Society & Social Justice · GS - I

What is Cryptocurrency? How does it affect global society? Has it been affecting Indian society also?

EXAM YEAR	PAPER	SUBJECT
2021	GS - I	Society & Social Justice

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Definition of cryptocurrency, blockchain technology, decentralised transactions, financial innovation, cross-border payments, price volatility, cybercrime and fraud, Indian taxation framework, RBI concerns, investor protection, regulation and innovation.

Model Answer

Introduction

Cryptocurrency is a digital asset secured through cryptographic techniques. Many cryptocurrencies operate on blockchain or other distributed ledger systems without a central issuing authority.

Impact on Global Society

- **Financial innovation:** Blockchain enables digital transactions and supports decentralised financial applications.
- **Cross-border payments:** Some cryptocurrency systems facilitate international transfers, although costs and processing times vary.
- **Investment opportunities:** Cryptocurrency markets have generated new businesses, technological research and investment opportunities.
- **Financial risks:** High price volatility, fraud, cyberattacks and platform failures expose investors to substantial losses.
- **Illicit activities:** Pseudonymous transactions may be exploited for money laundering and other financial crimes.

- **Environmental concerns:** Certain proof-of-work cryptocurrencies consume substantial electricity.

Impact on Indian Society

- **Retail participation:** Cryptocurrency trading has attracted Indian investors and encouraged the growth of exchanges and blockchain-related businesses.
- **Consumer vulnerability:** Speculative investment, misleading promotions and scams can cause significant financial losses.
- **Regulatory response:** India taxes specified virtual digital asset income at 30%, with a 1% tax deducted at source on qualifying transactions, subject to applicable rules.
- **Financial stability concerns:** The Reserve Bank of India has highlighted risks relating to monetary sovereignty, financial stability and consumer protection.

Way Forward

India needs clear regulation, anti-money-laundering safeguards, investor education, effective taxation and international cooperation. Blockchain applications should be evaluated separately from speculative cryptocurrencies.

Conclusion

Cryptocurrency presents opportunities for financial innovation but also creates significant risks. Balanced regulation must encourage useful technological development while protecting consumers and financial stability.

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