

FALL OF CRYPTOCURRENCY

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Abstract – Cryptocurrency is basically a medium of exchange of value which uses cryptography for security of transactions. The first decentralized cryptocurrency, Bitcoin developed in 2009 by an unknown group of developers who preferred to be called as Satoshi Nakamoto. By 2017, cryptocurrency was at the pinnacle where all the leading cryptocurrencies such as Bitcoin, Ethereum, Ripple and so on, were at their highest value. So what actually would have happened that caused the very downfall of these cryptocurrencies? This paper discusses the aspects that led to the above stated scenario. The reasons responsible for the very collapse in the demand of cryptocurrencies have been mentioned in the paper. This paper covers aspects such as Fall in Demand due to various reasons, frauds, intervention of SEC, Bitcoin Cash Hard Fork and various miscellaneous reasons. The paper also discusses the future prospects and scopes of crypto market considering the vulnerabilities and forthcoming global scenarios.

Key Words: Cryptocurrency, Bitcoin, Ethereum, Decentralized, frauds, Fall, Demand, Scenario

1. INTRODUCTION

Currency in any country is vital as it is used to fulfill all the requirement of a person, from necessities to comfort and to luxuries. In past so many years different forms of currency have been in use, like coins, paper currency, electronic currency etc. In 2009 the newest form of currency was launched. This type of currency is called Cryptocurrency. Cryptocurrency is derived from two words, Crypto and Currency. The basic definition of currency is any form of money that can be used as a medium of exchange. On the other hand, crypto comes from the word cryptography which means converting a plain text into unintelligible text and vice versa. Cryptography is used for secure communication. So, when combining these two we get Cryptocurrency.

Cryptocurrency need to be decentralized i.e. it should not exist on a single server but should be distributed across a network of servers spanned globally. These are passed from person to person online and this is called peer to peer system where people communicate with each other directly. Basically it is an alternative to traditional modes of payments which keep the records of all transactions acting as a virtual accounting system. The interesting feature of Cryptocurrency is that it does not involve in interference from any financial institution or the government. The most popular and first decentralized cryptocurrency till now is Bitcoin which was developed by a developer or a group of developers alias Satoshi Nakamoto. The currency uses SHA-256 for the purpose of encryption. It is again a decentralized system that requires consent of both the parties and if that does not happens the entire chain of blocks breaks down. Also one does not need to give his or her personal information to own or use a cryptocurrency and the user has complete control over the currency without any third party involvement. Cryptocurrency made is easier for the users to deal with transactions digitally and also gave them freedom to do the same. Few other advantages of Cryptocurrency are:

- Low Cost: No transaction fee for exchange of cryptocurrency but there are some third party services which charge some amount of emolument.
- Easy Accessibility: Any person who can access internet can access cryptocurrency patently.
- Less Number of Frauds: Since cryptocurrency work digitally and cannot be feigned thus less number of frauds are possible.
- Less Time Consuming: it takes lower cost and time to transfer chattels.
- Easy Exchange: Cryptocurrency can be easily used as medium of exchange between users residing in different countries as well since it is not bounded by a country level central authority or any currency specific to the country.

The building block of cryptocurrency is blockchain technology. Block technology can be defined as data structures which have the ability to grow, linked together using cryptography. Blockchain is resistant to any change as change in any of the blocks will lead to changes in the subsequent blocks. Also it acts as a Distributed Ledger (Database that is, with solidarity, shared and synchronized geographically across various sites, countries or organizations) that is managed by peer to peer network. In other words blockchain records and stores all transactions while validating those transactions.

