A Critical Analysis on the Influence of Virtual Currencies on Economic Growth

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Abstract

As PC and block chain innovation have kept on progressing, digital money has progressively assumed control over a portion of the jobs formerly played by lawful money. The suitability of involving digital money in the monetary market was analysed in this review. We tended with the impacts of electronic and crypto currency on the amount of money available for use by consolidating the money demand hypotheses of Karl Heinrich Marx and Milton Friedman, individually. Thus, we reach the determination that over an extended time, digital money in India affects current stores. Likewise, utilizing the nearby balance model of levy influence in little countries, the government assistance impact level of different nations taking on different arrangements on digital currency is evaluated, and the approach choice of boosting the general government assistance level is investigated in light of game theory. We finish up by making a few proposals for fostering an overall monetary oversight structure.

Keywords: Digital currency, Crypto currency, Demand for money, Game theory, Currency regulation

1.   INTRODUCTION

Developing political economy gradually Science and management have resulted in the separation of two opposing orientations that are now happily coexisting. One of them is a sizable business sector of the economy that engages with the government often. The other is the retail sector, which caters to both consumers and small enterprises. Large corporations were eventually obliged to refocus their enterprises, gradually give up conventional manufacturing, and focus on production and financial management due to the expansion of the population's economy of services. Asian and European nations were impacted by the global shift of society and consumer patterns. Remote sales of both products and services are now possible because to technological advancements in marketing and communications. Demand drives the development of qualitatively new payment instruments notwithstanding banks' restricted availability of payment instruments and consumers' conservatism and scepticism about emerging digital payment venues. These instruments must be focused on making payments quickly—almost instantly—on having access to L/C instruments, and on the micro financial aspect of their activities. Microfinance technology rapidly evolved into mobile payment systems by the 2000s. Local payment methods like Yandex, Webmoney, and Perfect Money. Global money has evolved throughout time, like PayPal. Future steps in development were taken as transactions costs continued to decline and the fight for netocracy's independence and anonymity became more ferocious. Technologies for the first virtual currency are emerging. Crypto currencies that very soon will spread their speculative frenzy to regular investors. But despite the excitement and upcoming fad, each of these tools helped the world economy come to a fresh perspective of reality. Government no longer serves as a depositary or guarantee; banks no longer serve as the exclusive source of Letters of Credit; and insurance firms no longer serve as a means of protection against breach of contract. With the advent of digital and crypto currencies, new economic paradigms have begun to question the conventional function of government in the sense of political economy. They have shown the new group of market participants and the new power dynamics for the present and the future. The author of this essay analyses the trend and provides a typology of several digital currencies from the perspective of the threats they pose to the conventional political and economic roles of the government. Additionally, he draws the conclusion that governments will soon confront challenges with competition as a result of the growing inclination for the growth of digital currencies.

1.1.   Background of the study

The advancement of electronic money has advanced quickly during the most recent 10 years. Digital monetary forms, like Alipay, Bitcoin, have created and are broadly utilized. In December 2010, Alipay appeared its portable speedy installment ability in the wake of being lawfully made in December 2004. The reception of cell phones and organizations with quick information rates has prompted a fast development in the size of Alipay's organization. Alipay essentially affects the Chinese economy and currency because of its wide use and the very first assertion of 870 million yearly dynamic clients in 2018. The sum and worth of electronic instalment exchanges in China have been steadily expanding throughout the course of recent years, as per figures from People's Bank of China (PBOC). In 2019, domestic electronic instalments adding up to around 1 trillion exchanges and 2857.03 trillion Yuan were made and displayed in Figure 1.
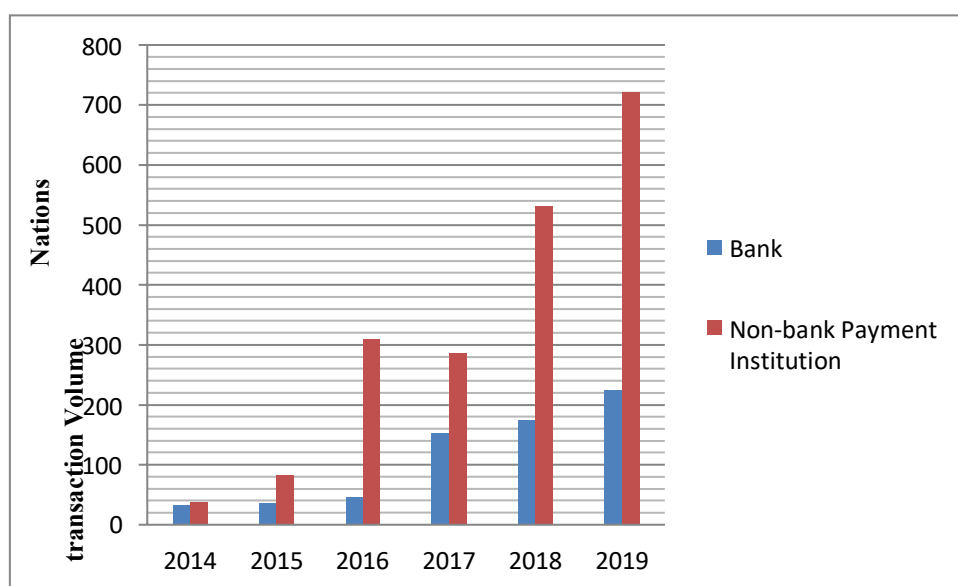

Figure 1: Electronic Payment business of China from 2014 to 2019 [1]

The 2019 World Installment Report from Capgemini uncovers that non-cash exchanges are extending rapidly on an overall scale. Non-cash exchanges moved by a normal of 22.6% in emerging countries (locales) somewhere in the range of 2013 and 2017, however exclusively by 7% in created economies in Europe, North America, and Asia [1] The examination projects that throughout the following three years, overall non-cash exchanges will add up to
$1.04 billion, with a build yearly development pace of 14%.

