As Bitcoin (or BTC), which was created in 2009, breaks new records each week and has now passed the 9,000-dollar mark (versus 10,000 dollars at the start of 2017, and 1 dollar in 2011), economists are divided: is it really a new, decentralised currency free from any central bank or is it a purely speculative instrument? Eric Pichet, a KEDGE professor specialising in macroeconomics and monetary policy, shares his take on the phenomenon.

"Increasingly widely accepted as a means of payment with no bank intermediation and absolutely no fees, Bitcoin has some of the attributes of a headless currency. Nevertheless, it has no intrinsic value – not even as a collector's item because it is intangible," emphasises Eric Pichet. "Nor is it a financial asset like a stock or bond because it has no returns. Its only investment value lies in the possibility of appreciation bestowed on it by those who hold it: it is an asset with no underlying."

An Eric Pichet's view, the phenomenon is characterised by the following elements:

- The ingenious idea of its creator, the legendary Satoshi Nakamoto, was to have designed a system of issuance founded on new technologies that are completely decentralised and, for the moment, completely secured by the blockchain users. In addition, the IT algorithm limits the ultimate number of bitcoins to 21 million (18 million are currently in circulation). The relative rarity of the virtual product explains its rise in large part because only 0.01% of the world population own any. Therefore, one can imagine the effect on its trading price if the primary cause of speculative bubbles, namely FOMO (Fear Of Missing Out) were to spread to a mere 1% of the world population, or 100 times more holders.

- It was reported that the price of Bitcoin had exceeded the price of gold based on a comparison of the 10,000-dollar Bitcoin figure to the 1,300-dollar price tag of one ounce (31 grams) of gold. However, this comparison has little meaning because the total capitalisation of all the bitcoins issued – 160 billion dollars – can hardly be compared to the total value of the world's gold reserves, which are amount to 8 trillion dollars. Then there is the estimated value of all the world's financial assets at 150 trillion dollars, not to mention 240 trillion dollars in international real estate.

As Eric Pichet concludes, "Under these conditions, what type of needles would burst the bubble? The first would be the heist of the century: an intrusion in the blockchain system that created a deluge of fake bitcoins. The second would be the adoption of a common position by all national governments and central banks to prohibit this means of payment in the name of fighting fraud, for example.

In the end, the Bitcoin bubble would join the long list of great collective follies, including the Tulip Mania of 1637, the Law's System in 1820 and the 2000 Internet bubble. Unfortunately, even assuming there is a way to sell Bitcoin short, this strategy should be avoided as it could prove disastrous. Indeed, no one can predict how high it will go, nor how long the speculative wave will last. And as Keynes taught us, "the market can stay irrational longer than you can stay solvent". So there is just one thing left to do: sit on the bank of the river and watch for the Bitcoin cadaver to float by one day."

Eric Pichet is at your disposal for any requests for reports or interviews concerning this news item, in English or French.
More about Eric Pichet:
Eric Pichet, Professor and Director of the Specialised Masters Programme in Wealth Management & Real Estate Management (IMPI) has a doctorate and an HDR (Research Authorisation) in Management Sciences (2008, Université du Littoral Côte d’Opale) and a doctorate in law from Panthéon-ASSAS. His teaching and his research chiefly concern the global macroeconomic environment, monetary policy, alternative assets (including real estate) corporate governance, private taxation, public finances and fiscal economics. Among other things, he has published a methodological guide, L’Art de l’HDR, intended for doctors in social sciences, La Théorie actionnariale éclairée (Enlightened Shareholders Theory: Whose Interest Should be Served by the Supporters of Corporate Governance) and in 2016, La Théorie générale des dépenses socio-fiscales.

About KEDGE Business School:
KEDGE is a leading French business school with four campuses in France (Paris, Bordeaux, Marseilles and Toulon), three abroad (Shanghai, Suzhou and Dakar) and three partner campuses (Avignon, Bastia and Bayonne). The KEDGE community is made up of 12,600 students (including 25% coming from abroad), 183 professors (including 44% coming from abroad), 275 international academic partners and 55,000 alumni around the world. KEDGE offers 32 programmes in management, designed for students and industry professionals. It also provides tailor made educational programmes for businesses at national and international levels. KEDGE Business School is AACSB, EQUIS and AMBA-accredited, and is a member of the Conférence des Grandes Ecoles. It is also recognised by the French government, with labelised programmes, and has obtained the EESPIG label. KEDGE was ranked 40th by the Financial Times in the European Business School ranking and 37th globally in its Executive MBA ranking.

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