The Role of Stablecoins in Mitigating Volatility in Cryptocurrency Markets

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Abstract

This study aims to analyzes the link between Perceived Volatility Reduction (PVR), Risk Perception, Stablecoin Usage Frequency, Market Confidence, and Stablecoin Adoption (SA). The primary goal is to determine if and to what degree these variables impact stablecoin adoption. A questionnaire was created to collect information from 198 Malaysians. To analyze the research model and test the hypotheses, the Structural Equation Modeling - Partial Least Squares (SEM-PLS) method was utilized. According to the findings, there is a strong and positive association between Perceived Volatility Reduction (PVR) and Stablecoin Adoption (SA). Stablecoins are more likely to be adopted by market players if they are perceived as useful instruments for minimizing the severe price volatility inherent in traditional cryptocurrencies. This finding emphasizes the importance of risk perception and market stability in driving market behavior. PVR and SA were influenced by trust in stablecoin systems, transparency, and regulatory compliance. These results are useful for investors navigating the cryptocurrency market, governments attempting to control stablecoin supply, and scholars studying the mechanics of trust and acceptance within the fast growing cryptocurrency ecosystem.

Keywords: Perceived Volatility; Reduction (PVR); Risk Perception; Stablecoin Usage Frequency; Market Confidence.

Authors contribution: all of the authors equally contributed

1. Introduction

In the exciting and frequently tumultuous global of cryptocurrencies, one concept has emerged as a beacon of stability which is stablecoins (Wang et al., 2020). These virtual assets have taken the crypto market by means of hurricane, presenting a respite from the wild rate swings that have emerge as synonymous with cryptocurrencies (Baur et al., 2018). In this tale, we are able to embark on a journey to discover the captivating role of stablecoins in mitigating volatility in cryptocurrency markets. Cryptocurrencies, led with the aid of Bitcoin, initially captivated the arena with guarantees of decentralized monetary systems, instant transactions, and astronomical returns (Berentsen & Schär, 2019). However, their excessive charge volatility quickly became apparent, posing a huge barrier to mainstream adoption and institutional investment. This volatility has deterred many from embracing cryptocurrencies as a reliable keep of price or way of trade, and it has created a glaring research gap – a way to make cryptocurrencies more solid and less liable to price fluctuations (Saleh, 2021).

Enter stablecoins, a digital asset class designed to keep a constant price, usually pegged to traditional belongings like fiat currencies or commodities. These coins provide a novel technique to the crypto market's volatility problem, bridging the gap among the decentralized nature of cryptocurrencies and the stableness of conventional financial structures (Fiedler & Ante, 2023). One of the maximum important roles of stablecoins is to behave as a secure haven within the stormy seas of cryptocurrency buying and selling. During durations of extreme volatility, investors and traders can swiftly convert their belongings into stablecoins, preserving their price and lowering exposure to charge fluctuations. This potential to provide stability in times of disaster has made stablecoins an crucial tool inside the cryptocurrency ecosystem, allowing users to navigate turbulent markets with self-assurance (Chohan, 2019).

Moreover, stablecoins facilitate seamless transactions in the crypto space, overcoming one of the traditional hurdles of the usage of cryptocurrencies for regular payments. Users not want to worry approximately their digital assets dropping sizable price among the time they initiate a transaction and its confirmation (Cao, 2022). This vital feature has paved the way for the adoption of

cryptocurrencies in diverse industries, including e-trade, remittances, and international exchange. The effect of stablecoins on the crypto marketplace is profound, and studies in this location has grown exponentially. Scholars and experts are constantly exploring new avenues for reinforcing stablecoin designs, examining their felony and regulatory implications, and investigating the ability systemic dangers they might pose. Makarov and Schoar (2020) who analyzed the steadiness of stablecoins in the course of market turmoil, and Gensler (2021), who mentioned the regulatory challenges posed by using stablecoins, underscore the importance of stablecoins within the cryptocurrency panorama.

A significant vacuum exists in the field of cryptocurrency research in understanding user views and adoption variables connected to stablecoins as a way of mitigating volatility in cryptocurrency markets. While there is a growing body of material on stablecoins and their usefulness in decreasing market volatility, little is known about how consumers view stablecoins in reaction to this volatility (Ante et al., 2021). Addressing this gap would provide a deeper understanding of user behavior, decision-making processes, adoption drivers, perceived benefits, drawbacks, and the long-term effects of stablecoin adoption, significantly contributing to our understanding of cryptocurrency market dynamics and participant strategies (Jarno et al., 2021).