Now if we talk about Bitcoin, the first implementation of decentralized cryptocurrency, it was launched in 2009 and by 2010 it did not hold much value or popularity. By April 2011 the worth of a single bitcoin was just one US Dollar. With the later months and years the popularity of Bitcoin increased because of the supremacy of cryptocurrency over the traditional transaction methods in many cases. This further increased its recognition as well as marketability in the entire world. In December, 2017 the price of a single bitcoin reached around almost 20,000 US Dollars which was highest since 2009 and still it is the highest Bitcoin price ever. There are several other successors of Bitcoin and one of them is Ethereum which got available to the public in 2015. Ethereum uses advanced version of blockchain which also allows users to build their own decentralized application. Ethereum had gained popularity due to its ease of development and use. The price for single Ether in 2015 for 2.77 US Dollars while its highest was found to be around 1250 US Dollars in January 2018. If we compare the current prices for both Ethereum and Bitcoin, in both the cases the prices are very low as compared to previous years. The price for one Bitcoin in March 2019 was recorded to be 3987.99 US Dollars while for one Ether it was 140.05 US Dollars. We have seen multifarious perks of cryptocurrency so what are the reasons of the fall in its price in current scenario.

2. FALL OF CRYPTOCURRENCY

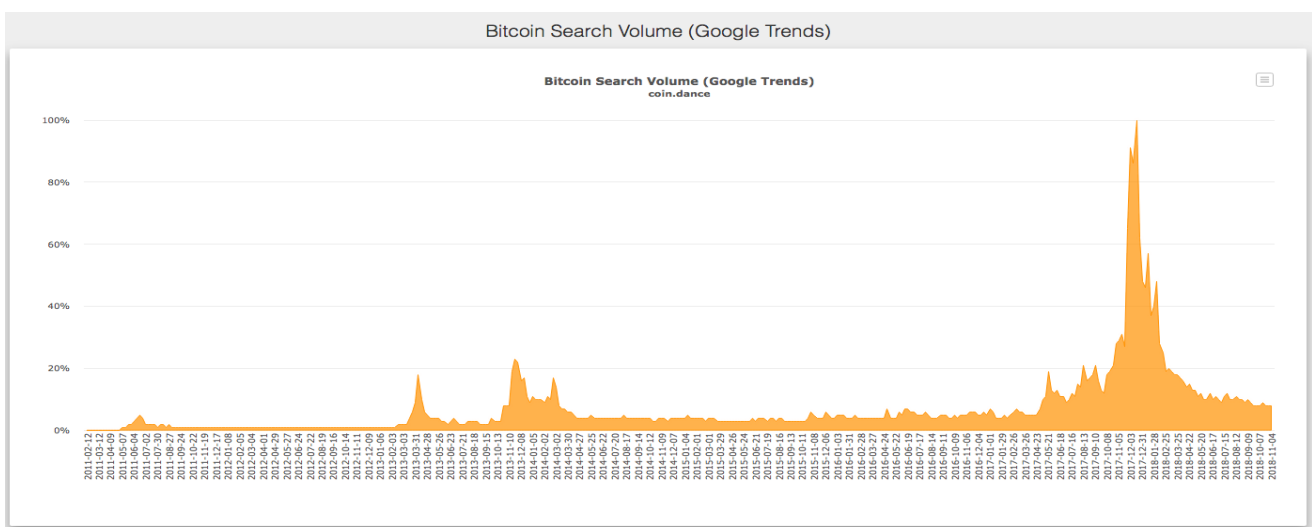
In past ten years, since the launch of first centralized cryptocurrency mammoth amount of fluctuation in the demand and price of cryptocurrency have been observed. From 2011 to 2017 the price of a single Bitcoin faced a lot of undulations but eventually it proliferated between this period. After 2017 Bitcoin faced a major downfall of approximately 65% between January 2018 and mid 2018. Thereafter this instability was being observed in other forms of cryptocurrency other than Bitcoin as well. So what are the reasons behind this cryptocurrency crash that took place after 2017?

