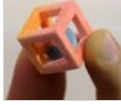


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FOREIGN EXCHANGE

# A Primer on Bitcoin and Its Rise

Wild Fluctuations, Regulatory Scrutiny and a Mysterious Origin

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By ANDREW R. JOHNSON

Feb. 25, 2014 7:29 p.m. ET

Although it isn't a household name, [bitcoin](#) has quickly gained cult status among believers in virtual currencies, thanks to wild fluctuations in its price, moves by mainstream retailers to accept it for payment and increased regulatory scrutiny.

[Bitcoin](#) refers both to the currency itself, which can be used to pay for real-life goods and services, and the payments system consumers can use to send the currency to one another from their so-called digital wallets.

The currency was created by Satoshi Nakamoto, a person or group of people who outlined the idea for the technology in a white paper in 2008.

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Bitcoins are created through a process known as "mining" in which high-powered computers solve complex math problems.

Transactions are recorded in a ledger, which is used to track the currency's movement. For some enthusiasts, Bitcoin's appeal lies in the fact users can remain relatively anonymous in a transaction, save for their account numbers, email addresses or some other identifiers.

The total number of bitcoins that can be created is capped at about 21 million, and more than 12 million have been created so far, according to Blockchain.info.

Early on, the currency drew interest mainly from technophiles, but bitcoin became more popular as its price soared in 2013 from \$13 to more than \$1,100, drawing in speculators. More retailers, meanwhile, have begun accepting bitcoins for payment both online and at physical stores, including Overstock.com and TigerDirect.com.



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Proponents say they see promise in the ability to use Bitcoin to cut the costs they incur to accept credit and debit cards from companies like [Visa Inc.](#) (V +0.63%) and [MasterCard Inc.](#) (MA +2.08%) Bitcoin's technology also could provide an alternative to the large money-transfer networks operated by [Western Union Co.](#) (WU +1.18%) and [MoneyGram International Inc.](#), (MGI +3.02%) which enable consumers to send money to others all

over the world.

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"The structure of Bitcoin as a payments system appears to have some merit, about which investors" in traditional payments companies "should take note," James Friedman, an analyst who covers Visa and MasterCard for Susquehanna Financial Group, wrote in a research note in December.

Still, many observers say it is unlikely that Bitcoin would take a significant chunk of the \$4.08 trillion of payments made with U.S. cards from Visa, MasterCard, American Express Co. and Discover Financial Services last year, [according to the Nilson Report](#), a payments-industry newsletter.

Consumers who don't have the technical ability to mine bitcoins can buy the virtual currency from online brokerages, such as Coinbase, or swap them with each other through their digital wallets.

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