

CRYPTOCURRENCY: A NEW WAY OF EARNING

A. M. Bondarenko

Belarusian State University, Minsk;

nasysh@gmail.com; scientific supervisor – Yu. L. Maysyuk

Cryptocurrency is a new trend in business sphere all over the world. It gave us opportunities to earn, to produce, to sell. But the growth of popularity of it must be connected with understanding of its functioning, understanding of possibilities it gives us. According to statistics, there are hundreds Billion dollars invested in this sphere, which makes it worth our close attention, but misunderstanding, fake news and the lack of credible information arouses distrust and creates a gap between society and this budding sphere. The aim of this work is popularization and explanation of possibilities of earning, which are created by cryptocurrencies.

Key words: earning; cryptocurrency; crypto trading; ICO, blockchain; Bitcoin.

Over the last few years cryptocurrency became one of the most discussed topics. Experts all over the world are predicting either fall or success of this phenomenon. But why are people actively interested in it? Is there anything, that stands behind the popularity of cryptocurrency, or may all those experts, naming cryptocurrency another bubble, like .com, actually right? It doesn't matter what the answers for those questions are. The only thing, which is really important, is that cryptocurrency has become a goldmine for millions of people. People, who forecasted the success of cryptocurrency when nobody even knew what it was. People, who became millionaires overnight. So how was it possible to make money out of nothing a few years ago in this sphere, and is it possible to get a profit nowadays?

The first cryptocurrency was created in the year 2009 by Satoshi Nakamoto and its name was Bitcoin. Bitcoin was the first cryptocurrency based on blockchain technology, which is "an open, distributed ledger that can record transactions between two parties efficiently and in a verifiable and permanent way" [1]. All blocks in blockchain are secure because of cryptography methods that are used to protect data written in it. Thanks to blockchain technology, Bitcoin has a lot of advantages over the fiat money.

- First of all, the total number of Bitcoins is limited and only 21 Million of them will be produced. Production of Bitcoins is possible because of mining – a transaction record process with Bitcoins to blockchain [4]. Every user who confirmed Bitcoin's transaction gets a certain amount of Bitcoins as a reward. So, it is possible to say, that mining is the key factor for existence of the whole blockchain system. At present moment (May 2018) almost 17

Million, 81 % of the whole amount of Bitcoins, have already been produced. The thing is, that blockchain system regulates itself, and the difficulty of mining is constantly growing, so it will take decades until the last Bitcoin is produced. In this case we can say, that inflation is less likely to happen to Bitcoin.

- The next advantage of Bitcoin is decentralized blockchain system. There is no need to entrust your money to intermediaries, exchanges, banks, brokers. There is no censorship, which means that your Bitcoin wallet can't be blocked by someone for any reasons.

- High speed of transactions creates a possibility to transfer the money either to the house next to you, or to another continent in a minute. Also, the transaction fee is incomparable with any other money transfer service. Although Bitcoin system calculates a minimum price according to the amount of all current transactions, an average fee is about \$1,5. For example Western Union transaction fee starts from \$3, or 1,5 % in case of transaction starting from \$300.

- Registration of the wallet doesn't require any personal information or documents, which means that the wallet and all transactions are completely anonymous.

All those factors made Bitcoin, and cryptocurrencies in general, one of the most interesting spheres for investors all over the world.

Now, in May 2018, there have already been registered over 1600 cryptocurrencies. Bitcoin's price is \$9082, in comparison to \$0,001 in 2009, and the whole market capitalization of cryptocurrencies is \$418,6 Bn, 37 % of which belongs to Bitcoin. [2] According to research of Cambridge University, in 2017 there were 2.9 to 5.8 million unique users using cryptocurrency wallets, most of them using bitcoin [3].

According to these facts, we can say, that it is obviously one of the most growing and perspective spheres over the last few years. A lot of money was invested, a lot of money was earned.

There are 3 ways of earning in this sphere: mining, trading and ICO.

Mining is the process of adding transaction records to Bitcoin's public ledger – blockchain. All you need for mining is a client program with gigabytes of records about all transactions ever added to blockchain, electricity, access to the Internet and mining hardware, or mining farm, which consists of some video cards, processor, cooler, hard disk and power supply unit.

