcoin. This will provide an explanation of the important characteristics in crypto-currency (Bitcoin) and highlight the main aspects that conventional currency may does not have.

Primary and Secondary data collection tools were used. Secondary data in the form of articles, websites, and videos were presented. Primary data is used in research through the direct efforts of the researchers through a group discussion. From the other side, secondary data include reusing data that previously collected by and utilized by other researchers. While secondary data is easier and cheaper to obtain through published sources, primary is more relevant to the research project.

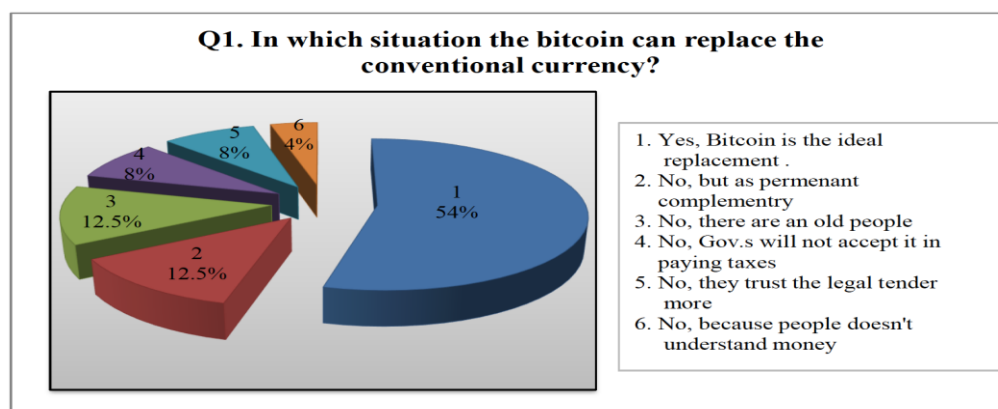
Primary data was collected using a self-administrated online group discussion in social media website with people who know or experienced the digital currency. This online group discussion aimed to gather realistic information about if Bitcoin can help with the financial issue and the "loss of confidence" experience? In this research study, secondary data was used of and gathering from academic journals, articles, websites, and videos. This source was used as references to support research questions at hand and provide it with beneficial information about the important characteristics of the complementary currency, Digital currency, and Bitcoin. This research applied a qualitative date using open-ended questions. The method was used in order to know more about the customer experience that play as an important factor to learn new things and knew about more innovations stuff. A total of 24 respondents were attended. The target population was virtual currency users, who were chosen randomly from IMVU community and entirely by chance which result of verity of valuable information and recommendations that came from different ages, genders, cultures, religions, and backgrounds.

## **RESULT AND DISCUSSION**

After studying the important elements of the Bitcoin (nature, legal tender, advantages, and disadvantages), people were asked about their opinion about the Bitcoin in order to see to which level they are aware about the nature of the Bitcoin and if there any impact of the financial crisis on them or not. In question one, respondents were asked about if they think that Bitcoin can replace the conventional currency or not. These aimed to assess the awareness of the people about the Bitcoin in order to understand whether the

governments still facing a loss of confidence in their currencies after their experience with financial and credit problems.

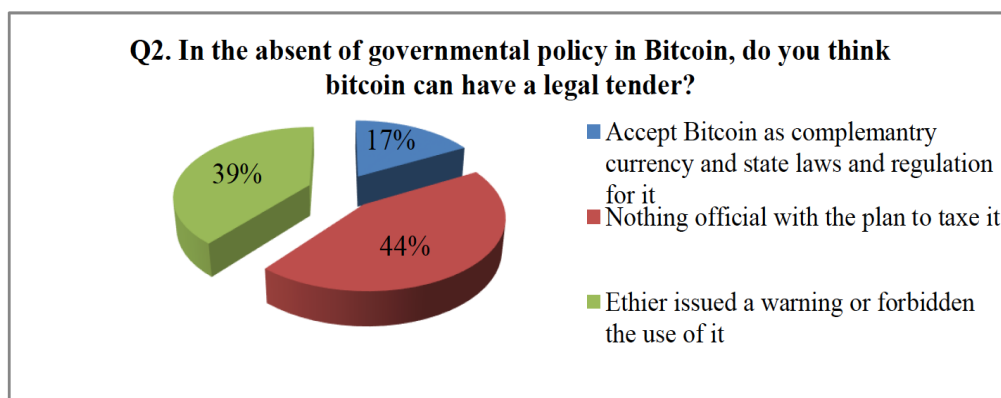
As seen in figure 1, the great majority of the respondents (54%) support the idea of having the Bitcoin as replacement for the conventional currency. There were many reasons behind accepting the Bitcoin to be the official currency. Some of these reasons were that it is performing the money function which is a way of trade but a change goes slowly. And about the violate value, it's still new in the market and it will get stabile soon. Other rezones were that Bitcoin is a governmental plan to digitalize the society or it's the next step towards a "cash less" society. Other said, it's perfect if people wake up and understand the reality about the banks system and how governments let the banks to steal their money and how both are trying to cover the trustless financial system. On the other hand, 12.5% they thought it's better to have the Bitcoin as permanent complementary currency. And another 12.5% think it's not a good idea because there are an old people who would prefer to use fiat because it's much easier for them. About 8% of the respondents said no because they thought that governments will not accept Bitcoin in paying taxes. Another 8% refused to have the Bitcoin to be the main currency because they think that the government and the central banks are powerful entities that can be much trustful than a software. The last part of the respondents said no because they think that people doesn't understand money, so they prefer the easiest way for them.



