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VIRTUAL CURRENCY BITCOIN IN THE SCOPE OF MONEY DEFINITION AND STORE OF VALUE

Abstract:

In spite of the fact that a lot of virtual currencies have been created in recent years, bitcoin is the best known from all of them and regularly reported in the news. Currency without identified creator is appreciated by its user for non-centralized running, without any chance of governments to influence the money supply. The advantages of bitcoin, such as very quick payments worldwide, stop of inflations caused by governments trying to solve their own problems or high level of transactions privacy are widely mentioned.

The aim of the article is not to describe the technical issue of bitcoin and explain how this system works, because it has been widely explained in other articles. The aim is focusing on economic aspects of bitcoin, the technical aspects are mentioned only if necessary. For accomplishing the aim the article is split in two parts.

The first part is dedicated to answering the question “What is bitcoin?”. It examines whether bitcoin complies with theoretical, empirical and law definition of money. The law definition of money compliance is done for Czech, German and EU law in general, but attitudes of US and Chinese governments are also mentioned. According to the findings, bitcoin cannot be easily considered as money.

The second part is focused on store of value money function. Better store of value in comparison with fiat currencies should be important advantage of bitcoin. This function examination is based on volatility calculation for bitcoin and other currencies and assets. Comparing of results shows that volatility (and therefore risk) of bitcoin is significantly higher than of other currencies and assets.

Keywords:

Bitcoin; virtual currency; definition of money; store of value

JEL Classification: E51, E42