

# “Bitcoin” Risk & Return related to this Virtual Currency in Pakistan (A Qualitative Analysis)

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## Abstract

Virtual Currencies are becoming popular these days in Pakistan like other countries. These currencies have no physical value, no intrinsic value & no central control. It has only the unique feature is easy to use, control by block chain network. It is not common in Pakistan due to less publicity. This research paper discusses the popularity of Bitcoin in Pakistan and its impact on Economy. Risk and Return related to virtual currency. The price determinants of Bitcoin and exchange rate.

**Keywords:** Bitcoin, Risk & Return, Virtual Currency.

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## 1. Introduction

Digital currencies are becoming popular day by day in the world. After the period of financial crisis in Europe they brought focus on a Digital currency called Bitcoin (Tetsuya Saito, 2015). The main features of these currencies includes,

- No intrinsic value
- physical form
- Traded on a decentralized platform
- No central control.

Approximately 2000 digital currencies have introduced in the world due to advent of advanced information technology and increasing users of internet in last few years. Bitcoin is the first virtual currency and still most popular in the world. The investors who were investing in Gold and Commodities are attracting by Bitcoin. The attracting features for investors are

- Faster transactions
- Easy remittances
- Decentralized frame work

Russia, China, Japan, United States, Denmark, Sweden, South Korea, Netherlands, United Kingdom, France and Australia are Bitcoin friendly countries nowadays. Entrepreneur and investors are accepting Bitcoin in place of fiat money in these countries (Andy Extance , 2015). Bitcoin have no official exchange rate but it determines on its average price for exchange. Today the rate of one Bitcoin is approx. Two lakh in PKR. During the last year its return has been increased by 250%. Who created Bitcoin as un cleared in economy; however, the first version was introduced in 2015. The popularity is increasing day by day by leaps and bounds.

## 1.2. Objectives of the Study

- 1) Fundamental technology of block chain and Study of Bitcoin
- 2) To study its impact on Pakistan

## 2. Literature Review

(Andy Extance , 2015), stated that Bitcoin have no intrinsic value, its value is determined by market, no security and have no centralized control. (Bohme, Rainer, Nicolas Christin, Benjamin Edelman and Tyler Moore, 2015), concluded that block chain has converted into digital currency like Bitcoin, which transfer through transaction. (Dr Mark Abell, Simon Fielder and Mumuksha Singh, 2014), stated that all government should define policies about Bitcoin otherwise declared it as illegal. (John Merriman Sholar, 2016), stated Bitcoin cannot be succeeded like block chain, because it failed to solve problem of financial sectors. (Andy Extance , 2015), stated that Bitcoin can never be succeed due too many unknown variables. (Kevin Dowd and Martin Hutchinson, 2015), held a research that Bitcoin only survive in short run in long run due too many variables it cannot survive. (Sandeep Bhattacharjee and Harmeet Kaur, 2015), stated that Block chain is in introducing stage of Bitcoin. (Sandeep Bhattacharjee and Harmeet Kaur, 2015), concluded that Bitcoin will open new doors of payments for investors in future. (Tara Mandjee, 2015), concluded that Bitcoin is a new experimental currency, which can be

impressive in future. (Tetsuya Saito, 2015) , stated that Bitcoin has pump and dumps, so rules & regulation should be defined for it.

### 2.1. Bitcoin: Concept and Features

- Crypto currency
- It operates on digital platform
- Have peer to peer based network
- No physical form nor any intrinsic value
- Its value being based on mathematical proof
- Faster transactions & ease of use
- Decentralized uncontrolled framework
- Contributing to its popularity
- It has a block chain network for its operation

Bitcoin needs use of encryption technology (Dr Mark Abell, Simon Fielder and Mumuksha Singh, 2014). Higher rate of hacking common in the world of virtual currencies. Further, no rules & regulation contributes a negative image too public (John Merriman Sholar, 2016). Return is increasing from 2015 till now and have reached to 29%.