**Figure 1:** Respondent's awareness and satisfaction with Bitcoin

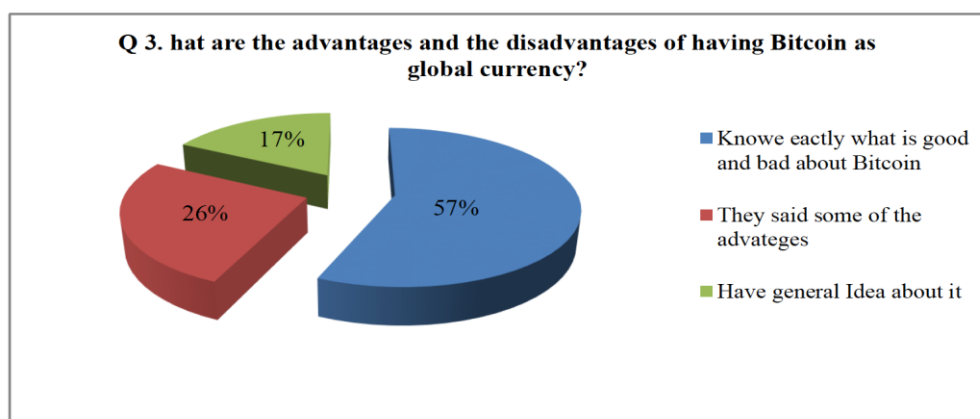
Question 2 was focusing on legal tender element of the Bitcoin. According to Security and Governmental Affairs Committee Chairman Tom Carper's committee that had survey over 40 countries for their official stance on Bitcoin and whether Bitcoin is actually in use, their responds comes As illustrated in the Figure 2, 44% of the government's respondents were that they don't have an official law for dealing with the digital currencies but they are planning to taxes it. One of these countries is Canada which has the first Bitcoin ATM machine to make the Bitcoin holder easier in the time that they not consider the Bitcoin to be legal tender [13]. The second major part of the respondents with 39% took a serious action agonist the Bitcoin ethier by issued a warning to their population not use it, or by forbidden the use of the Bitcoin. For instance, Iceland that their Central Bank stated that "engaging in foreign

exchange trading with bitcoins is prohibited, based on the country's Foreign Exchange Act." [13] The rest of the respondents were accepting the Bitcoin to be as complementary currency and they are ready with laws and regulation for using the digital currency. Alderney was at the head of these countries try to being the central hub in the area of Bitcoin, by mining, issuing physical Bitcoin, and establishing an international center with the Bitcoin storage service which meets the criteria of anti-money laundering rules. Also, Brazil is ready to use Bitcoin by stating a law in October 2013 especially for the digital currencies [14].



**Figure 2:** Respondent's opinion to whether the Bitcoin would be a legal tender currency or not

In question 3 people were asked about the advantages and disadvantages of the Bitcoin in order to see their knowledge about the Bitcoin system (the Cryptocurrency system). According to the results appeared in Figure 3, most of the people with 57% were really understand the real of the Bitcoin and what the good is and bad about it which is applicable to the increase of to the Bitcoin in the world. While 26% mentioned some of the advantages of it, and the rest they just have general information about the Bitcoin. The main advantages of the Bitcoin that people illustrated are; low inflation risk, low collapse risk, safe, simple and cheap, easy to carry, untraceable. However, there are a notable disadvantage like; Untraceable, Easy to lose, Hard to trade, still too new, can't buy stuff, too volatile.



**Figure 3:** People understanding of the advantages and disadvantages of Bitcoin

From the data analysis and taking into consideration the main features of the crypto-currency system and the convivial money system from the other side, the reaction of the normal people and the decision holders which was extremely the opposite about this virtual world, and the history of both the Bitcoin and the conventional currency, it becomes clear that Bitcoin must be taken seriously. However, Bitcoin needs more and more time until it gains its footing in the market to take the governments' trust in addition to the population. However, the crypto-currency system has brilliant signs in the market since it was created in 2009, but it is impossible to ignore its shortcomings in major things. For instance, being untraceable currency is very dangerous because there are money criminal people who are using it for illegal purposes like trading in drugs and guns. So, Bitcoin needs more effort of studying and searching to raise the awareness of people about it so it will be a well-invested way to save your money in.

**CONCLUSION**

The recent years experienced a dramatic expansion in the field of Information Technology which led to many innovations in different sectors generally and in the financial field specifically. The businesses are trying different ways in order to attract more customers through vouchers, discounts, coupons, or the loyalty programs. From correspondingly it is clear that the complementary currencies that depend essentially on the electronic exchange system are witnessing a remarkable year after year, which adds greater value for business and provides a strong opportunity for the expansion of trade and link to a larger number of customers and facilitate transactions for both of the business and customers. These new innovations are examples that shed light on a new phenomenon of a private or non-national money. In the light of the results presented, it is very clear the growing demand of the people to use this type of electronic currencies as a result of loss of confidence in the government's financial systems specifically after the global economic crisis that led to huge losses that financial systems have not been able to get out of it till now. In addition, people are looking for the safest way to invest their money without interference from external agencies that are looking for their own benefit. A lot of people found what they were looking for in the digital currencies, where many agreed on that it is safe and free from any external authority and they are the only one who has the accessibility on their money. Since the government is aware of the size of the economic problems faced by the regulations and the extent of the loss of confidence of the people who became users of Bitcoin alternative currency national currencies as shown by the result of the questionnaire carried out by US Senator Tom Carper, so they must take into account the national consciousness financial systems and rebuild. Finally, people are always looking for financial security and stability, so if the governments were able to build a strong financial system concerned with the preservation of the people's money in the first place, they will not only regain the confidence of the people, but they will also get a very strong economy.

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