Table 1: Global non-cash transactions (in billions), broken down by area, from 2013 to 2017 [2]

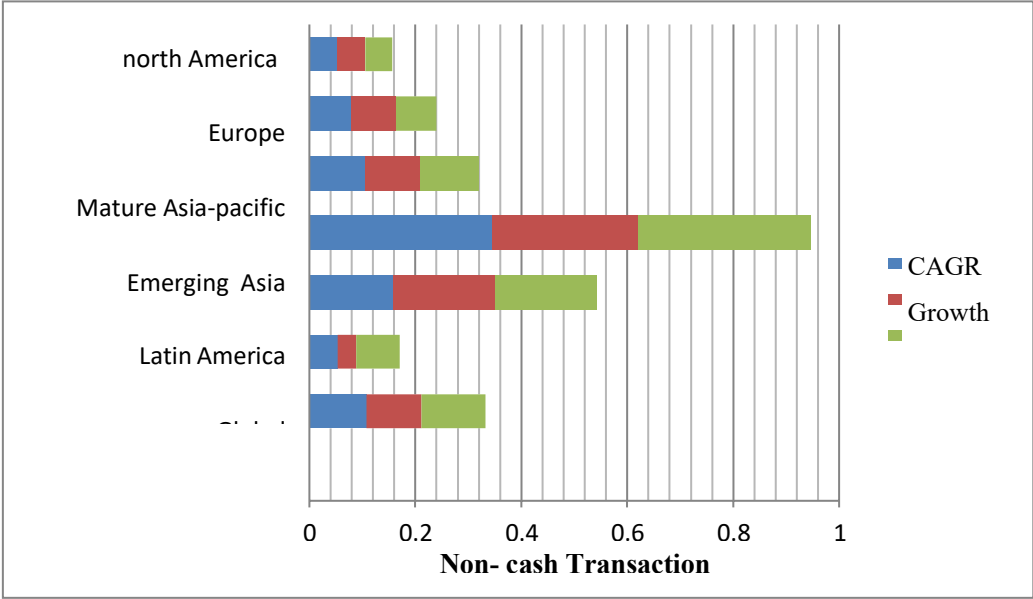|	CAGR	Growth	
	(2013-17)	(2015-16)	(2016-17)
Global	10.80%	10.40%	12.00%
Latin America	5.40%	3.40%	8.30%
MEA	15.90%	19.00%	19.30%
Emerging Asia	34.60%	27.60%	32.50%
Mature Asia-pacific	10.50%	10.40%	11%
Europe	7.90%	8.40%	7.60%
north America	5.40%	5.10%	5.10%

Figure 2: Global non-cash transactions (in billions), broken down by area, from 2013 to2017 [2]

1.2.   Need and Importance of Digital Currency in the Global World

To overcome the legal gaps that enable cryptocurrency crime to thrive, international cooperation and state action are needed since digital currencies are the unavoidable future. In a recent webinar conducted by Absa in partnership with the Globe Economic Forum's Global Futures Council and the Financial Action Task Force, financial and regulatory professionals from across the world explored digital assets and the money-laundering concerns they bring (FATF). Finding the right regulatory tools to manage the dangers brought on by increased cryptocurrency usage is a problem for regulators throughout the globe. The threats of financial crime, consumer crime, and money laundering cannot be fully addressed by the regulatory tools now in place. Launderers have used crypto currencies like Bit coin, Ether, and Ripple to "pay out" their winnings, instantaneously and anonymously sending transactions across the globe. This has raised regulatory scrutiny of crypto currencies as Shown in Figure 3.
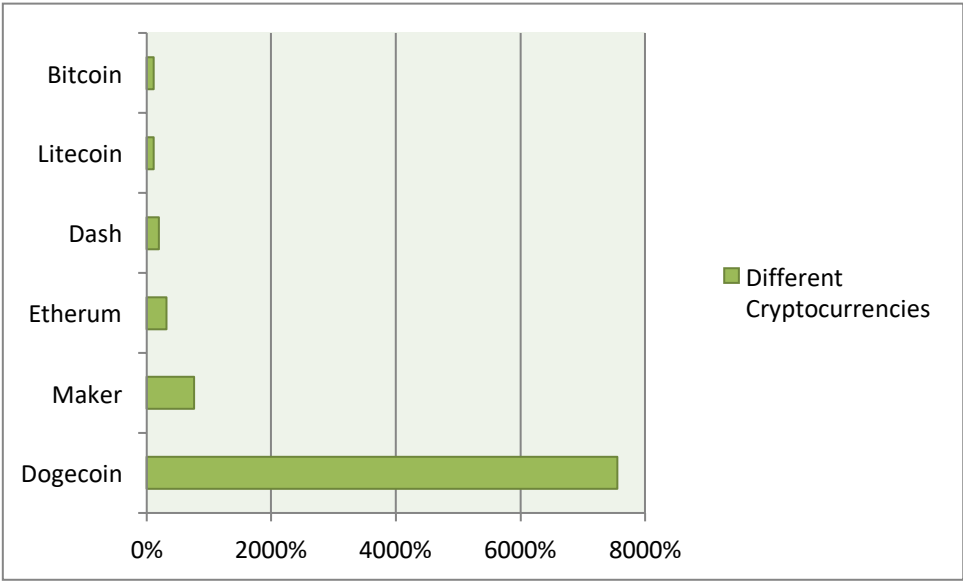

