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[Essay, Static Gk / December 4, 2022 / By Ritu Mehra](#)

Digital currency

Digital currency can be either centralized, where there is a central point of control over the money supply (for example – a bank) or decentralized. Where the control over the money supply is predetermined.



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What is Digital Currency

Digital currency is a form of currency that is available only in digital or electronic form. It is also called digital money, electronic money, electronic currency or cybercash.

A digital currency is a medium of exchange that is generated, stored and transferred electronically. Digital currencies are not usually associated with the government of any country or appear in physical forms such as coins and notes of traditional currencies.

The most common category of digital currency, is what comes to most people's mind when they hear the word. Cryptocurrencies rely on encryption to secure the processes involved in creating units and making transactions. They are used for online and in-person purchases in a similar way to traditional money and are accepted by an increasing number of vendors.

How does work Digital Currency

Digital rupee will actually be a currency based on other technology including blockchain. There are two types of digital currency – retail and wholesale. Where wholesale currency is used by financial institutions and retail digital currency is used by common people and companies.

Actually blockchain technology is decentralized. Meaning all types of information are on all the computers of a network. However, the digital rupee will be different from this. The reason for this is that it will be

regulated by RBI. It will not be really decentralised. You will easily be able to send it to each other from mobile and you will be able to buy all kinds of goods and use the services.

Cryptocurrency transactions take place through electronic messages that are sent across the network with instructions about the transaction. Instructions include information such as the electronic addresses of the parties involved, the amount of currency to be traded, and a time stamp.

This type of currency can be used to buy physical goods and services. But it may be limited to certain communities, such as for use within online games.

Types of Digital Currency

1. Virtual currency

Virtual currency, or virtual money, is a digital currency that is largely unregulated and issued. This currency is controlled by its developers and used and accepted electronically among members of a specific virtual community.

In 2014, the European Banking Authority defined virtual currency as “a digital representation of value”. which is neither issued by a central bank or a public authority nor necessarily linked to fiat currency, but accepted by natural or legal persons. It is a means of payment and can be transferred, stored or traded electronically.” A digital currency issued by a central bank is known as a central bank digital currency. For example- virtual currency, is a token which is defined and controlled by the semantics developers.

2. Crypto currency

Crypto is a digital currency designed to serve as a medium of exchange through a computer network. Which is not dependent on any central authority, such as government or bank, to maintain or maintain it.

Cryptocurrency does not exist in physical form (like paper money) and is not usually issued by a central authority. Cryptocurrencies typically use decentralized control, as opposed to Central Bank Digital Currencies (CBDCs). When a cryptocurrency is mined or created by a single issuer prior to issuance, it is generally considered centralized.

3. Central Bank Digital Currency (CBDC)

Central bank digital currencies are digital tokens similar to cryptocurrency issued by a central bank. They are measured against the value of the fiat currency of that country.

Many countries are developing CBDCs and some have even implemented them. Because so many countries are researching ways to transition to digital currencies. It is important to understand what they are and what they mean for society.

Characteristics of Digital Currency

1. Cheap International Transfers

International currency transactions are very expensive and people are charged high fees for transferring money from one country to another. Especially when it involves currency conversion. Digital assets can disrupt this process by making it faster and less expensive. Digital currency can also be exchanged from mobile sitting at home, which makes it very accessible.

2. 24 hours service

With digital currency, transactions work at the same speed 24 hours a day, seven days a week. Digital currency can be easily exchanged at any time. Money transfers take longer because the bank takes longer. Digital payments come in handy during weekends when banks are closed and cannot do transactions.

3. Transparency and efficiency will increase

Experts say that digital rupee will increase transparency and efficiency. It will be based on blockchain technology, allowing real-time tracking and ledger maintenance. It is also hoped that a digital rupee will promote financial inclusion and effective fiscal and monetary policy implementation in a country as large as India.

4. lowers transaction costs

The digital rupee will significantly reduce transaction costs and speed up account settlement as transactions can be recorded in the ledger in real time. Currently banks update the ledger at the end of the day, which means there is a lag.

5. No Physical damage

No physical damage. Unlike currency notes, there is no risk of damage to the digital rupee by way of damaging or losing it.

6. peer-to-peer transactions

Digital currencies are decentralized, which means you don't need any third-party resources like a bank or credit company to manage them, but it also means that your transactions are directly peer-to-peer. Hence there is no need for a third party to guarantee the transaction.

7. Safe for merchants

Digital currency transactions are validated in seconds. For merchants, this means less risk of check bounce or chargeback attempts. Once a transaction is written into the blockchain, it cannot be reversed, offering increased security for businesses. An increasing number of merchants see digital currency as the future and are working with it to conduct more of their business.

8. Discrete and Confidential

With fiat currency, most of your financial history is documented and controlled by third parties such as credit reporting agencies, banks, collectors and marketers. This does not happen with digital currencies.

Disadvantages of Digital Currency

1. Possibility of hacking

The digital origin makes digital currencies very susceptible to hacking. Hackers can steal digital currency from online wallets or change the protocol for digital currency. Thereby rendering them unusable, as proven by the many cases of cryptocurrency hacks. Securing digital systems and currencies is a work-in-progress.

2. Unstable value

Digital currencies used for business may have wildly value changes. For example, the decentralized nature of cryptocurrency resulted in abundance of low -capital digital currencies. Whose prices are in danger of sudden change in prices based on the craze of the investor. Other digital currencies have followed the same price trajectory in their early days.

3. Storage and infrastructure issues

Digital currency does not require a physical wallet as it has its own set of requirements for storage and processing. For example, an Internet connection is required, like smartphones and services related to their provision. Online wallets with strong security are also necessary to store digital currencies.

4. Uncertainty for the future:

Digital currency is still new and in the early stages of development. Because of this, the outlook is uncertain, and there is no guarantee that funds you hold digitally will remain useful or retain value.

5. More accessible to criminals:

While there are advantages to digital currencies being more accessible, there are also disadvantages. Digital currency can open avenues for criminal elements who want to exploit it for their own needs. Authorities are most concerned about money laundering or digital currencies being used to fund illegal activities.

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