

## **The Impact of Crypto Currencies on the Economy and The Financial Industry**

Mohammed Ssaharti  
Aston University  
msas.scl@gmail.com

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### **ABSTRACT**

This paper is based on the discussion about cryptocurrencies and its impact on the financial industry. However, the adoption of cryptocurrencies is a different matter because right now Bitcoins is considered for wealthy, developed and tech-savvy cultures. Based on the analysis of the points of differences in the currency a country's profile can be developed as to who are more likely to adopt Bitcoin. Cryptocurrencies are considered a potential solution against accessibility, exchange, fraud, and inflation. Moreover, the prices are considerably increasing because the demand for core goods is growing rapidly relative to supply. As per the analysis the fiat currency system is considered as the main reason for future inflation however it will not cause any significant problem in the overall financial industry. The growing demand for housing is also increasing the price of lumber which also increased in the prices of wood. Consequently, all the related goodwill becomes more expensive following the trickle through the economy. Moreover, the asset market also contributes considerably to inflation. An increase in the price of certain commodities incentivizes the people who are producing those commodities. In this regard, the producers withhold the supply of those commodities which eventually results in increased prices. Furthermore, inflation can also be caused by the supply shock like the interruption in oil supply to Southern US caused by Katrina devastated. It caused fluctuation dramatically in the real exchange rates instead of producing desired results. The fluctuation also triggers the development of three asymmetries in the exchange market. The first factor that comes into play is loss aversion which means that the losing side will suffer more loss vocally and acutely as compared to the less vocal winning side during the time of depreciation or appreciation. Hence, the fiscal policy will experience more disturbances.

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[info@jadhur.com](mailto:info@jadhur.com)

## INTRODUCTION

Cryptocurrencies are referred to as digital cash. Cryptocurrencies is an online payment system and digital currency that involves encryption techniques for the generation and regulation of currency units along. It also involves the funds' transfer verification. Cryptocurrencies operate independently without connecting with a central bank. The words blockchain and Bitcoin can cause confusion as it might be used to refer any of the three parts of the concept that includes the client and protocol that affect the transaction, the blockchain technology and the actual cryptocurrencies that is digital money.

Moreover, these terminologies can also be referred to the overall concept of cryptocurrencies. It is similar to calling the Pay Pal as the Internet Pay Pal which is used to run the operations of PayPal that is the Pay Pal currency transfer. These terms are also used interchangeably in the Cryptocurrency industry because in the technology stack the industry is still in the shaping process to become an established layer.

Cryptocurrencies also referred to as the creation of rewards as a result of the computation processing work which is also known as mining. In mining, the computing power of the users is offered for the verification and record-keeping of the payments in the public ledger. In exchange for newly created Bitcoin and transaction fees, the companies or individuals are involved in the mining. However, other than mining, Cryptocurrencies can also be acquired through the exchange of products, services, and fiat money like any other currency. Moreover, Cryptocurrencies can receive and sent electronically but with an optional transaction fee. The transactional fee is paid by using the wallet software on the web application, personal computer, or mobile device ([Clavin et al., 2020](#)).

## **CRYPTOCURRENCIES IN THE FUTURE ECONOMY**

The level of volatility is very high for the most popular Cryptocurrencies. The cost of Cryptocurrencies is pegged against fiat currencies and precious metals. These projects will be effective and promising only if it is accepted by the state institutions and are implemented within the legal boundaries. Likewise, when Cryptocurrencies fulfill these criteria, they will be more successful and effective.

Furthermore, CoinLoan will use the Cryptocurrencies as the collateral and also allow working with the Cryptocurrencies similar to fiat funds. The platforms like CoinLoan use Cryptocurrencies to enable financial holders to acquire and save virtual currency. Moreover, with the development of these blockchain technologies of interest will be forced out gradually, it is expected that the non-competitive financial institutes offering higher rates (O'SULLIVAN, 2018).