The cryptocurrency market, led by Bitcoin, has long been plagued by significant price volatility, deterring mainstream adoption and institutional investment. This volatility creates uncertainty and hinders cryptocurrencies' ability to serve as reliable stores of value or mediums of exchange. Despite their promises of decentralized finance and instant transactions, cryptocurrencies' unstable nature remains a barrier to broader acceptance.

The objective of this study is to investigate the role of stablecoins in mitigating volatility within cryptocurrency markets. Stablecoins, designed to maintain a stable value often pegged to traditional assets, offer a potential solution to the volatility problem. By examining user perspectives and adoption factors related to stablecoins, this research aims to deepen our understanding of how stablecoins are perceived and utilized in response to market volatility.

The aim of this research is to explore user views and adoption variables associated with stablecoins as a means of mitigating volatility in cryptocurrency markets. By analyzing user behavior, decision-making processes, adoption drivers, perceived benefits, drawbacks, and long-term effects of stablecoin adoption, this study seeks to contribute significantly to our understanding of

cryptocurrency market dynamics and participant strategies. This research will address the existing gap in the literature by providing insights into the role of stablecoins in promoting stability and facilitating transactions within the cryptocurrency ecosystem.

The remainder of the paper is structured as follows. The next section gives theoretical context and the related literature. The research model and hypotheses are presented in Section 3. Section 4 the research discussion. Section 5 discusses the theoretical and practical implications, as well as the study's limitations. Finally, the conclusion.

2. Literature Review

1. Perceived Volatility Reduction and Stablecoin Adoption

The courting between perceived volatility discount and stablecoin adoption is a crucial element inside the evolving landscape of cryptocurrency markets. This nexus paperwork the cornerstone of investors' selections and market dynamics, warranting an in-intensity exploration. Perceived Volatility Reduction (PVR) is a fundamental idea in cryptocurrency markets, reflecting traders' beliefs regarding the capability of stablecoins to mitigate rate fluctuations (Kimmerl, 2020). PVR is a perceptual construct motivated by using different factors along with the stablecoin's underlying mechanisms, its track report, and market sentiment. It represents buyers' assessment of whether stablecoins successfully stabilize the unstable cryptocurrency market (Kahya et al., 2021).

Stablecoin Adoption (SA), on the other hand, relates to the volume to which individuals or entities have interaction with stablecoins of their cryptocurrency activities. It consists of the usage of stablecoins for transactions, investments, or as a shop of fee. Adoption prices can vary widely and are motivated with the aid of elements like accessibility, trust, and familiarity (Hsu et al., 2022). The relationship between PVR and SA is inherently symbiotic. When buyers perceive stablecoins as powerful equipment for decreasing volatility, they are much more likely to undertake them. This notion can be formed by way of the stability mechanisms employed via unique stablecoins, which includes being pegged to a reserve asset like the US greenback, algorithmic balance mechanisms, or collateralized backing (Kahya et al., 2022).

Research has shown that a high PVR can act as a catalyst for SA. When cryptocurrency market participants witness intense fee fluctuations, they may be searching for safe haven in stablecoins to mitigate capability losses (Au et al., 2023). Stablecoins offer a manner to exit risky positions

without transferring absolutely out of the cryptocurrency ecosystem, which aligns with buyers' chance-averse inclinations. Moreover, because the cryptocurrency marketplace matures, regulatory authorities provide extra clarity and stability to the arena. This regulatory oversight can beautify PVR, as traders perceive stablecoins as a extra steady choice inside a regulated surroundings. Consequently, SA might also upward thrust in tandem with stepped forward regulatory frameworks. However, the connection among PVR and SA is not unidirectional. SA can, in flip, affect PVR by way of growing the liquidity and marketplace intensity of stablecoins. The availability of stablecoins as trading pairs can enhance their utility and reduce transaction prices, making them even extra attractive for the duration of durations of marketplace turbulence (Ante et al., 2023). Therefore, it can propose:

H1: Perceived Volatility Reduction significantly impacts Stablecoin Adoption.

2. Risk Perception and Stablecoin Adoption

The courting among Risk Perception (RP) and Stablecoin Adoption (SA) is a crucial measurement in the realm of cryptocurrency markets. It illuminates the pivotal function that traders' perception of danger plays in shaping their adoption selections inside the context of stablecoins. Risk Perception (RP) in cryptocurrency markets refers to how investors verify the level of hazard related to various cryptocurrencies and associated instruments, together with stablecoins. RP is stimulated by a large number of factors, together with the historical volatility of cryptocurrencies, the regulatory surroundings, and the steadiness mechanisms underpinning stablecoins (Hamm et al., 2023).

