

# Bitcoins - What are they and how do they work?

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Bitcoins have become quite popular over the past few years. But, what exactly are they and how do they work? Lack of a physical currency involved in the case of bitcoins has been one of the reasons that makes it a little difficult for a newbie to understand the concept of bitcoins. What is a bitcoin and what it is used for? These are a few questions we will attempt to answer by today's post.

## What is a bitcoin?

Bitcoin is a cryptocurrency. It follows the rules of cryptography to generate and regulate the units of this currency. Coming under the category of the digital currency, bitcoins can be treated as the decentralized digital currency for the practical purposes.

The digital currency is the brainchild of Satoshi Nakamoto and was invented in 2009. Since then, it has been internationally accepted, widely available and freely tradable in any region without any kind of restrictions.

## How does bitcoin work?

[Bitcoin](#) is just a digital value assigned to it. That would make it a theoretical currency with no physical element connected to it. The value of the coins you have and their verification is carried out in a peer-to-peer to the network.

Bitcoins can be described as the blocks of high-security data that are treated as real money. Computing and verifying this data needs computing power. Users who allow their computers to verify the coins and their value are called miners. These miners are allowed new bitcoins as a reward for their contributions. They can further use the bitcoins for any kind of service and that would continue the process further.

## How is bitcoin used?

Well, it follows the same stages as would be in the case of a debit card transaction. Each of the bitcoin users stores the data related to his coins in a program referred to as Wallet. One of the users will send the transaction request to another user either for buying or selling. Once they mutually agree, the peer-to-peer network analyzes the transaction and then transfers the corresponding value from one user to another.

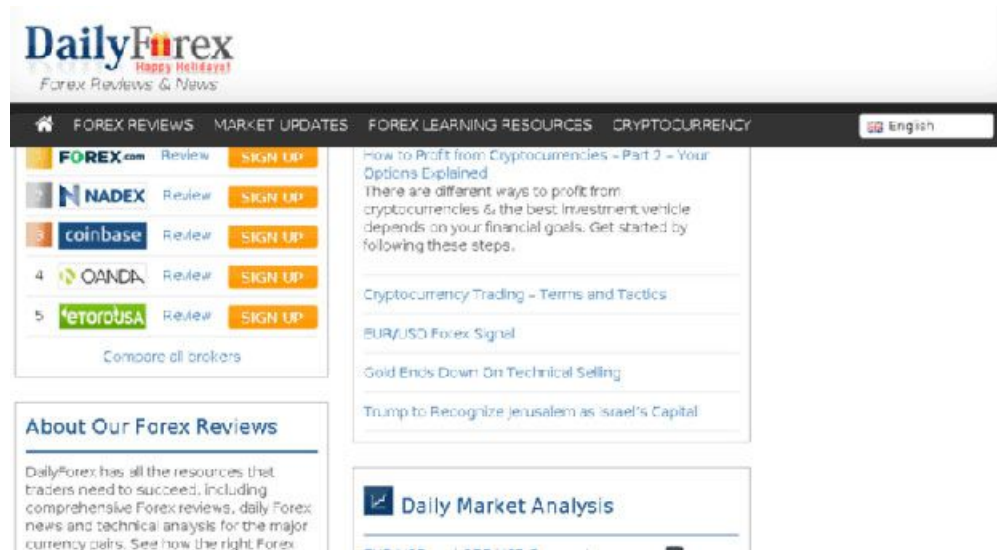
There are no centralized banks or any other sort of credit system. It is only the peer-to-peer network that completes the transaction with the aid of the bitcoin miners.

## Where can bitcoins be used?

If you analyze bitcoins from a purely economic sense, we would conclude that they are completely digital and thus most secure. It does come with a value and can be traded for goods and services. But, still, there have been only a few avenues that would help you use it the way you would use real money.

Well, there have been several companies that have begun accepting bitcoins as a mode of payment. The video game seller Steam, the social network Reddit and retailers in the US like Overstock have begun accepting the bitcoins as a standard payment mode. But, even then it should be understood that the bitcoins cannot replace the conventional currency. At least, as things stand as of now. [Commodity trading](#) is a similar area wherein the concept of cryptocurrency has been gathering importance. However, converting them to real money may not be an easy task.

The bitcoin faces a dual identity and that is precisely what would make it one of the controversial currencies. While some nations like Japan recognize it as a valid currency, there are several other nations like China and the US, which have been tightening the rope on the currency as being fraud.



### Is it safe to use bitcoins?

There are two faces of this “faceless coin”! Jokes apart, bitcoins have recently been the domain of hackers. They hold bitcoin wallets and have been into stealing the coins from others' wallets.

That apart, you cannot be sure when the system may fall apart. If it does, you stand to lose your entire wallet and the accumulated value of the bitcoins in there. There is no government agency or a bank to offer you bail out options.

Then the value fluctuation is yet another issue you may need to face with bitcoins. The fluctuations observed are more than in the case of conventional currency. It has been estimated that the value fluctuates ten times faster when compared to the US dollar.

### The bottom line

The most popular [cryptocurrency](#) has been going through a lot of theories in its favor and against since its introduction. The lack of recognition from the government organizations or the banks can be one of the reasons for the lack of its popularity outside the circle that it has been in right now. It would be interesting to see the progress of the decentralized currency in the days ahead.

We would wait to see if the concept takes off and more businesses recognize the benefits associated with a cryptocurrency. We may also need to find the stand that governments around the world take with respect to one of the most popular cryptocurrencies. Until then, it may be good to stay safe within one's limits.

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