International Journal of Science and Research (IJSR)
ISSN: 2319-7064
SJIF (2020): 7.803

Cryptocurrency: A Study on Digital Revolution, its Impact on Indian Economy and its Significance

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Abstract: ***Crypto currency is not an illegal currency but it is unregulated. Proper management of it is needed in order to make it reliable for banking activities as well. From this study, it is clear that due to the government's other policies that are making new regulations either by making the charges too high or forcing the business man to go out of nation I search of profitable business. This fear among the people is driving them towards adopting the use of digital currency which is making their transaction more secure and fast. Crypto currencies have its limitations too. This study focuses on understanding the impacts on Economy and the consequences of ban on cryptocurrency.***

Keywords: Cryptocurrency, Digital Revolution, Economy

1. Introduction

Crypto currency is electronic money designed to be quicker, cheaper and more reliable than government issued money. It enables people to send money directly without a middleman and the transactions are affordable for all. The first Cryptocurrency was Bitcoin created in 2009 by Satoshi Nakamoto. Cryptocurrency uses a decentralized system to record transactions and manages the issuance of new units, and that relies on cryptography to prevent fraudulent transactions. This digital currency is unique because it does not rely on government created money and the transactions occur between people who did not know their real names. The transactions are recorded using Blockchain Technology and its data is available publicly that is stored on many computers and are virtually impossible to manipulate. With its ongoing and increasing demands and developments, it draws attention from researchers. In financial system, it is helping the industries to grow rapidly with its nature of low transaction cost.

2. Objectives

1) To find out the reasons despite having consequential benefits, it faced a ban in respect of banking institutions.
2) To study the positive and negative impacts of using a crypto currency in financial transactions.
3) To analyze the effects seen on Indian economy after the blanket ban on Crypto currencies from 2018-2020.

3. Review of Literature

Kurihara & Fukushima, 2017, explained that it is not digital cash, which was prevailed all over the world. Unlike like central bank and government issued currency, crypto currencies are inflated at will. The supply of these types of currencies are limited to a certain volume which cannot be changed.

Vora (2015) explained that crypto currencies are a welcome development, they will offer competition to the existing modalities of money and government regulations, they will provide alternate means to economic agents for their transactions, and their innovative existence should be encouraged so that it can help to a great extent to the developing countries to come forward and boost their economy.

4. Research Gap

Indian economy is at a sweet spot of growth by landing on a digital currency as a resolution towards innovation and creativity. Despite having multiple bans on crypto currencies, there are various cases that could be mentioned by policymakers that will present the potential of leveraging and using it as a secure method of transactions that will give a successful impact on Indian Economy.

5. Methodology Adopted

1) Descriptive study is carried out to solve the research problem.
2) Secondary data collection.
3) Qualitative method

6. Discussion

Rise of crypto currencies: The first crypto currency, Bitcoin, traded at a market price of $0.0008 in 2010 where as it rise to $65,000 in April 2021. After the launch of Bitcoin, many new coins introduced which touched the market value by $2.5trillion in May, 2021.

Significance:

- It holds the promise of making the financial transactions easier and accurate.
- It transfers funds directly between two parties without the interference of third party like a bank.
- It allows us to hold the funds in one or two form of wallets, each of which is easily convertible in our accounts.
- There are no costs charged to store digital currencies using the wallets.

Banking ban on crypto currencies by RBI:

In 2018, RBI announced through a circular issued by them prohibiting all banks from dealing with such digital currency as it is a sign of cyber threat. Many cases of fraud were reported through the use of virtual currencies. Banks agreed and stuck to the orders of RBI with the prohibition of crypto currencies Later on this circular was declared unconstitutional by Supreme Court on May, 2020. Later, it was announced by court that crypto currencies were not illegal but are unregulated in India.

Positive impacts of crypto currency

- There is no need of middleman. All the transactions are done on one to one basis and it also becomes easier to establish audit trials.
- These currencies can overcome the problem of social trust and by increasing its access, it can serve to increase the growth process in developing countries.
- Unlike other traditional payment systems like debit and credit card, crypto currencies have no processing charge, since those transactions are facilitated through crypto currency's public network which is called Blockchain technology.
- Credit or debit cards often take two or three days to process. With crypto currencies, transactions take 10 minutes to clear it. This shows that the speed of transactions in case of crypto currencies is high.

Negative impacts of Crypto currency:

- The price of crypto currencies can change drastically over a short period of time which becomes trading with it slight difficult for the marketers.
- While the details of users of crypto currencies are held in a public ledger, there can be an issue when complying with customer's identification or protection of fraud. This shows the lack of anonymity in the system.
- Crypto currencies operate digitally and the proof of ownership is limited to the private keys and this become the prime target to hack it, since many of the businessman are unaware of how to protect this new kind of digital currency.
- Crypto currencies are considered harm to the planet. This digital currency uses blockchain technology which requires computers all over the planet to solve complex equations in order to verify transactions. This is called data mining, which can be lucrative. The person involved in it earns bitcoin as a reward. This procedure of calculations consumes large amount of electricity.

Effects seen after the blanket ban on Crypto currency:

Banning crypto currencies will sound like banning Internet. This temporary ban affected investors and honest business. This approach made impossible for the investors to acquire much economic profit. The blanket ban from 2018-2020 prohibited to use all private crypto currencies in India. Some effects seen after the ban were:-

BRAIN-DRAIN: After the ban, those who lost the opportunity to trade in India move to other countries where it is permitted for the exchange of transactions.

Deprivation of Transformative Technology: This kind of ban deprived India, its citizens to transform the technology that is being adopted across the world, like the leading company such as Amazon and Tesla.

Contradictory Policies: A blanket ban made by RBI is opposed by the Ministry of Electronic and IT (MeitY) that declared the currency which is using the blockchain technology as transparent, secure and efficient to use that will boost the Indian economy and bring economic profit.

7. Conclusion

From this study, it is concluded that crypto currency is catching the new technology wave and its increasing importance is in the way to cope with the upcoming era of digital revolution. Although there are a number of risks involved with this digital currency, still billions of dollars invested in it due to its permanent transparency, traceability, low transaction cost, no processing fees and high profile profits. A blanket ban is something else, though if they ban the use of digital currency; it will lead to investors in trouble. Many exchanges have been managed to stay alive through peer to peer and crypto to crypto trade without the intervention of middleman. The ban will shut down those exchanges. Lot of job opportunities will be ruined. Indian government should take necessary steps to regulate such digital currency which is the future of profitable business and productiveness of economy.

8. Recommendations

It is the time for India to shift from the traditional payment systems and become one of the most active participants in the upcoming IT based era. Banning such currency will demotivate the start-up entrepreneurs, so it is not the ultimate solution. What important is, the proper regulation with secure KYC norms should be brought into practice. All that is needed to do is to get the policymaking right. This type of digital revolution will create new job opportunities across different levels, from IT developers to marketers which will reduce the rate of unemployment and ultimately it will help to revive the poverty level in the economy.

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