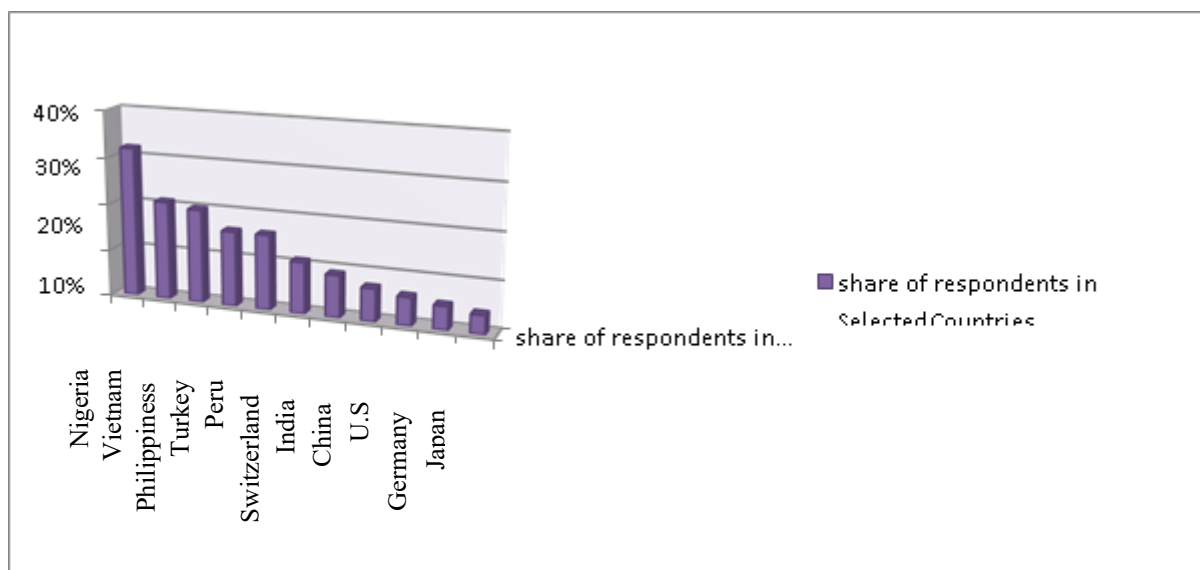**Figure 3: % change of Price of Selected crypto currencies in 2021 [3]**

Figure 4: proportion of selected country respondents that used or owned cryptocurrencies (2020) [3]

Purchasing crypto currencies is not regulated in South Africa, and according to Ronald Lamola, minister of justice and correctional services, this lack of protection has left customers highly exposed and resulted in some optimistic investors losing their money. The "know your customer" (KYC) protocol has been applied by several trading platforms and financial institutions; however this is not a common practise. This makes us susceptible to those who buy crypto currency assets to finance terrorism, launder money, get over exchange rules, and cover up illegal financial movements. Intergovernmental cooperation is essential for building a flexible but effective regulatory framework with coordinated responses to emerging trends. Although the police, the Hawks, and South African Revenue Services currently participate in an interdepartmental working group that looks into financial crime, there are proposals to extend that intelligence centre to include companies that offer services for crypto-assets. Central Bank Digital Currencies, or CBDCs, are further emergent digital assets. A total of 20 CBDCs are now in construction, and the People's Bank of China intends to replace physical money with the e-RMB or digital yuan. Participating Chinese individuals may download an app and enter a lottery to win money to use with designated service providers as part of a test initiative in multiple locations. Participants in the Chinese pilot experiment concur that the digital yuan is practical, effective, and secure despite being a massive infrastructure investment. CBDCs would improve commerce between nations, and China's early mover advantage might make their currency more widely accepted due to its security.

1.3. Objectives of the study

- To examine how digital money affects the economy from the standpoint of monetary quantity demand.

- To investigate the role that digital currency is playing in the economy today.

- To identify the COVID-19's method of effect on the growth of digital money.

2. LITERATURE REVIEW

Sarkodie, S. A., Ahmed, M. Y., and Owusu, P. A. (2022) inspected the Coronavirus wellbeing results might affect the evaluating of Bitcoin, Bitcoin Money, Ethereum, and Litecoin.

Andolfatto, D. (2021) consolidated the syndication bank model proposed by Klein and Monti in 1971 with the public authority obligation model proposed by Precious stone in 1965. The review reasons that the reception of a national bank's digital currency has no unfortunate results for bank loaning movement, and in specific cases, may try and assist with cultivating it. Higher restraining infrastructure store rates are the consequence of serious tension, which brings down

benefits however increments store subsidizing because of more extensive monetary consideration and wanted saving. An appropriately built national bank digital currency is probably not going to represent a threat to monetary steadiness, as indicated by theory and proof that are presently accessible.

Gaies, B., (2021) fostered an imaginative experimental methodology in light of Bitcoin feeling, drawing on exchange information rather than assessments of individuals who aren't really utilizing Bitcoin, as well as the autoregressive conveyed slack model and the nonlinear autoregressive appropriated slack model, the two of which catch the lopsided impacts of illustrative factors. This article shows the nonlinearity and deviation of this association in the short and long runs, as well as the handiness of surveying Bitcoin feeling utilizing exchange information, and uncovers areas of strength for an of the Bitcoin Wretchedness File (BMI) onshort-and long haul Bitcoin returns.

According to Fan Yifei (2018), the PBOC's future digital currency will use a two-level working framework. The PBOC distributes the method for trading the digital currency to qualified working foundations or banks, which then distribute the digital currency to the general public. The fundamental reason for this is that neither the current money supply framework nor the double design account are altered by the two-level model, which alters the debt holder loan boss relationship of the currency that is available for use. Without increasing reliance on the interbank market or affecting the loaning capabilities of business banks, the two-level model will also not result in "monetary disintermediation" because it does not compete with business banks' store money.

