Q66

With reference to 'Bitcoins', sometimes seen in the news, which of the following statements is/are correct? 1. Bitcoins are tracked by the Central Banks of the countries. 2. Anyone with a Bitcoin address can send and receive Bitcoins from anyone else with a Bitcoin address. 3. Online payments can be sent without either side knowing the identity of the other. Select the correct answer using the code given below (a) 1 and 2 only (b) 2 and 3 only (c) 3 only (d) 1, 2 and 3 Official key: B.

UPSC Civil Services Prelims 2016 · General Studies · 2 marks · Economy

Indian economy, budget, schemes - Prelims GS Paper I.

Explanation

(a)

Statement 1 claims central banks track Bitcoins, and statement 2 says anyone with an address can send and receive. Statement 2 is true of the open Bitcoin network, but statement 1 is not: Bitcoin is a decentralised ledger not issued or routinely tracked as a liability of a central bank. 1 and 2 only is not the key.

(b) Official key

Anyone with a Bitcoin address can transact with any other address on the network, and payments can be sent without either side knowing the legal identity of the other (pseudonymity). Central banks do not track Bitcoins as they track their own currency. Statements 2 and 3 are correct; 1 is not. That is the official key.

(c)

Statement 3 alone (online payments without knowing identity) is true but incomplete, because peer-to-peer addressing in statement 2 is also correct. 3 only is not the key.

(d)

All three would require central-bank tracking to be true. It is not, so this option is wrong.

Summary

Official key is (b) 2 and 3 only. Bitcoin is a decentralised cryptocurrency running on a public blockchain. Addresses can send and receive without a bank intermediary, and counterparties need not know real-world identities, though the ledger itself is public. Central banks do not operate or systematically 'track' Bitcoin as they do fiat. Statement 1 is the false claim. AML rules may later attach to exchanges, but that does not make statement 1 correct.

Related possible facts

These can be asked in a future Prelims paper.

Satoshi Nakamoto
Pseudonymous author of the 2008 Bitcoin white paper

Blockchain
Distributed ledger of timestamped transactions

RBI and virtual currencies
India has warned on risks; legal treatment has evolved via courts and later law

Pseudonymity vs anonymity
Addresses are not names, but flows can be analysed on-chain

Mining
Proof-of-work that adds blocks and issues new bitcoin