Table 1: Price Comparison of Different Cryptocurrencies

Cryptocurrency	Price at the Beginning, Year	Highest price, Year	Price in March, 2019
Bitcoin	1 US Dollar, 2011	20,000 US Dollars, 2017	3987.99 US Dollars
Ethereum	2.77 US Dollars, 2015	1250 US Dollars,	140.05 US Dollars
Ripple	0.0379 US Dollars, 2013	3.11 US Dollars, 2018	0.311 US Dollars
Stellar Lumens (XLM)	0.0030 US Dollars, 2014	0.8755 US Dollars, 2018	0.1077 US Dollars

The Table above shows the variations in prices of leading cryptocurrencies with respect to the year they were launched, highest value year and their value by March 2019.

Chart 1: Trends of Bitcoin Search



Source: <https://coin.dance/stats>

The graph above shows how the trends in bitcoin increased within years and reached its maximum height but in 2018 it suffered a great crash.

2.1 FALL IN DEMAND

By the end 2017 the demand of cryptocurrency was at its peak and thus the price was found to be maximum at the time. In early 2018 as the demand of cryptocurrency started falling, eventually by the mid of 2018 the prices faced a significant collapse. Fall in demand of cryptocurrency itself have many reasons. One of the reason of fall in demand was ban of cryptocurrency in some countries. China, the biggest miner of cryptocurrency, took its first step in 2013 to ban any transaction corresponding to Bitcoin. Many other countries like India, Egypt, Canada etc have partially banned it by putting on some restrictions on the Bitcoin transactions. This banning of cryptocurrency took place due to illegal money transactions as of the characteristic of cryptocurrency is obscurity, so any sort of secret transaction can be done using cryptocurrency. Another reason was to prevent the investors in the country from fraud. The demand for cryptocurrency also felt when Google promulgated the prohibition of all the ads associated to cryptocurrency in March, 2018. Google did this for the security of the users and as they found it wrong to promote anything that would lead its users getting involved in any kind of embezzlement. The prohibition also included ban of initial coin offerings, wallets and trading advice. Further ban of the ads was revised in October, 2018 (the announcement of the same was made in September) where Google made it necessary for the cryptocurrency exchange companies to register with Google, and get certified by it for the countries they want their advertisement to be served in.

2.2 FRAUD

As any industry grows the chances of scandals within the industry increases with every step it takes. Due to dynamism in the market the cryptocurrency industry also inaugurated some scams within it. According to a report of CNBC, in first half of 2018 cryptocurrency around 1.1 Billion US Dollars were stolen. Cryptocurrency theft is one of the biggest scam because it is very easy to do. According to another report from U.S. based cyber security firm, cryptocurrency scams were found to be more than 400%, amounting to 1.7 Billion US Dollars. In 2018 the investors lost about 725 Million US Dollars in cryptocurrency scams whereas in 2017 the amount that investors lost was approximated to be 56 Million US Dollars. The type of frauds in the industry that took place in past two to three years are Ponzi Scheme, Initial Coin Offering Scam, Fake Bitcoin Scam, Malware Scam, Pump and Dump Scam, Twitter Scam and many more to be added in the list. Each of these scams have different functionalities but they also have similar goal of making cryptocurrency industry unreliable. These frauds in the market caused the demand of cryptocurrency to fall and thus the prices also decreased because people lost confidence in cryptocurrency.

2.3 INTRUSION OF SEC

Initial coin offerings (ICO) became the latest trend in cryptocurrency market, where investors found it as a measure to increase their capital within days. ICO is basically a security offering in exchange of cryptocurrency. Companies used ICOs to raise the money leaving behind the traditional fundraising techniques. On the other hand some ICO were found to be fake and lead to fraud or scams. This was the reason for Security and Exchange Commission (SEC) to intrude in the cryptocurrency business. SEC which works for the security of investors did not find Initial Coin Offerings a secure way of exchange (the reason being its decentralized nature) and the people dealing with it are breaking the law. According to the SEC trades using cryptocurrency and ICO especially are unethical and used by only people who are into any sort of perfidious trade. Thus under the consideration of all the frauds and manipulations that take place in the cryptocurrency market, the regulation forced by the SEC was that every Initial Coin Offering should be registered and well known to the SEC. SEC also rejected the overture of Bitcoin ETF (Exchange Traded Fund).