According to Mu Changchun (2019), the two-level structure of digital currency is appropriate for our public circumstances. It is simple to work on the recognition of digital currency and rouse the interest of business banks. The relationship between the account holder and lender of the currency that is available for use will not be altered by the two-level working framework. Businesses completely pay hold assets to the PBOC to ensure that the PBOC's digital currency is not oversold. The PBOC's digital currency is still at risk, supported by the bank's credit, with unlimited legal delicate.

According to Yi Posse (2020), the digital economy is unquestionably a significant driving force behind global financial development. The examination and application of legitimate data will aid in meeting the requirements of the general public in the digital economy,

improve the convenience, security, and resistance to duplication of retail payments, and ultimately accelerate the development of China's digital economy. As of right now, most studies on digital currency and electronic payment include electronic payment handled by Quick, Alipay, WeChat, and Apple Pay; digital currency handled by Bitcoin and Litecoin, which make use of blockchain technology; stablecoin handled by Libra; and digital currency handled by the national bank.

According to Arvind Narayanan and Joseph Bonneau (2016), Bitcoin is significant, original, fascinating, and consistent with sound theory. They unquestionably acknowledge that Bitcoin has a significant connection to other computer sciences, and that the advancement of these fields may eventually supplant those connections.

According to Yao Qian (2020), blockchain innovation is a trusted digital innovation, so its significance cannot be denied. To call it the foundation of digital time is not much.

Zhao xijun (2020) acknowledges that Alipay and WeChat actually accept RMB payments dueto the electronic payment method of charge card installments. The digital currency that is currently being planned by the PBOC is based on the block chain innovation of Piece coin and is basically a type of digital currency. The block chain itself is a data transmission that is encrypted and entirely based on web encryption technology. The only difference is that the information is given monetary weight and value.

3.   RESEARCH METHODOLOGY

In the first place, we use the money demand hypotheses of Milton Friedman and Karl Heinrich Marx to construct a numerical model of people's drive to satisfy their financial needs. Look at how electronic and crypto monetary standards influence the general degree of currency in the economy. Then, utilizing the time series model and the experimental examination approach, it is resolved what touch coins and electronic money mean for India's A0, A1, and A2 levels.

Second, we research the distinction in government assistance level when the public authority and the general population choose to acknowledge or dismiss digital money utilizing the nearby balance examination model of tax influence in little shut economy countries. The choice between the two gatherings to accomplish the Nash Harmony and boost the genuine government assistance influence is broke down utilizing game theory. Thirdly, by looking at the control of digital currency on the worldwide market, we recommend an arrangement of financial market regulation for digital currency from the point of view of the making of digital currency to its dissemination on the lookout.

4.   RESULT AND DISCUSSION

Based on the exchange volume from India's third-party payment platforms (TP) and the information on the annual exchange volume of Bitcoin in India, we have made an in-depth analysis of the impact of different currency levels, and also the impact on the level of digital currency. I judged Currency basis (BT). The logarithm of BT is used in the model to reduce the difference since around 2015 as the exchange volume change pattern of India's external instalment platforms moves towards stellar growth [14].

1.   Construct the time series model.

$$A0t = \beta1 + \beta2TPt + \beta3InBTt + \mu i \ A1t = \beta4 + \beta5TPt + \beta6InBTt + \mu i \ A2t = \beta7 + \beta8TPt + \beta9InBTt + \mu i$$

(TP: volume of outside flexible installment exchange (trillion); BT: Annual circulation of Bitcoin (per year) (A0: RMB 100 million available funds; A1:A0 minus a security deposit of 100 million yuan. A2: Cash and quasi-cash supplies (A1, term deposits, reserve deposits and other deposits)

2.   Augmented Dickey-Fuller Test

For A0, A1, and A2, unit root tests rush to eliminate autocorrelations. We performed an extended Dickie-Fuller test on these.

Table 2: Results of the ADF Test on A0 as Found

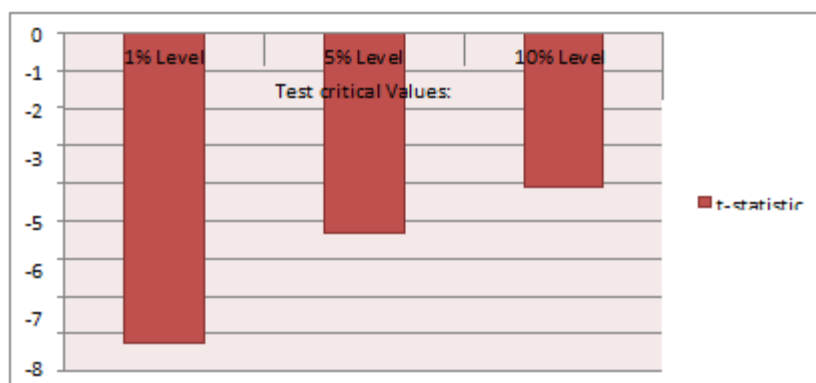|		t-statistic	Prob
Augmented Dickey-Fuller test statistic		-75.76739	0.0001
Test critical Values:	Level of 1%	-8.236400	
	Level of 5%	-5.338346	
	Level of 10%	-4.125636	

Figure 5: Results of the ADF Test on A0 as Found

A0t:The ADF test for the logical variable A0 selects the three models with the lowest AIC (SC, HQ, and HQ). The results remained predictable after testing, and the unit pull hypothesis of A0t could be ruled out at the 1% significance level. In the capture-pattern model, the fixed period is A0t. Finally, here are the results of applying the given test to an additional factor:

Table 3: ADF Result of All variables

| Parameters	Test statistic of ADF	Prob	Level of 1%	Level of 5%	Level of 10%	No matter Stable
A0	-75.1523	.0003	-8.23633	-5.3223	-4.1236	T
A1	-0.44556	.5236	-7.00352	-4.3323	-3.2365	F
D(A1)	-1.12366	.7456	-5.33236	-3.2333	-2.3633	F
D(A1,2)	-1.23656	.7541	-3.26663	-2.3633	-1.2333	T
A2	-1.23666	.7456	-7.002312	-4.1233	-3.2333	F
D(A2)	-1.62236	.3125	-5.236366	-3.3152	-2.3363	F
D(A2,2)	-2.36636	.0336	-3.263156	-2.3362	-1.3633	T
BT	1.23633	.9956	-8.23631	-5.1265	-4.2363	F
D(BT)	1.45233	.9455	-6.23623	-3.2333	-3.2366	F
D(BT,2)	0.71262	.8236	-3.23336	-2.3636	-2.3633	F
InBT	-2.36223	.1223	-5.23333	-3.2366	-1.2366	T
TP	-3.33321	.2364	-8.03233	-5.2363	-4.2336	F
D(TP)	-3.01003	.1023	-6.23633	-3.2336	-3.2333	T
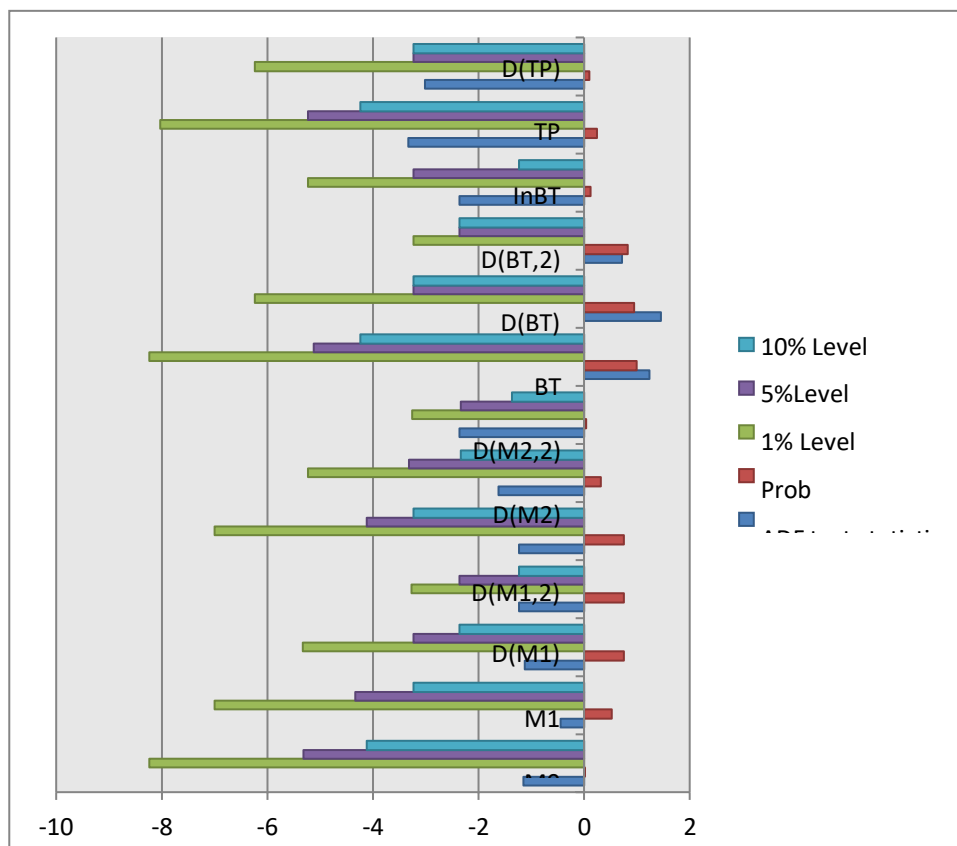
Figure 6: ADF Result of All variables

3.   Engle-Granger Co-integration Analysis

The model is then examined by the EG co-mix test to determine whether the made sense of factors and the non-fixed illustrative elements share a co-mix relationship after the ADF test on the factors. They will jointly develop the mistake remedy model in the event that this is the case. The OLS method was used to evaluate the relapse condition, and the remaining grouping was given. The following are the outcomes of the ADF test that were administered to the remaining group: The remaining succession's unit root test is carried out as follows: The two logical factors are put through a co-reconciliation test by the made sense variable A0:

Table 4: A0's Unit Root Test Results on Two Explained Variables

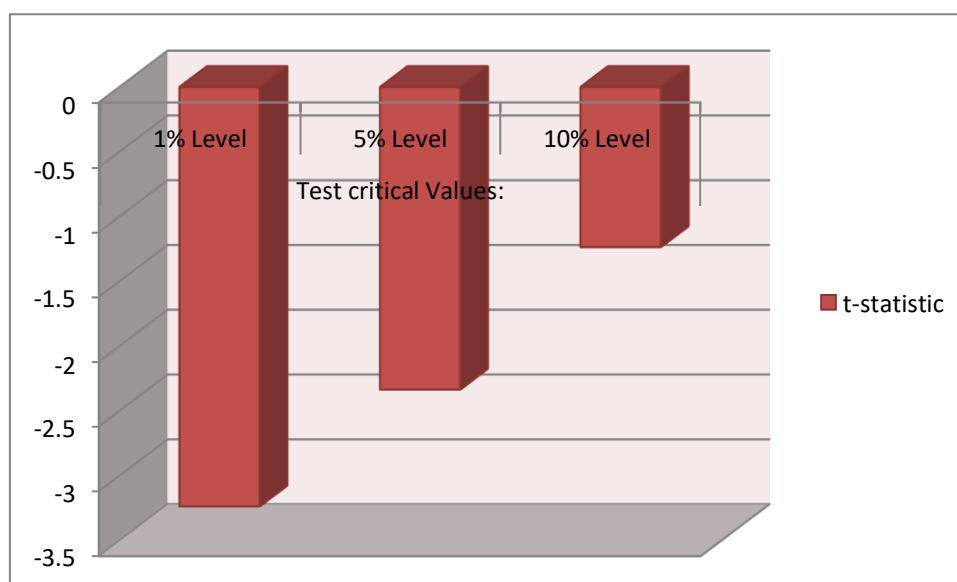|		t-statistic	Prob
Augmented Dickey-Fuller test statistic		-3.26333	0.0071
Test critical Values:	Level of 1%	-3.23633	
	Level of 5%	-2.33633	
	Level of 10%	-1.23633	

