

The Impact of Digital Currencies on the Financial System and the Social Economy

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ABSTRACT

Digital currency, also known as electronic currency or virtual currency, is a type of currency that is not controlled by any central institution or bank. In recent years, blockchain technology has gradually developed and grown, which has attracted wide attention from society. While changing our payment method, its impact on the economy, humanities and other fields can also be seen. As the first decentralized digital currency, the birth of Bitcoin marks the advent of the era of digital currency. With the diversification of the market pattern, the expansion of the transaction scope and the enrichment of the application fields, a variety of digital currencies play a vital role in the social and economic field with their unique advantages. However, how to improve the transaction security of digital currency, improve people's awareness of risk prevention, how to correctly view the advantages and disadvantages of digital currency, and improve the corresponding laws and regulations are all social and economic problems that need to be solved at the present stage.

KEYWORDS

Digital Currencies; Bitcoin; Financial System

1. INTRODUCTION

Digital currency is the digital form of cash. With the same paper money, it has the functions of circulation and payment, controllable anonymity, and investment and financing. Since its concept was put forward in 1983, after nearly 40 years of development, the related theory and practice have made important development. It has realized the evolution from complete anonymity to controllable anonymity, from online to offline, from a single-bank digital currency system to a multi-bank digital currency system, and from centralization to decentralization. The difference with Ali-pay, We-chat, and other electronic currencies is that even in the absence of the Internet, digital currency can still realize the transaction between buyers and sellers [1, 2].

Domestic scholars' research on digital currency mainly focuses on the economic impact, legal supervision, and technical security of digital currency. Many scholars have discussed the impact of digital currency on economic growth and financial stability through empirical analysis. At the same time, some scholars have conducted an in-depth study on the legal supervision of digital currency and put forward corresponding policy suggestions [3]. In contrast, foreign scholars have conducted more extensive and in-depth research on digital currency. In addition to the empirical analysis of the economic impact of digital currency, some scholars have conducted in-depth studies on digital currency from the perspective of sociology and psychology. In addition, foreign scholars also pay attention to the impact of digital currency on the global economic system and the promotion and application of digital currency in the world.

2. DIGITAL CURRENCIES MAIN CHARACTERISTICS

2.1. Decentralization

The decentralized nature of digital currency weakens the intermediary role of traditional financial institutions and reduces transaction costs.

2.2. Security

Digital currencies use advanced cryptography technology to ensure the security and anonymity of transactions.

2.3. Transparency

Transaction records of digital currencies are stored on a publicly available blockchain, making transactions more transparent.

2.4. Global

Digital currencies are not restricted by geography and can be circulated globally without obstacles.

3. THE IMPACT OF DIGITAL CURRENCIES ON THE FINANCIAL SYSTEM

3.1. Remodeling of Financial Market Structure

The rise of digital currency may have a reshaping effect on the traditional financial market structure, reducing the status of financial intermediary, and weakening the traditional profit model of banks.

3.2. Monetary Policy Impact

The decentralized nature of digital currency may challenge the implementation of monetary policy, and the transmission effect of national monetary policy may be affected.

3.3. Regulatory Difficulty Increases

The anonymity and cross-border liquidity of digital currencies make regulation more difficult, which could lead to new challenges for financial regulators.

3.4. Financial Market Stability

The volatility of digital currency may have a negative impact on the stability of financial markets.

4. THE POSITIVE IMPACT OF DIGITAL CURRENCY ON THE ECONOMY AND SOCIETY

Digital currencies have greatly improved the efficiency and convenience of the financial system. The traditional financial system often has cumbersome transaction processes and high transaction costs, and the emergence of digital currency has greatly simplified the payment process. Through block chain technology, digital currency can realize decentralized, secure and efficient transactions, making cross-border payment, micro-payment and other scenarios more convenient. In addition, digital currency has strong liquidity and fast trading speed, which enables capital to circulate more quickly

and promotes the activity and prosperity of the economy. It can also be easy for people to buy what they want at home without cash. It not only saves labor costs, improves the efficiency of collection and payment, but also facilitates people's life.