It is expected with the trend of blockchain technology, and Cryptocurrencies will be fully developed in a positive manner within the next 5-10 years. Following this, more countries are accepted to legalize these digital currencies as well as adopt the latest blockchain technologies in the accounting systems, financial registers, real estate, medical, education, and other routine processes. In this way, more transparent, safe and fully authorized infrastructure will be established to make life easier and convenient. Following the potential of Cryptocurrencies, more companies and start-ups prefer Initial Token Offering/ Initial Coin Offering (ITO, ICO) for raising funds instead of conventional ways of initial public offerings (IPO). In the comparison of IPO, ICO is considered a more transparent, modern, and fast way of transferring financial resources (Darlington III, 2014).

During the past year, an increase of 13% has been witnessed in the total capitalization of the Cryptocurrency market and the growth is continued. Following, the continuous growth of Cryptocurrencies the interest is also increasing equally and therefore; they are intended to make considerable investments in Cryptocurrencies. In the coming years, the secured assets of Cryptocurrencies are going to become an integral part of the ecosystem of the crypto world similar to the real estate collaterals. Moreover, the whole system of Cryptocurrencies is very convenient, quick and profitable for investors. Using the platform of CoinLoan the holders of Cryptocurrencies can pursue everyday needs while living on the spot. In this way, they don't have to sell these profitable investment assets even if they need the money urgently.

Moreover, Cryptocurrencies can also be borrowed as secure assets for up to 5 years. However, according to the trend, the cost of Cryptocurrencies will be increased during this time. In this way, the cost of financial resources will be compensated what is secured on the Cryptocurrencies; moreover, the sale of crypto assets also ensures higher profits for the investors.

Following the growth potential of digital currencies, the state's interest in blockchain technologies has increased considerably. In this regard, a real estate register has been replaced by the blockchain in many countries. All the transaction of blockchain is fully automated which makes it easier to evaluate these assets immediately (Ølnes & Jansen, 2017).

### **CRYPTOCURRENCIES' IMPACTS ON THE FINANCIAL INDUSTRY**

Bitcoin has revolutionary potential. According to the vision of OG's Cryptocurrencies are accepted to interest to financial institutes instead of industrial replacement. In this article, the author has discussed that the distributed ledger system has the potential to handle the three main banking functions including clearing of transfer, storage of physical money and loaning whereas, the banks can play a larger role in managing the financial industry based on Cryptocurrencies. Bitcoin cannot handle the very financial transaction around the world and is included it in the blockchain. Therefore, a more efficient secondary level is required for the payment system. Hence, likewise, the finalized time for transaction time for Bitcoin will be imperial for the large and medium value purchases. Therefore, this problem can be solved with eth Bitcoin-backed banks. They will play the same role the banks played before currency nationalization.

However, banks can be various police and varying interest rates. Some of them can be 100% Bitcoin back, and the others can use fractional reserve (Davidson, De Filippi, & Potts, 2018).

Monetary control is the greatest value that is brought to the financial industry by the blockchain. With the technological advancements, the dependency on the banks will be reduced in order to keep your money save. With the blockchain, it is nearly impossible to hack or manipulate as it stored the money in an immutable ledger. Hence, while using blockchain technology, the investor has to focus on the open-source code of the coin instead of any corruptible institute. Moreover, Cryptocurrencies ensure that the no can free the funds of the investor or dictate how to use the money. (Guo & Liang, 2016). Cryptocurrencies give full control to the investors for their funds, wallets and private key and this control is considered to rule number one in Cryptocurrencies. Moreover, while using the blockchain, no

middleman is required for any transaction. Following, its positive impact the upcoming Cryptocurrencies are also committed to using this feature. Moreover, the big plays of the industry including Litecoin and Bitcoin are also conducting transactions without a middleman.

