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Dwyer's "The economics of Bitcoin and similar private digital currencies"

The general idea of this paper is to argue that the use of Bitcoin and similar digital currencies and their limited production can create an equilibrium in which they have some positive value. Throughout the paper, Dwyer provides answers to some questions on the usage of digital currencies. These include the question of what determines the change in the amount of digital currency weighted against national currencies, then currency creation, and how revenue is generated and who receives it. He then defines the complexities of mining Bitcoin. Mining is a process that individuals use to secure the private keys to bitcoins within the overall block chain, which gives them access to the digital currency. After defining Bitcoin, he provides statistics that prove how the currencies generate positive value.

Dwyer argues that digital currencies create an equilibrium where they have positive value, by countering a major flaw presented by critics, defining the currencies, and providing statistics. Double spending is the first argument presented against digital currencies. The claim is that individuals can commit counterfeit by duplicating the currencies. Victims often cannot get this currency back because they lose access to the addresses from the private keys. Dwyer counters this by stating that although the possibility of double spending cannot be eliminated, the elements of a peer-to-peer network and reliance on an open-source software provide enough security for the usage of digital currencies and Bitcoin. In addition to defining the main questions of Bitcoin and the currencies, he uses statistics that provide insight into Bitcoin prices and their volatility, to prove the main argument. Based on the data, digital exchanges are cheaper for trading than other choices. Further, data from January 2010 and February 2014 show that gold in the US was less volatile than Bitcoin. Overall, he concludes that these currencies generate positive value, which countries like Argentina may take advantage of through a denationalization of money.

Dwyer uses convincing arguments because he utilizes previous information and data from acclaimed researchers, while also providing insight from his own investigations on the market. For the most part, I agree that Bitcoin and digital currency can have positive value, but they are at risk of double spending. It is interesting that he mentions this flaw cannot be eliminated, which is why I am skeptical about the success of the currency. There wouldn't be much motivation to pursue large investments, given that it's very difficult to get back stolen currency. If I could rewrite this paper, I would not use phrases like "any appreciation is likely to be limited to an unpredictable extent by competition from other digital currencies". This is difficult to understand, rather I would rephrase it as, "Competition from other digital currencies will likely limit any appreciation to an unpredictable extent." The phrasing is important, because it makes the argument more clear and understandable.