Figure 7: A0's Unit Root Test Results on Two Explained Variables

With N=3, we determined the result using Mackinnon's table of co-mix test edges' C () limitvalue and formula:

$$C\ (\alpha) = \varphi_{\infty} + \varphi_1\ T^{-1} + \varphi_2\ T^{-2}$$

(T; related parameters:, α ∞ α 1, α 2 from the table:, 1, 2) Decide on a 0.1 level of importance and determine the critical value C(α):

Therefore, A0 and the variables lnBT and TP do not co-integrate. Two explanatory variables, lnBT and TP, were co-integrated with the explained variables A1 and A2. After that, we acquired the residual sequence's unit root test results, which we merged with the results of thetest above in the manner described below.

Table 5: Results of Unit Root Tests for All Variables

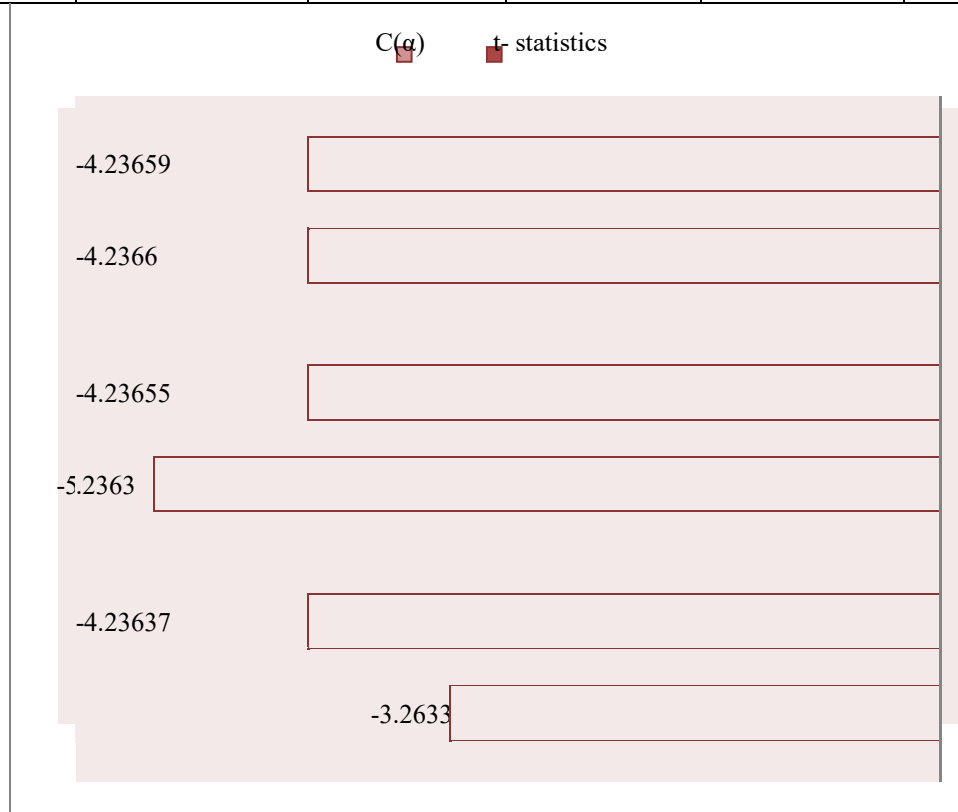| Variables	Understanding factors	t- statistics	C(α)	Confidence Level : C(α)	Relationship
A0	InBT, TP	-3.2633	-4.23637	0.1	F
A1	InBT, TP	-5.2363	-4.23655	0.1	T
A2	InBT, TP	-4.2366	-4.23659	0.1	F

Figure 8: Results of Unit Root Tests for All Variables

The subsequent regression model in this manner displays a co-reconciliation interface, showing the presence of a drawn out balance connection between the logical factors and made sense of factors. Temporarily, the model could leave balance. To expand the model's exactness, we made a blunder rectifying model that interfaces momentary elements that influence A1 with long haul changes.

$$\Delta M1_t = Q_4 + Q_5\Delta TP_t + Q_6\Delta InBT_t + ec_{t-1} + s_t$$

(Residuals in the long-term relationship model are abbreviated as ec.)

Table 6: E views 8's Long-Term Error Correction Model Detection

Variable	Coefficient	Std. Error	t-statistics	Prob
C	37085.12	10187.35	3.652322	0.1703
DLNBT	-8745.812	4853.956	-1.236333	0.3261
DTP	612.3621	224.9556	2.7223632	0.2232
DR21	-0.85362	0.203321	-3.882364	0.1236
R-squared	0.956331			
Adjusted R-squared	0.856933	Mean dependent variables		39314.12
S.E of Regression	6665.3323	S.D dependent variable		30312.23
Sum Squared resid	44428302	Akaike Info Criterion		20.1236
Log Likelihood	-47.09563	Schwarz Criterion		20.3693
F-statistic	27.23633	Hannan Quinn Criter		19.2365
Prob(F-statistic)	0.132232	Durbin Watson stat		3.02365

We are able to obtain the findings displayed below:

D (A1) = 612.3623 D (TP) – 8563.233 (InBT) + 0.856331EC (-1)t = (2.756661) (-1.236333) (-3.236333)

The succession containing the aforementioned following term (- 1) is the best portrayal of the transient relationship regression model subsequent to investigating. That's what the discoveries demonstrate, at a degree of certainty around 70%, BT (Bitcoin annual circulation) adversely affects the informative variable A1. At a 78% degree of certainty, TP (volume of outsider versatile installments) well affects informative variable A1. The concentrate above has shown that the two elements influencing A1 — lnBT and TP — have a drawn out balance association. Considering this, we utilize granger causality to additionally inspect the presence of causality and the bearing of each logical variable's impact on the made sense of variable.