### 2.2. Comparative performance evaluation of Bitcoin with Gold and Property

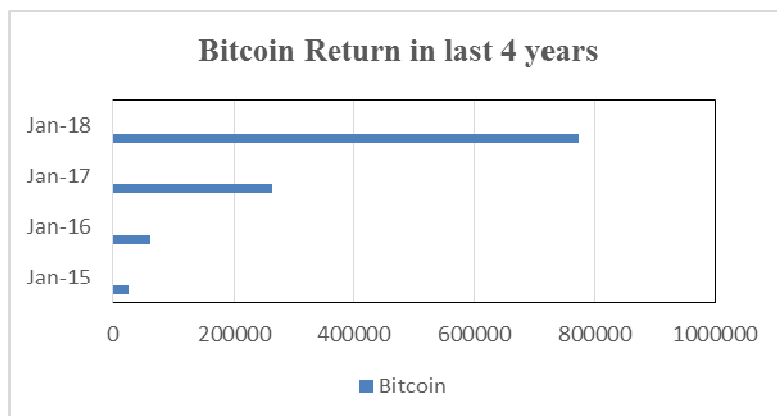
Bitcoin is generating outstanding return every year since year 2015. when it generated negative return On an average basis it has generated a yearly return of 29%, whereas it is only around 1.12% in case of property and 0.8% in case of gold. However, this return is based on different survey. As far as risk is concerned, the standard deviation of Bitcoin has been 92%, which is on a very higher side as compared to 12% of gold and only 14% in case of property. When we rank all three based on return per percent of risk, Property stands first, Bitcoin second and gold third.

**Table –1: Return of Bitcoin, Gold & Property in last 4 years**

Date	June 2015	June 2016	June 2017	June 2018
Gold Return	45,269.85	40354.33	38343.43	36,758.90
Property Return	33143	32135	36137	37138
Bitcoin Return	26354.1	6238.7	264123	771971

### Graphical Presentation:

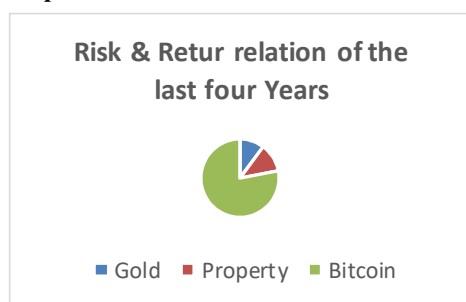




**Table-2: Average Return and Average Risk in last four years**

	Average Return	Average Risk (Std. Deviation)	Return per percent of Risk	Rank
Bitcoin	29%	31	0.92	3
Gold	0.8%	1.8	0.12	1
Property	1.12%	0.2	0.14	2

**Graphical Presentation:**



**2.3. Block chain as new digital technology**

All bitcoin transaction can take place within Block chain. It is decentralized technology, where Bitcoin is essential ingredient of Block chain (Bohme, Rainer, Nicolas Christin, Benjamin Edelman and Tyler Moore, 2015). Trading of bitcoin is not legal in Pakistan but some Banks have started showing interest in the block chain, the underlying technology under Pakcoin. Block chain works as a client-server technology. Transactions are entered through the servers and client completes that transaction by verifying, all record can easily have updated through these transactions. Block chain technology ensures security through encryption.

The most important features of block chain technology are

- Incorruptible public ledger
- A distributed data base
- A shared ledger.

**2.4. Bitcoin and Pakistan**

- Most people are still unaware of virtual currencies due to lack of publicity, because of
- No legal backing but some exchanges have started operating, for example Pakcoin
- People trade Bitcoins without clearly understanding its mechanisms and related security risks

According to a domestic survey, more than 230 users are adding per day. Banking regulation & Policy of Pakistan illegalize all digital currencies, but still it is attracting people due to herd intrinsic.

However, there should be defined rule & regulation for Bitcoin (Tetsuya Saito, 2015). Regulator bodies should take proper action for it (Tetsuya Saito, 2015).

**3. Conclusion**

There is high return in case of Bitcoin with higher risk & uncertain future. It is in introducer stage in Pakistan. If Bitcoin is backed by anything than it can be secure (Kevin Dowd and Martin Hutchinson, 2015) and it should be

regulated. Still question arises how to classify Bitcoin as currency or commodity. If this is classified as digital currency, through Block chain transaction it can be easily operated.

It still need publicity in Pakistan, for awareness of people.

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