



What Exactly Is Bitcoin? Here's How The World's Largest Cryptocurrency Actually Works

Description

In recent months, the subject of cryptocurrency has received avid attention, with prices soaring and plunging based on the news cycle or the Twitter proclamations of various business leaders. And, as the largest, most traded, cryptocurrency in the world, Bitcoin finds itself at the center of most of these conversations.

But what is Bitcoin?

Like U.S. Dollars and Pound Sterling are examples of physical currency, Bitcoin is one example of a cryptocurrency, a form of money which is entirely digital. There is no such thing as a physical “coin” that denotes a Bitcoin.

Instead, units of Bitcoin are stored as computer files on a “digital wallet,” which are accessible on computers or smartphones. [Coinbase](#) is one popular example of such a digital wallet. Using these digital wallets in the virtual world, individuals can send and receive cryptocurrencies over the internet, in much the same way that people exchange currencies in physical or electronic form using traditional banking.

While banking institutions are responsible for tracking transactions — for example, if you were to send \$100 to a friend, your bank would record the withdrawal and transfer, while their bank would record the transfer and deposit — Bitcoin is a “decentralized” digital currency. This means that there is no central bank or administrator responsible for “running” the currency.

Instead, transactions are recorded in one public list known as a “blockchain,” which makes it almost impossible for anyone to attempt or complete a falsified transaction, or claim to be the owner of cryptocurrencies they do not possess.

There are three ways cryptocurrencies like Bitcoin can be obtained using this system. First, you can buy Bitcoins using traditional currencies such as U.S. Dollars. Coinbase, for example, offers this service, with a real-time exchange rate applied in the same manner as every other currency purchase.

Second, you can receive Bitcoin transfers from someone else who already owns the cryptocurrency. Finally, you can create new Bitcoins from an effectively limited remaining supply by “mining.”

Bitcoin, and other cryptocurrencies, rely on various complex algorithms to process, store, and verify transactions on the public “blockchain.” This means that a number of computers are required to run increasingly complicated calculations, which serve as Bitcoin’s “record keeping” infrastructure and involve the use of cryptography — the writing and solving of codes.

The primary reason cryptocurrencies like Bitcoin are so popular is that the coin is “decentralized” — it is not controlled by a central bank or government entity. This makes it theoretically more reliable in the context of inflation or government manipulation. However, price volatility remains for a number of reasons. Another attractive feature of cryptocurrency is that it allows users to remain somewhat anonymous, with only account numbers visible publicly.

Bitcoin has an all-time high of \$64,829.14, and a total current supply of 18.74 million. Bitcoin has a current market cap of \$736.05 billion, according to [CoinDesk](#).

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