4.   Test of Granger Causality

$$Y_t = \sum_{i=1}^{m} a_i X_{t-i} + \sum_{i=1}^{m} {}_i X_{t-i} + u_{1t} \ldots \ldots \ldots \ldots \ldots \ldots \ldots (1)$$

$$X_t = \sum_{i=1}^{m} \lambda_i Y_{t-i} + \sum_{i=1}^{m} {}_i X_{t-i} + u_{2t} \ldots \ldots \ldots \ldots \ldots \ldots \ldots (1)$$

The granger causality test's focal reason is that on the off chance that an adjustment of X prompts an adjustment of Y, the adjustment of X ought to occur before the adjustment of Y. Just two or two factors might be tried for causation utilizing the Granger causality test. For the two-variable causality test, the not entirely set in stone by deciding whether both of the boundaries in the accompanying two formulae, and, are zero. There are four potential results for the test discoveries relying upon whether the and boundaries are each of the zero, and we zeroed in fundamentally on two of them in our paper: 1) X just affects Y, which is shown by the way that something like one of the boundaries in condition (1's) slack terms isn't zero, rather than condition (2's) boundary, which is altogether zero. 2) As found in conditions (1) and (2), Y and X no affect each other; every one of the boundaries going before each slack term for Y and X are zero. The time series should be steady to perform the Granger causality test; any other way, mistaken regression might happen. The time series is steady when the model takes on a two-request contrast form, therefore the unit root trial of the aforementioned factors demonstrates that Y and X are tried independently. Table 3 shows the experimental outcomes.

Table 3: Granger Causality Test Results on the Second Detected Regression

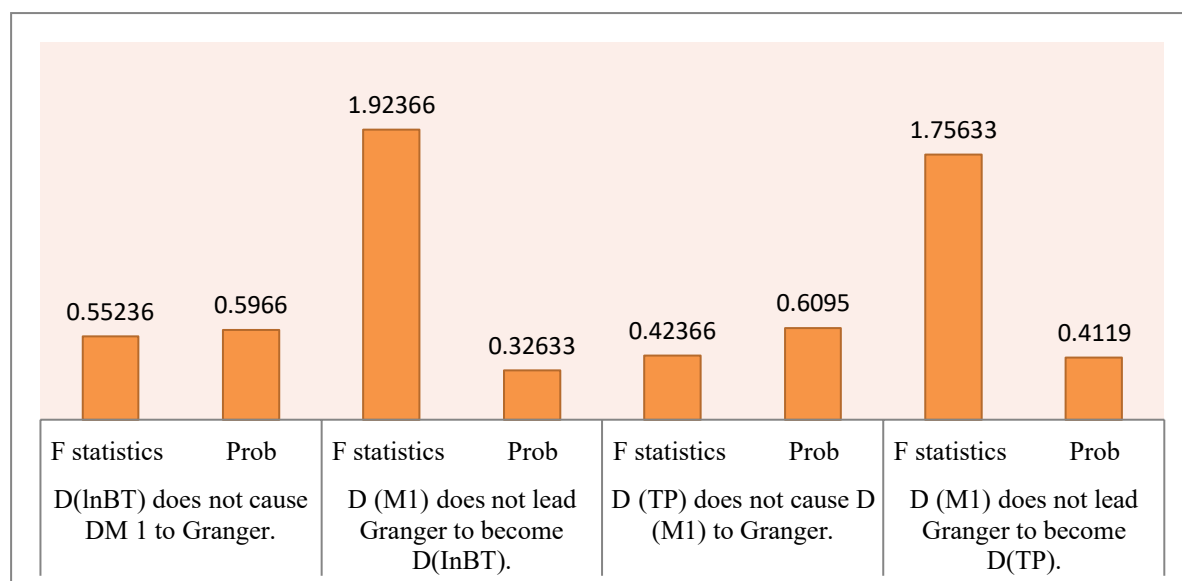| Hypothesis (Null)	Lag Period	1
D(lnBT) does not cause DM 1 to Granger.	F statistics	0.55236
	Prob	0.5966
D (A1) does not leadGranger to become D(InBT).	F statistics	1.92366
	Prob	0.32633
D (TP) does not cause D (A1) to Granger.	F statistics	0.42366
	Prob	0.6095
D (A1) does not lead Granger to become D(TP).	F statistics	1.75633
	Prob	0.4119

Figure 9: Granger Causality Test Results on the Second Detected Regression

The test findings show that A1, regardless of the BT or TP variable, does not exhibitGranger causality.