Lack of fees and almost instantaneous time of the transaction of Nano, it has achieved some popularity. Instead of using the typical blockchain Nano is using the directed acyclic graph algorithm. Moreover, the increasing number of people also increased the efficiency of the network. In peer-to-peer payments, Cryptocurrencies might have a favorable and positive future. Request Network is another project that is expanding is an operation beyond peer-to-peer payments by using the blockchain interface like PayPal.

These platforms enable the users to acquire money transfer services without third-party intermediaries. These platforms have created a comprehensive mind map including all the possible ways of changing the financial industry. The team of these platforms is intended to fix payments, and point-of-sale. Most considerably Cryptocurrencies are intended to provide banking services without using banks. In this regard, Cryptocurrencies will provide these services up to 2 billion people on a global level (Lin, Chung, Shayo, & Beer, 2019).

The upcoming Cryptocurrencies are intended to provide banking services to the unbanked individual in a more affordable manner. In this regard, Steller enables the financial institutes to offer low-cost accounts along with the most favorable rates of interest. In this way, even in developing countries, business owners will be able to get an easy loan. It will also stimulate the global financial industry. However, exchanging Cryptocurrencies is having unwanted effects on the unbanked nations' financial industries. For instance, the initiative of improving and transforming the economic landscape of Uganda has been announced by Binance. In this regard, Binance is intended to use blockchain for providing youth employment opportunities in Uganda (Swan, 2015).

## **LITERATURE REVIEW**

Cryptocurrencies are considered the silver bullet for the government of America, and digital record-keeping is achieving universal acceptance. Moreover, with the growing trend of blockchain-related technologies, the future of legal binding is also changing considerably. Following this, more transparency is required for the partnership with the American government. However, vulnerability and confusion associated with blockchain technologies are creating a considerable impact on economic and technological validity. Many specialists, analysts, and legislative organizations are conducting frequent discussions on the potential use of these technologies and their implications.

## **IMPACT ON STOCK MARKET**

According to (Lee, 2015) among all the current financial and economic issues Cryptocurrencies have become the most trending topic of discussion. E-Commerce has achieved rapid growth since the crisis of Dotcom. With the ever-growing internet users, the number of online shoppers and online sale is rapidly increasing which is also transforming the retail industry. After the Dotcom bubble burst, some serious safety concerns were raised about online shopping and the use of credit cards. However, following the growth potential of e-commerce internet retailers have made massively oversized investments in e-commerce. The financial institutes are using Cryptocurrencies as the trusted third party for making electronic payments. However, Cryptocurrencies was working slowly because of the control of financial institutes, despite the satisfactory results of Cryptocurrencies for most of the transaction. Future prices of Cryptocurrencies are not foreseeable in an efficient market whereas the variations are random hence the price of Cryptocurrencies are following a random walk. Highly important randomness tests are applied to test the efficiency of Bitcoin while avoiding spurious results to capture Bitcoin's dynamics (Lee, 2015).

For some people, trading in the market of Cryptocurrencies fulfills the same purpose as traditional stock market trading does. The main reasons behind the investment in the traditional stock market are motivation, ownership and profit maximization and Cryptocurrency market also fulfills all three reasons. Therefore, investors can use Cryptocurrencies to go global.

## **IMPACT ON CURRENCY**

Extance has described that in the context of the crypto economy the currency could mean different things instead of the basic meaning of serving as the payment mechanism in exchange of good and services (Extance, 2015). Moreover, in the crypto economy, the money is also referred to as something valuable that can be developed usefully in some situations. It can also be described as a value unit that can be used and earned in certain economic systems. Cryptocurrencies are similar to the idea of app coin, currency or token that allows access to different economic systems. The continued cultural and market presence of Bitcoin prompts many people to ask questions about the functions and effects of Cryptocurrencies on the current monetary policies. It is expected that the digital currency has the potential to affect the central banks' abilities to manage the goals of national policy. On the other hand, some

analysts believed that the central banks could use this opportunity and gain considerable advantages if they issue their own national Cryptocurrencies. However, in the near future, these outcomes don't see achievable (Extance, 2015).