Table 1. Bitcoin fees compared with mainstream payment platforms in 2013

Variables	Retail	E-commerce	Money Transfers
Market volume (millions of US dollars)	10383	609	549
Average rate of mainstream payment platforms (%)	2.5	2.99	8.9
Bitcoin System rate (%)	1	1	1
Rate difference using bitcoin (%)	1.5	1.99	7.9
Major payment platform transaction fees (in millions)	259.6	18.2	48.9
Bitcoin System Transaction Fees (millions of US dollars)	103.8	6.1	5.5
Potential savings using Bitcoin (millions of dollars)	155.7	11.8	43.4

Digital currencies promote the innovation and development of fin-tech. The emergence of digital currency has profoundly changed people's understanding of the financial system and financial instruments. On this basis, the fin-tech industry has kept innovating and launched many new financial products and services, such as smart contracts, decentralized finance (DeFi), etc., which have further enriched the ecology of the financial market and provided more diversified financial services for the society. Living expenses such as electricity and water charges, endowment insurance, housing providence funds and other delivery activities have also successfully become electronic, so that people can solve the basic needs of life without leaving their home, and there will be no more down time, unable to pay.

Digital currencies provide a new impetus for economic growth. As a new store of value and exchange of value, digital currency can stimulate market vitality and innovation and promote economic growth. Many innovative industries are at the fore, increasing the possibility of people's consumption, driving the social economy while stimulating consumption, and contributing to the growth of the national economy. Since the COVID-19 epidemic in 2020, the national economy has fallen down, many enterprises are on the verge of bankruptcy, and the national economic form is in trouble. Innovative enterprises have become a life-line, making a huge contribution to alleviating the economic situation.

4.4 Digital currencies protect users' privacy to some extent. Traditional banking institutions in transactions need to obtain the user's identity information, to ensure that the transparency of transaction, but the information has a high leakage risk, or some money may disappear, including some small payments, when the payers need to check accounts, or forget the source of a sum of money, the cost of digital currency records can be found through mobile phones and other electronic devices. Instead of arriving at traditional institutions such as banks, traditional transactions are likely to involve commercial dangers such as confidential secrets, and digital currencies avoid this risk through electronic transactions. Digital currencies make transactions anonymous by using encryption technology and public key private key system. This feature has attracted some users to use the digital currency.

5. THE NEGATIVE IMPACT OF DIGITAL CURRENCY ON THE ECONOMY AND SOCIETY

The anonymity of digital currencies increases the likelihood of illegal activity. In the traditional financial system, transactions can be tracked through banks and other financial institutions, which plays an important role in combating illegal activities such as money laundering, drug trafficking and terrorist financing. However, the anonymity of digital currencies makes these illegal activities more

hidden and regulation more difficult. Some criminals take advantage of this characteristic to conduct illegal transactions, posing a threat to social security and stability. Telecom fraud is becoming increasingly rampant in recent years, countless victims in line with the risk of try to try, start profit, fell into the trap of criminals, finally, in irreparable difficulties, especially for teenagers, mind is not mature, in the face of temptation discrimination is low, many criminals use the characteristic of teenagers to earn profits.

The price of digital currencies is extremely volatile, which poses risks to both investors and consumers. Due to the lack of an effective regulatory mechanism, the digital currency market often rises and falls, and many investors suffer huge losses. In addition, the price of digital currency is affected by many factors, including market supply and demand, policies and regulations, technological innovation, etc., which makes consumers face the risk of price uncertainty when buying goods and services.

6. EPILOGUE

Digital currencies show significant advantages in improving transaction efficiency, reducing costs, enhancing financial inclusion and promoting technological innovation. These advantages not only promote economic development, but also promote social progress. Despite some potential disadvantages, these problems can be effectively managed through appropriate policy and technical means. Therefore, the advantages of digital currency are greater than its disadvantages, and it will become an important direction of future financial development. digital currency has brought unlimited convenience to people's lives. The negative impact on society cannot be ignored. As the product of Time, crystallizing the wisdom of the people, people should raise their risk awareness and discrimination ability in the process of acceptance and using, and face it with a rational attitude. Through understanding the basic knowledge, pay attention to policy dynamics, strengthen personal information security and other measures to self-protection. The government and other regulatory authorities should also strengthen the supervision and norms of digital currency, improve the corresponding laws and regulations, so that digital currency can further facilitate people's life in an open and transparent environment, and bring real value and convenience to the society.

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