

The Economic Implications of Cryptocurrency and Its Potential to Disrupt Traditional Financial Systems as a Store of Value

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Abstract : Cryptocurrencies were first launched in the year 2009 and have been a great asset to own. Cryptocurrencies are a representation of a completely distinct decentralization model for money. They also contribute to the elimination of currency monopolies and the liberation of money from control. The fact that no government agency can determine a coin's value or flow is what cryptocurrency advocates believe makes them safe and secure. The aim of this paper is to analyze the economic implications of cryptocurrency and how it would disrupt traditional financial systems. This paper analyses the growth of Cryptocurrency over the years and the potential threats of cryptocurrency to financial systems. Our analysis shows that although the DeFi design, like the traditional financial system, may have the ability to lower transaction costs, there are multiple layers where rents might build up because of endogenous competition limitations. The permissionless and anonymous design of DeFi poses issues for ensuring tax compliance, anti-money laundering laws and regulations, and preventing financial misconduct.

Keywords : cryptocurrencies, bitcoin, blockchain technology, traditional financial systems, decentralisation, regulatory framework

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