

Topic Page: [Cryptocurrency](#)

Definition: **Virtual Currency** from *Dictionary of Information Science and Technology*

the currency for use in virtual worlds that is accumulated through activity in the virtual world, through purchase using some form of currency exchange, or as a reward for consumer activity in the physical world. It can sometimes be exchanged for physical world currency through exchanges or other trade mechanisms. (Nasco, Boostrom, & Coker, 2010)

Summary Article: **virtual currency**

From *The Columbia Encyclopedia*

a means of payment that is electronically created and stored, more specifically an unregulated electronic medium of exchange that operates like a currency but is created and controlled by computer software; also called digital currency. Virtual currencies generally are not backed by a national government and are not considered legal tender (Ecuador introduced a government-controlled electronic currency in 2015, and Venezuela introduced a cryptocurrency backed by its petroleum reserves in 2018, mainly to provide the financially distressed government with a means for making foreign payments). They range from those used by gamers in online multiplayer games to Bitcoin and other digital currencies that seek to replace or supplement existing legal tender as a medium of exchange.

Bitcoin, launched in 2009, is an electronic currency that uses cryptographic software and a peer-to-peer computer network to generate the currency and record transactions in it; because of this it is classed as a cryptocurrency. The best-known and most widely circulated virtual currency, Bitcoin allows its users to make online payments that are not subject to government or bank scrutiny, which has led law enforcement officials to express concerns over its potential or actual use in bypassing currency controls, in money laundering, and in financing terrorist or criminal activities. Unlike money stored in bank accounts or credit cards used to transactions, Bitcoin is subject to limited protections and regulations; it is not governed or supervised by any central authority.

Bitcoin saw a slowly increasing acceptance by merchants as a means of payment, and in 2015 the establishment of a debit card that could be linked to a Bitcoin account allowed the virtual currency to be used to pay merchants who do not accept Bitcoin. Bitcoin, however, also has been subject to speculation on exchanges where it is traded, which has led to significant fluctuations in its value at times, including an enormous spike in its value in 2013 and again in 2017–18. Such volatility led critics to question Bitcoin's utility and viability as a currency. The dramatic jump in its value in 2017–18 especially made it apparent that it had become a speculative investment, more like a security or commodity than a currency. Critics have also questioned the ability of any virtual currency to act as a medium of exchange when there is, as is true of Bitcoin, a cap on the number of currency units that can be created using the software. Other limitations slowed the process of recording transactions as use of Bitcoin increased, leading to the development of an alternative, Bitcoin Cash, that split off from Bitcoin in 2017.

Governments have generally not treated Bitcoin as a form of money but as property or a commodity; some governments have sought to ban the use of it because of its potential for evading currency controls and government scrutiny. In 2014 Bitcoin software was revealed to have a computer bug that

subjected it to attack by computer hackers and theft; the bug led to the bankruptcy of the largest Bitcoin exchange at the time. Another exchange had a security breach and suffered a large loss in 2016. Bitcoin can also be stolen through the theft of the private cryptographic keys used to identify ownership of the currency and through other means. The increased valuation of Bitcoin has spawned many other, mostly speculative and volatile cryptocurrencies, but some of them have won a degree of acceptance as a means of payment. Bitcoin and other cryptocurrencies have also been criticized for the increasing energy use by computers that validate transactions and generate additional currency.

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