

Bitcoin as money - theoretical approach

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Bitcoin and the characteristics of money

- ◇ rarity – the maximum possible number of available BTC units is 21 milion;
- ◇ divisibility – each BTC is divided into 100,000,000 smaller units called satoshi;
- ◇ portability – digital form;
- ◇ durability – the lack of a physical form of BTC means that it is not subject to wear and tear or the risk of destruction;
- ◇ homogeneity – in the case of anonymous currencies, this feature applies, but every BTC received or spent has a documented history behind it;
- ◇ originality – to copy BTC you would have to copy its infrastructure;
- ◇ intrinsic value - the function performed by the BTC network has value;
- ◇ guarantee of the issuer - thanks to cryptographic solutions, this feature does not apply.

Bitcoin and the functions of money

It is assumed that money has many properties and can simultaneously fulfil more than one of the following functions:

- ◆ medium of exchange (allows for the separation of purchase and sale transactions);
- ◆ measure of value (allows for the creation of an idea of the value of goods and services expressed in money);
- ◆ means of hoarding (function of a store of value allows the accumulation of wealth);
- ◆ means of payment (results from the ability of settling financial obligations, including taxes and loan repayments) <- only function that is decided by the state.

BTC - reasons for advantage points

1. BTC has long been independent of its creators or other institutions that could have a direct impact on its development. Nobody, that could affect the currency's prices.
2. BTC was able to thrive at a time when control by any person or institution was reduced to a minimum. Its development was publicly invisible. In such conditions, it was possible to gradually acquire new users, thanks to which the network expanded gradually, at a pace that allowed for appropriate decentralization.
3. The technological development of coin mining equipment occurred gradually, which made it difficult for miners to gain exceptionally large advantage in the BTC network.
4. High computing power of the network - Only when the currency network acquires sufficiently large resources of computing power can it be cautiously stated that the currency has freed itself from the control of its creators and is shaped by the market.

Limited supply - why?

- ❖ Money does not have to follow the growing amount of goods and services on the market, as suggested by monetarists, but rather money should be effectively divisible (in reference to the Austrian School of Economics).
- ❖ What if people don't spend money and save it for the future? -> The result is downward pressure on prices.
- ❖ Deflationary phenomena -> The average decrease in all prices on the market will go hand in hand with a systematic increase in the purchasing power of money. People can buy more goods and satisfy more needs, so they are wealthier.
- ❖ Decrease in the profitability of production? -> Profitability of an activity is not determined by the general price level, but by the difference between the income obtained and the costs incurred.
- ❖ What about the economy? -> Time preference decreases, entities on the market had a greater tendency to accumulate capital and prefer future benefits to current consumption. This is a positive phenomenon.

Thank you!

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