

What Is Cryptocurrency?



A cryptocurrency is a digital or [virtual currency](#) that is secured by cryptography, which makes it nearly impossible to counterfeit or double-spend. Many cryptocurrencies are decentralized networks based on [blockchain](#) technology—a distributed ledger enforced by a disparate network of computers. A defining feature of cryptocurrencies is that they are generally not issued by any central authority, rendering them theoretically immune to government interference or manipulation.

- **A cryptocurrency** is a form of digital asset based on a network that is distributed across a large number of computers. This decentralized structure allows them to exist outside the control of governments and central authorities.
- The word “cryptocurrency” is derived from the encryption techniques which are used to secure the network.
- **Blockchains**, which are organizational methods for ensuring the integrity of transactional data, are an essential component of many cryptocurrencies.
- Many experts believe that blockchain and related technology will disrupt many industries, including finance and law.
- **Cryptocurrencies** face criticism for a number of reasons, including their use for illegal activities, exchange rate volatility, and vulnerabilities of the infrastructure underlying them. However, they also have been praised for their portability, divisibility, inflation resistance, and transparency.

Understanding Cryptocurrencies

Cryptocurrencies are systems that allow for secure payments online which are denominated in terms of virtual "tokens," which are represented by ledger entries internal to the system. "Crypto" refers to the various encryption algorithms and cryptographic techniques that safeguard these entries, such as elliptical curve encryption, public-private key pairs, and hashing functions.

Types of Cryptocurrencies:

- Ethereum (ETH) ...
- Litecoin (LTC) ...
- Cardano (ADA) ...
- Polkadot (DOT) ...
- Bitcoin Cash (BCH) ...
- Stellar (XLM) ...
- Dogecoin (DOGE) ...
- Binance Coin (BNB)

Advantages and Disadvantages of Cryptocurrency

Advantages

Cryptocurrencies hold the promise of making it easier to transfer funds directly between two parties, without the need for a trusted third party like a bank or credit card company. These [transfers](#) are instead secured by the use of [public keys](#) and [private keys](#) and different forms of incentive systems, like [Proof of Work](#) or [Proof of Stake](#).⁶

In modern cryptocurrency systems, a user's "[wallet](#)," or account address, has a public key, while the private key is known only to the owner and is used to sign transactions. Fund transfers are completed with minimal processing fees, allowing users to avoid the steep fees charged by banks and [financial institutions](#) for [wire transfers](#).

Disadvantages

The semi-anonymous nature of cryptocurrency transactions makes them well-suited for a host of illegal activities, such as [money laundering](#) and [tax evasion](#). However, cryptocurrency advocates often highly value their anonymity, citing benefits of privacy like protection for whistleblowers or activists living under repressive governments. Some cryptocurrencies are more private than others.

Bitcoin, for instance, is a relatively poor choice for conducting illegal business online, since the forensic analysis of the Bitcoin blockchain has helped authorities arrest and prosecute criminals.⁷ More privacy-oriented coins do exist, however, such as [Dash](#), Monero, or [ZCash](#), which are far more difficult to trace.

Special Considerations

Central to the appeal and functionality of Bitcoin and other cryptocurrencies is [blockchain](#) technology, which is used to keep an online ledger of all the transactions that have ever been conducted, thus providing a data structure for this ledger that is quite secure and is shared and agreed upon by the entire network of an individual node, or computer maintaining a copy of the ledger. Every new block generated must be verified by each node before being confirmed, making it almost impossible to forge transaction histories.⁸

Many experts see blockchain technology as having serious potential for uses like online voting and crowdfunding, and major financial institutions such as JPMorgan Chase (JPM) see the potential to lower transaction costs by streamlining payment processing.⁹ However, because cryptocurrencies are virtual and are not stored on a central database, a digital cryptocurrency balance can be wiped out by the loss or destruction of a hard drive if a backup copy of the private key does not exist. At the same time, there is no central authority, government, or corporation that has access to your funds or your personal information.

How Do You Get Cryptocurrency?

Any investor can [purchase cryptocurrency](#) through crypto exchanges like Coinbase, Cash app, and more.

What Is the Point of Cryptocurrency?

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How Does Cryptocurrency Make Money?

Cryptocurrencies allow for secure payments online which are denominated in terms of virtual "tokens," which are represented by ledger entries internal to the system. Investors can make money with cryptocurrency by [mining Bitcoin](#), or simply selling their Bitcoin at a profit.



What Are the Most Popular Cryptocurrencies?

Bitcoin is by far the most popular cryptocurrency, followed by [other cryptocurrencies](#) such as Ethereum, Binance Coin, Solana, and Cardano.

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