Bitcoin Appreciated 1000% This Year!

Imagine Carrying a Debt in Bitcoins...

Yesterday, the bitcoin briefly hit the US$11,000 mark, representing an appreciation of 1000% since the beginning of the year. The situation was even more ludicrous back in 2013, when its value skyrocketed from US$13 to US$1,000, or an appreciation of nearly 8000%. The bitcoin’s value then dropped to around US$200, representing a loss of 80%.

It is difficult not to broach the subject of a speculative bubble when it comes to the bitcoin. Since early 2013, its value has multiplied by more than 800. This is clearly more than the multiple of 5 seen on the NASDAQ during the tech bubble in the 1990s, and the multiple of nearly 20 experienced during the tulip mania that swept the Netherlands in 1636–1637. The bitcoin craze has far exceeded the obsession over tulips nearly 400 years ago.

Aside from the hope of major gains, little else can explain this deep devotion to bitcoins. Actually, this cryptocurrency and its similar counterparts are rarely used to purchase goods or services. Those who claim that its appreciation is testament to its superiority over traditional currencies are misguided. A solid currency cannot show such strong volatility. It would destroy the economy.

A concrete example is often more effective than a long theoretical explanation. Imagine you took out a 300-bitcoin mortgage at the beginning of the year to buy a house (a value of around C$400,000). Let’s assume an attractive interest rate of 0% and a monthly payment of 1 bitcoin over 25 years. Today, your mortgage payment would still be 1 bitcoin per month, but it would cost you over C$12,000 to pay it. In other words, you would likely be bankrupt. If every household, company and government was in the same situation, the global economy would be facing the worst economic crisis in history.

In economic jargon, a currency that continually goes up in value is known as a deflationary currency. Prices expressed in this currency, including salaries and asset values, must be constantly adjusted downward. Debts do not profit from deflation; they become more cumbersome. Clearly, this discourages credit and spending as it becomes more advantageous to save and wait for prices to drop. The bitcoin has other drawbacks that we have already addressed, like the lack of regulation and its use for illicit purposes.

The rapid ascent by the bitcoin appears to be purely speculative and it is difficult to predict when it will taper off. Those who are willing to try their chances need to understand that they are doing so at their own risk!

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**IMPLICATIONS**

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