2.4 BITCOIN CASH HARD FORK

The motive of Bitcoin Cash Hard Fork which took place on August 1, 2017, was to increase the size of the blocks used in cryptocurrency. Originally the size of a single block was 1 MB. Further the blocks were flooding due to the demand of cryptocurrency, so the transaction fee raised. In the view of some developers tried to increase the size by changing some code. This change in the code is referred to as Hard Fork. The issue arises when the people have different choices and mindset. Bitcoin Cash Fork divided the developers in two groups Bitcoin ABC and Bitcoin SV. Bitcoin ABC follows the new enhanced version of Bitcoin with more size of a block along with other better capabilities while, Bitcoin SV strictly follows the norms of original cryptocurrency that is were stated by Satoshi Nakamoto. With this civil war in effect Bitcoin was divided in two different currencies. This split caused ambivalence among the users of cryptocurrency and Bitcoin to be more precise in this case. Thus people got confused about which of both the Bitcoins is appropriate and suitable to invest in.

2.5 OTHER REASONS

The above stated reasons are among the most important ones for the fall of cryptocurrency, but there are some other reasons which led to its downfall. One of the reason is that most of the users wanted to reduce the amount of tax they would have to pay at the end of the financial year. This was done by selling most of the cryptocurrency they owned. Selling off their cryptocurrency reduced the amount of tax they would have to pay on the asset.

Another reason associated to the fall is plunging of the sales of hardware related to cryptocurrency, specially used for cryptocurrency mining which is its basic bone as it is used for keeping the transactions secure. It is believed that many miners got the hint of the upcoming cryptocurrency crash and stopped doing mining which led to the reduction in sales of the hardware.

3. CONCLUSIONS

The cryptocurrency has been in used for a while and had become popular as it is an asset or a currency which ruled out the involvement of banking sector; it is a digital and secure currency which does not require the details of the person possessing it. Due to these very reasons, it had popular and quite trending in market. This led to an upward surge in the value of these cryptocurrencies. Bitcoin came, reached the helm of crypto-arena and just disappeared.

In countries like India, which were combating the challenge to curb corruption, took a major step of demonetization. After this, it became difficult for India to consider the acceptance of cryptocurrency and it led to illegal considerations of this digital currency. Likewise, restrictions and ban were made upon the usage of cryptocurrencies in various other nations. People also lost trust in cryptocurrencies due to frauds mentioned in the paper. Already investors are putting their money in some other new form of asset and the resultant number of frauds led to a decrease in its demand. Various activities across the globe have also influenced and impacted subjects related to trade tensions, central banks harshening up their policies, and Brexit referendum making a notable contribution to the dwindling market liquidity.

Investors also tend to sell their cryptocurrency in the same financial year so as to pay less tax on gain of capital. The value of Bitcoin declined also because the difference in ideologies which led to the formation of two Bitcoin communities. The emergence of these two communities initiated some sort bedlam within the market which was not understandable to the users. The downfall of Bitcoin led to the upsurge in the values of other cryptocurrencies like Ethereum and Ripple. ICOs came in as substitutes to the cryptocurrencies but again dark clouds also surrounded them, as they tend to be fake and manipulative and led to various scams in the market. Further the involvement of SEC and the regulations imposed created more chaos within the investors regarding the use of cryptocurrencies. While many crypto supportive lawyers are fighting against the definition of "security" followed by the Security and Exchange Commission, stating it as a seventy year old definition which does not have any provision for decentralized digitized currencies.

Future planning of building such a unique way of transaction must be in consideration with the current and upcoming global economic scenarios, the policies and laws of the nations along with the capacity to attract the investors at times when the value of the cryptocurrency has gone down. For cryptocurrency to be included in the conventional financial system must fulfill certain diverse parameters. This possibility though, seems distant and difficult to come into existence. Also for better use within companies and among inquisitive investors the proposal of Bitcoin ETF(Exchange Traded Fund) need to be passed by the SEC, which is also not going to happen within next few years.

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