4.1.   Results analysis

The aforementioned test discoveries might be utilized to make the accompanying ends: A0 and A2 are not essentially impacted by the development of electronic money and cryptocurrencies in the long haul, yet A1 is. A1 incorporates A0 and demand stores, though A2 contains A1 and time, investment funds, and different stores, as per the importance of the expression "money level." We could in this manner make the determination that demand stores made by local people are for the most part subbed by cryptocurrency. Despite the fact that there is no way to see an impact of electronic money and cryptocurrencies on A1 in the momentary blunder revision model, this is predictable with Chinese public conditions. In China, electronic money previously showed up in 2013, and it extended rapidly in 2015. It simply has a three-year development period as of the finish of 2017. In spite of having huge extension potential, it at present affects China's colossal money related totals. A notice to keep away from the risk of bitcoin was delivered on December 5, 2013, by five services and commissions, including Individuals' Bank of China. They accepted that since Bitcoin isn't given by the financial power and comes up short on legitimate or required financial qualities, it's anything but certifiable money and neither can nor would it be a good idea for it be used as such in the commercial center. Because of the restricted dissemination of bitcoin and other cryptocurrencies in the genuine Chinese market, their effect is presently unfit to modify the elevated degree of current volume essentially. Nonetheless, as a general rule, ordinary money is supplanted by both crypto currencies and electronic currency.

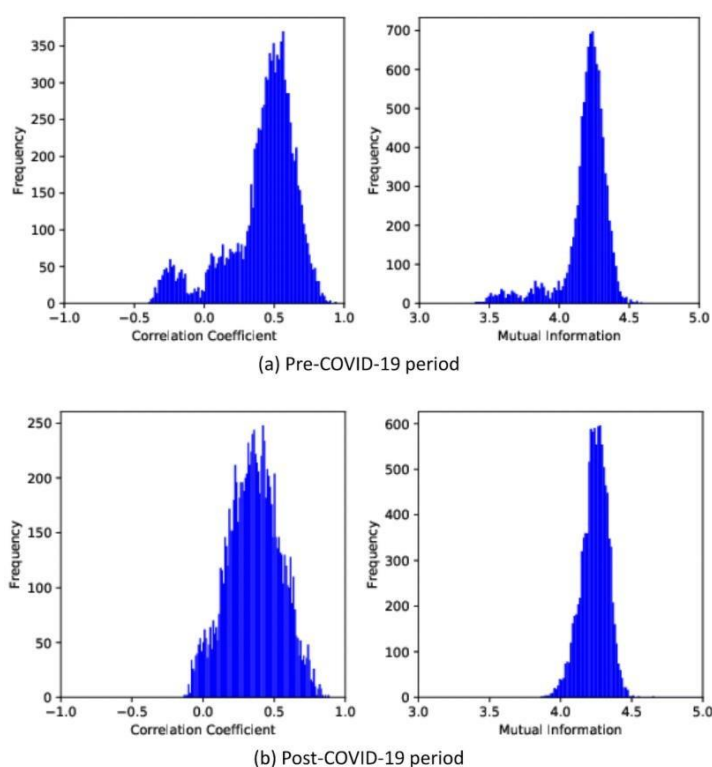## 4.2.   The COVID-19 affects digital currency development

Figure: 10 (a) In 2019, the frequency distribution of two techniques. (b) In 2020, thefrequency distribution of two approaches.

- **Positive influence**

The first is that the quick development of digital monetary forms has been accelerated because of diminished openness designs. The Representative Legislative leader of the PBOC,Fan Yifei, made plainly during the pandemic, new banknotes ought to be used however muchas could be expected as the essential form of money installment for business banks, and that currency got back from medical clinics and rancher's business sectors would definitely stand out. Before the Spring

Celebration, Wuhan got 4 billion yuan in extra banknotes from the PBOC to improve how much money accessible to significant establishments for the counteraction and control of plagues, like medical clinics. Gary Cohn, a former head of the Public Monetary Board of the US, guaranteed in the Financial Times on April 30 that the Covid is accelerating the vanishing of money considering the way that the plague has made progress with individuals' propensities for involving money to settle exchanges for contactless installments like electronic wallets or Mastercards. By and large, because of the pandemic, digital monetary standards have developed rapidly.

- **Negative influence**

By dissolving or in any event, overriding the effect of current sovereign monetary standards on the worldwide market, Libra could ultimately transform into a sort of super-sovereign currency. The national banks of significant countries have carried out forceful financial arrangements including "overabundance money" and "low loan costs" because of the pandemic. The reception of digital currency, be that as it may, is bound to restrict the national bank's ability to order money related strategies and even outly affect the ongoing financial approaches in the aforementioned countries. Financial innovation is essentially changing the way that money is executed, and digital currency is unconstrained by the regulation of the credit go-between framework. All the more explicitly, the making of digital money will impact regular banks and other financial organizations, possibly touching off a rebellious unrest. The pandemic and expanded chance will make the generally fragile financial framework less hearty. The ongoing global administrative coordination framework will likewise confront challenges. Since Libra Coin is used universally, this will adversely affect global administrative joint effort among financial establishments. De-globalization and exchange protectionism are persistently turning out to be more terrible because of the pandemic, bringing about the financial area's powerlessness to co-direct, which makes it more challenging to regulate digital currency.

4.3. Discussion

Rarely is it determined whether the digital money framework can be widely adopted. Using a variety of perspectives and approaches, we examine the foundation of a global financial market regulation framework for digital monetary forms, the effect of digital currency on the monetary framework, and the various levels of government assistance created by various digital currency options in various nations. It was decided, first and foremost, that the use of electronic money would reduce the demand for money by influencing the total volume of labor and products sold, bank holds, and funds put away by individuals for crisis response by combining the theories of Karl Heinrich Marx and Milton Friedman, who each promoted a money demand theory. Cryptocurrencies basically have an effect on the decline in money demand through bank saves. We have come to the conclusion that, despite the fact that digital currency in China has no effect on the amount of money available for a short period of time, it has an effect on existing stores over the long term. The public's demand for fluid money is

the primary driver of this shift, allowing the financial position to zero in favor of the rate at which money is evolving.

5. CONCLUSION

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