## **METHODOLOGY**

This writing is based on descriptive research. Descriptive research uses qualitative methods for the collection of qualitative data. The core purpose of this study is to create comprehensive knowledge about the theories and practices about the factors having the potential to influence the future of digital currencies. Specifically, the impact of Cryptocurrencies on the financial industry and economy will be accessed. This study is based on secondary research as it is intended to identify the factors of the association with digital currency. These factors have the potential to influence the scope and future of digital currencies.

Another objective associated with this research is to access the growth potential of Cryptocurrencies along with their future impact on the financial industry and the global economy. Moreover, it is also intended to discover the ways to regulate digital currencies in an effective manner. Furthermore, the reliability of the currency will also be accessed to understand that to what extent the investment in digital currency is valuable. The nature of the aims and objectives of this research is qualitative. Therefore, it required considerable discussion about the positive and negative impact of Cryptocurrencies in the future.

The research is secondary in nature, therefore, to fulfill the research objectives the factors having the potential to change the future of Cryptocurrencies are extracted. All the factors are related to the digital currency's future. These factors include the illegal use of digital currency specifically Cryptocurrencies in the financial industry. To access the association and make clear analysis the previous research will be considered in the literature review section. The previous researchers have the competencies to provide accurate associations between these factors and digital currencies. Moreover, internet sources including media, blogs, journal articles, websites, and books will also be used to create an in-depth understanding of the topic.

## **FINDINGS**

Cryptocurrencies ensured a wide range of safe and secured monetary options for the people of all classes whereas, the government-backed currencies of the world are not offering such monetary options. However, currently, Cryptocurrencies exist in the small corner of the global financial market as an experimental appearance. Therefore, currently, Cryptocurrencies are unable to restrain the monetary policy of the central banks. However, Cryptocurrencies provide a required escape to people living in uncertain and desperate economic situations. In order to the monetary administration, few central banks are also taking an interest in the implementation of blockchain technologies. However, in such a situation, it will remove their managing abilities of the national money supply. There are chances that the distributed ledger technologies can be adopted by central banks to improve their settlement services or they can buy Cryptocurrencies as part of the reserve portfolios of the bank (O'SULLIVAN, 2018).

However, it is a long process to make stock investments outside the home country. Cryptocurrencies provide an easy alternative to this across countries' stock investments. Hence it can be beneficial for the people wanted to have global investments. ICO has replaced IPO, and it is also preferred over traditional methods of investment due to its effortless investment opportunities.

The ICO bench has confirmed that Cryptocurrencies have considerably disrupted the stock markets. Investors have an opinion that the prices of digital currencies can surge in no time similar to Bitcoins. Initially, it was quite easy to ignore Cryptocurrencies in all their aspects and merits, but it is expected that soon things will be changed. Cryptocurrencies will be considered as an alternative to traditional ways of investments (Thumar, Dhdhat, Chaudhari, Hadiya, & Ahir, 2016).



## CONCLUSION

Based on the above mentioned discussion it is concluded that the upcoming Cryptocurrencies have a positive impact on the financial industry. However, the response of the financial industry towards Cryptocurrencies varies around the globe and over time. In this writing, the response of banks is viewed with respect to the growing craze of Cryptocurrencies. It is important to understand the current, and future response of banks toward Cryptocurrencies as the banks are controlling large institutional capital and leverage. The shift towards decentralized currency systems is raising lots of questions about the future economy. Due to the limited supply, Cryptocurrencies will become deflationary currencies similar to the tokens that exist in the supply due to mistyped transaction requestors' loss of private keys. No one knows about the future impact of the completely deflationary and decentralized financial system. Following this uncertain future associated with Cryptocurrencies majority of companies and consumer around the world trust the central banks and prefers to use fiat currency in order to ensure economic stability.

## Competing Interests

The author declares no competing interests

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