The main advantage of mining is passive income. As long as the system is plugged in, it will mine a certain amount of coins. But as it has been mentioned, the difficulty of mining is growing, and the more people are involved in this process, the less profit it gives to each member. Nowadays mining is

very slow and requires huge computing power, as well as electricity costs. But there are a lot of alternative cryptocurrencies or altcoins, which are easier to mine. For example, mining of Litecoin is 4 times faster than Bitcoin mining. The speed of mining depends on 2 factors: hash rate of hardware and coin. For example, at present moment (May 2018), if you buy Asic Antminer X3 for \$1,900 with hash rate 220 Kh/s and mine a coin Monero, a payback period will be 5 days and annual income will be \$135,180. And if you mine Dash on Asic Giant X10, which costs \$8,100, with hash rate 10 Gh/s, your payback period will be 19,693 days with annual income over \$150 [5].

So, as we can see, mining is very unstable and depends on too many factors, which we cannot influence. The quantity of mined coins is inversely proportional to the difficulty of mining. If the difficulty increases by 20 %, then the cryptocurrency income of each miner is reduced by 20 %. So, when a certain coin mining becomes super profitable, everyone starts mining it, hash rate starts growing, which means that every involved person starts getting less money.

Trading is another possibility of earning in this sphere. There is no difference between trading of regular currency and cryptocurrency. It requires the same trading skills, and follows the same rule: buy low, sell high. Most of altcoins' rates depend on Bitcoin's rate, which is pretty stable now, so the most profitable are new altcoins, because of their high volatility and liquidity, so their price can grow and fall by several hundred percent a day. There are a lot of cryptocurrency exchanges, so all you need to do is to buy some Bitcoins and trading can be started.

ICO (initial coin offering) took the best from Crowd Funding and IPO (initial public offering). Any blockchain- or cryptocurrency-based project can start ICO in order to get investments for its development. In case of IPO investors buy company's shares, and in case of ICO investors receive tokens, which are some kind of inner project currency.

The main task of the initiators of ICO is to sell as many tokens as possible, or at least to sell enough coins to develop their project. Their real value remains unknown until the project is released to the exchange. Investors will be able to use the startup tokens to obtain the services or goods provided by the ICO in the future, or even get dividends or sell tokens if the project goes to the stock exchange and further increases in value.

In 2017 there was a huge increase of investments in ICO. Only that year, according to Venture Fabric and TokenData report, decentralised projects collectively raised \$5.6 Bn, compare to 1 billion dollars of 'traditional' venture investing in blockchain startups in the same timeframe and a 'mere' 240 mil-

lion dollars raised by token sales in 2016. Only 48 % of all Token Sales (ICOs) were successful: 131 projects reported that they failed to meet their minimum threshold, and 347 sales did not report the end result of their token sales. The total number of token sales is 913, and the average capital raised is \$12.7 Mn. Collectively, the 10 largest sales raised close to \$1.4 Bn and roughly 25 % of the total capital raised in 2017. [6].

As we can see, ICO has a lot of possibilities both for investors and startups. In contrast to IPO, where people can invest only big amounts of money, ICO gives everyone a possibility to invest money in a project they believe in, although it also creates a field for fraudulence and speculating.

In conclusion, I would like to point out, that cryptocurrency is something, that has already been here. Everyone has heard about it, everyone knows about it and everyone speaks about it. It gave us a lot of possibilities to earn, to buy, to create something new. Those people, who invested in it a couple of years ago, are millionaires now. It became possible for them because of their knowledge, courage and belief. Those people, who get the information first, are the most successful ones, because they are able to use it in their favor. Only if we can analyze the tendencies, only if we know and understand, what is going on around us, we are able to compete successfully in this world.

References

1. Iansiti, Marco; Lakhani, Karim R. (January 2017). "The Truth About Blockchain". Harvard Business Review. Harvard University.
2. <https://coinmarketcap.com/all/views/all/>
3. Hileman, Garrick; Rauchs, Michel. "Global Cryptocurrency Benchmarking Study" (PDF). Cambridge University.
4. <https://en.bitcoinwiki.org/wiki/Mining>
5. <https://www.cryptocompare.com/mining/#/equipment>
6. <https://www.fabric.vc/report/>