

Denounced Bitcoin: A case of Tesla

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Introduction

In May 2021, Tesla CEO Elon Musk announced that the company would no longer accept Bitcoin as a form of payment for its electric vehicles. This decision came just a few months after Tesla had announced that it had purchased \$1.5 billion worth of Bitcoin and would start accepting the cryptocurrency as payment.

Musk cited environmental concerns as the reason for the reversal in policy. Bitcoin, he argued, required too much energy to mine and was therefore contributing to the production of greenhouse gases.

The Story

In February of this year, Tesla announced that it had purchased \$1.5 billion worth of Bitcoin while also suggesting that it intended to accept Bitcoins as a mode of payment from people looking to buy its vehicles. This was a show of confidence by all accounts. And the value of the cryptocurrency soared.

But then, just last week, Elon Musk broke his promise. After selling about 10% of the company's bitcoin holding he announced that Tesla had suspended purchases using bitcoin amid concerns surrounding the use of fossil fuels in mining. The announcement sparked a significant drop in the price of Bitcoin, which had already been experiencing a volatile period. It also drew criticism from some Bitcoin enthusiasts, who accused Musk of hypocrisy and suggested that his decision was motivated by factors other than environmental concerns.

Each participant in the network solves a mathematical problem to keep the network secure. And these computations are carried out using sophisticated computers that use inordinate amounts of energy. Reports allege that the bitcoin network consumes as much electricity as a medium-sized country. And since miners predominantly operate in countries that offer cheap electricity by burning dirty fuel, it's been a source of concern for many people in the ecosystem.

The Ploy

The only problem however is that Elon Musk knew all of this back in February. So why would he make such a public announcement only to retract a few months later? It doesn't make any sense. In fact, many people now believe that he's dabbling in market manipulation. That was a deliberate ploy to affect the value of Bitcoin. However, considering Tesla has promised not to dump their Bitcoin holdings yet, maybe there's a different explanation. However, Musk stood by his decision, arguing that he was committed to sustainability and would consider alternative Cryptocurrencies that were more energy-efficient in the future.

The case of Tesla and Bitcoin highlights the challenges facing businesses that want to embrace cryptocurrency. While Bitcoin and other Cryptocurrencies offer benefits such as faster and cheaper transactions, they also come with significant risks and uncertainties, including regulatory and security issues.

Conclusion

Tesla's initial foray into Bitcoin proved to be short-lived, but the company's decision to denounce the cryptocurrency may have lasting effects on the industry as a whole. As more businesses and investors consider the potential of cryptocurrency, they will need to weigh the benefits against the risks and make informed decisions that take into account the environmental, regulatory, and financial implications of these new technologies.

Questions:

1. Why do cryptocurrencies lose the charm of becoming an acceptable currency for transaction? What are the risks involved in crypto transactions?
2. Where do you see the future of crypto? Will it be able to get the backing of central banks in the near future? If not, why?