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Bitcoin: Economics, Technology, and Governance

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Abstract

Bitcoin is an online communication protocol that facilitates the use of a virtual currency, including electronic payments. Bitcoin's rules were designed by engineers with no apparent influence from lawyers or regulators. Bitcoin is built on a

transaction log that is distributed across a network of participating computers. It includes mechanisms to reward honest participation, to bootstrap acceptance by early adopters, and to guard against concentrations of power. Bitcoin's design allows for money creation over time, and a public transaction history. Anyone can create a Bitcoin account, without charge and without any centralized vetting procedure—or even a requirement to provide a real name. Collectively, these rules yield a system that is understood to be more flexible, more

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private, and less amenable to regulatory oversight than other forms of payment—though as we discuss, all these benefits face important limits. Bitcoin is of interest to economists as a virtual currency with potential to disrupt existing payment systems and perhaps even monetary systems. This article presents the platform's design principles and properties for a nontechnical audience; reviews its past, present, and future uses; and points out risks and regulatory issues as Bitcoin interacts with the conventional financial system and the real economy.

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