

## Bitcoin Bubble



**Keywords:** Bitcoin, Digital Currency, Cryptocurrencies, Blockchain, Financial Bubble, Federal Reserve System, Central Bank, Amazon, Investopedia, CoinMarketCap.com.

**Caption:** The cryptocurrency market bubble is likely to burst causing Bitcoin and the other 1,354 traded cryptocurrencies to crash.

Bitcoin is a new kind of money. It's the first decentralized, unregulated, peer-to-peer, encrypted electronic currency not controlled by a single organization or government. Bitcoin is designed to replace traditional institutions like commercial banks, financial regulators, and central banks via a "public ledger". Bitcoin, spelled with a capitated "B", usually refers to the public ledger (i.e., database), whereas bitcoin with a lowercase "b" refers to the currency.<sup>1</sup>

In the cryptocurrency marketplace, the three of the top-8 bitcoin currencies use the Bitcoin moniker: Bitcoin (trading symbol BTC, #1), Bitcoin Cash (BCH, #3) and Bitcoin Gold (BTC, #8). Other most highly traded cryptocurrencies include Ethereum (ETH, #2), Ripple (XRP, #4), Litecoin (LTC, #5), IOTA (MIOTA, #6), and Dash (DASH, #7).<sup>2</sup>

Bitcoin is not a coin, rather it is a token or certificate that is traded via the internet in thousands of markets. The ledger allows only 21 million bitcoins to be produced (as 14 December 2017 16,740,637 bitcoins have been produced) to resist the temptation of producing additional coins to reduce the value of the currency or manipulate markets for monetary (inflation of employment) or political reasons, which is being done by central banks around the world. Consequently, Bitcoin is politically decentralized but globally centralized by an encrypted database (public ledger) that cannot be changed, erased, copied, or forged, which in turn should reduce manipulation or cheating (assuming that the encryption protocol is secure enough not to be hacked).

In the beginning, when Bitcoin prices were low, people entered this marketplace via "mining" rather than buying Bitcoins. Miners are rewarded by a single bitcoin for developing and bundling bitcoin transactions into a "block" that is added to a "chain" of former blocks. This chain of custody is known as blockchain. Part of the miners' duty is to confirm daily transactions and write them into the database.

In the 2013-2015 timeframe, when cryptocurrencies were in their frontier stage, many people took up mining via a reasonably powerful and well equipped personal computer. Today, running a home "mining farm operation" has become much more complex without investing substantial amounts of time and money on specialized mining equipment as well as the electrical power needed to adding and verifying a new block within the blockchain of 16.7 million blocks. According to Digiconomist, daily bitcoin transactions (about 1 million transactions per day) consume 32.7 trillion watt-hours of electricity, which is equivalent to the power consumption of many countries.<sup>3</sup>

<sup>1</sup> Bitcoin Stack Exchange, <https://bitcoin.stackexchange.com/questions/20901/correct-use-of-the-word-bitcoin>

<sup>2</sup> CoinMarketCap.com, All Cryptocurrencies, 14 December 2017, <https://coinmarketcap.com/all/views/all/>

<sup>3</sup> Digiconomist, Bitcoin Energy Consumption Index, <https://digiconomist.net/bitcoin-energy-consumption>

Due to today's high cost of mining, the preferred way to enter the market is by purchasing bitcoins (or a fraction of a bitcoin) through an exchange. According to Investopedia, in the U.S., the most popular avenues are Coinbase, Bitstamp and Local Bitcoins.<sup>4</sup>

## Cryptocurrency Market Capitalization

Source: Coinmarketcap.com  
14 December 2017

**Number of All Global Cryptocurrencies:** 1355, Markets: 7399

Market Capitalization: \$511.9 Billion, 24-hour Volume: \$35.3 Billion, BTC Dominance: 54.8%

**Bitcoin (BTC) Price: \$16,741.80**

Market Cap: \$280.3 Billion, 24-hour Volume: \$13.6 Billion on 807,220 BTC Traded

Circulating Supply: 16,740,637 BTC, Max Supply: 21,000,000 BTC



This graphic was developed using 14 December 2017 data from CoinMarketCap.com.<sup>5</sup>

There are 1,355 cryptocurrencies traded on 7,399 markets worldwide that is capitalized at \$511.9 billion. In the last 24-hour period, the total trading volume of all cryptocurrencies was \$35.3 billion. Bitcoin (symbol BTC) was overwhelmingly the dominant cryptocurrency player capturing 54.8% of the entire cryptocurrency market. BTC market cap is \$280.3 billion.

In the last 24-period, 807,220 bitcoins were traded for a total BTC transaction cost of \$13.6 billion raising the price of a single bitcoin to \$16,741.80—a 16-times increase in value from \$978 at the beginning of the year. BTC's all-time high was \$18,302 on 8 December 2017.

Skyrocketing BTC value is creating tremendous media interest and a California gold rush-like investor stampede. Though the upswings are obvious in the graph, BTC lost more than 80% of its value

<sup>4</sup> Investopedia, Bitcoin, <https://www.investopedia.com/terms/b/bitcoin.asp>

<sup>5</sup> CoinMarketCap.com, 14 December 2017, <https://coinmarketcap.com/currencies/bitcoin/>

between December 2013 and January 2015. More recently, BTC plummeted 27% over a 4-day period in November 2017 and 7% 1-day drop in December 2017. Consequently, investing in bitcoins today is a risky speculation, since many pundits believe that the cryptocurrency market “bubble” is about to break.

The value of a bitcoin determined depends on people’s confidence in the currency as it is not backed by physical assets or run by any person or group. Since a bitcoin is backed by \$0 worth of assets, today’s extraordinary price certainly qualifies as a bubble. Moreover, while bitcoin has been gaining acceptance by the general public and investment community but has yet to become an accepted form of payment on the websites of major retailers such as Amazon.com. If rampant rumors about Amazon accepting bitcoin materialize, BTC’s market value could appreciate significantly.

On the other hand, Amazon seems to be more interested in promoting an Amazon-backed cryptocurrency, which would likely crater BTC. Three years ago, Amazon registered amazonbitcoin.com that redirects to the amazon.com site. In addition, Amazon's legal department is listed as the registrant for the .com domains: amazonethereum, amazoncryptocurrency, and amazoncryptocurrencies.

When a well-respected company like Amazon, with a large customer based serviced by a proven payment system, enters the current cryptocurrency market bubble is likely to burst, driving many of the 1,355 existing bitcoin cryptocurrencies out of the market.

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