Stablecoin Adoption (SA) encompasses the volume to which people and entities comprise stablecoins into their cryptocurrency activities (Ferreira et al., 2023). This adoption can take place in diverse paperwork, from using stablecoins for regular transactions to utilising them as a shop of price or a means of moving fee throughout borders. The relationship among RP and SA is problematic and dynamic. When traders perceive higher levels of chance in conventional cryptocurrencies like Bitcoin or Ethereum due to their price volatility, they will flip to stablecoins as a more secure haven inside the risky cryptocurrency atmosphere. Stablecoins, usually pegged to strong assets like fiat currencies or commodities, are perceived as less risky due to their relative fee balance (Mukhamedov et al., 2022).

Furthermore, regulatory tendencies have a massive effect on RP and SA. As regulatory clarity will increase, and stablecoins observe those policies, RP decreases, making stablecoins greater attractive to threat-averse buyers. They see stablecoins as a bridge among the unregulated wild west of cryptocurrencies and the closely regulated traditional monetary machine. It's important to word that the connection among RP and SA is not a one-manner road. SA can, in flip, impact RP. As the adoption of stablecoins grows and they grow to be more incorporated into the cryptocurrency surroundings, buyers may perceive them as less unstable due to their increasing liquidity and acceptance inside the market. Moreover, the steadiness mechanisms of specific stablecoins play a pivotal function in influencing RP. Transparency about how these mechanisms work and the level of collateralization or algorithmic manipulate can impact how traders understand the risk related to these cash (Sood et al., 2023). Therefore, it can propose:

H2: Risk Perception significantly impacts Stablecoin Adoption.

3. Stablecoin Usage Frequency and Stablecoin Adoption

The dating among Stablecoin Usage (SU) and Stablecoin Adoption (SA) inside the context of cryptocurrency markets is a dynamic and symbiotic one. It displays how the adoption of stablecoins affects the volume to which they're actively used within the cryptocurrency ecosystem. Stablecoin Usage (SU) relates to the frequency and volume to which people and entities rent stablecoins in their cryptocurrency-related activities. This can consist of the use of stablecoins for regular transactions, as a medium of exchange, or as a shop of fee. It also encompasses their use in trading, investment techniques, and cross-border remittances (Hsu et al., 2022).

Stablecoin Adoption (SA), alternatively, pertains to the diploma to which users and investors include stablecoins as a part of their cryptocurrency portfolio. It encompasses the decision to comprise stablecoins into one's cryptocurrency holdings and sports. The dating between SU and SA is reciprocal and reinforcing. As extra customers undertake stablecoins, the overall liquidity and application of stablecoins in the cryptocurrency atmosphere growth. This, in turn, encourages greater customers to rent stablecoins in their cryptocurrency transactions and investments.For instance, individuals and companies that have followed stablecoins may additionally discover them beneficial for hedging in opposition to the volatility of other cryptocurrencies. They may also use stablecoins as a brief safe haven for the duration of durations of market turbulence, thereby

growing their usage (Bojaj et al., 2022). Additionally, the supply of stablecoins as trading pairs on cryptocurrency exchanges can facilitate their usage in trading activities. Furthermore, the enlargement of stablecoin-primarily based economic offerings, which includes decentralized finance (DeFi) systems and lending protocols, has contributed to multiplied SU. Users are drawn to those systems due to the stability and predictability provided by means of stablecoins.

In phrases of influencing factors, the layout and mechanisms of stablecoins play a sizable role in shaping the relationship among SU and SA. Users are much more likely to adopt and use stablecoins that they understand as well-designed, obvious, and reliably stable in price. Regulatory developments can also effect this dating. As stablecoins advantage regulatory approval and compliance, customers can also feel greater steady in adopting and the use of them, which can, in flip, drive extra adoption and utilization (Bains et al., 2022). Therefore, it can propose:

H3: Stablecoin Usage Frequency significantly impacts Stablecoin Adoption.

4. Market Confidence and Stablecoin Adoption

The relationship between Market Confidence (MC) and Stablecoin Adoption (SA) is a essential dynamic inside the cryptocurrency environment, reflecting the profound have an impact on of accept as true with and sentiment at the adoption of stablecoins. Market Confidence (MC) pertains to the extent of believe and religion that market individuals have inside the universal balance and reliability of the cryptocurrency market (Liao & Caramichael, 2022). This confidence is shaped via a myriad of factors, which include the historic volatility of cryptocurrencies, regulatory trends, safety concerns, and the overall market sentiment (Kimmerl et al., 2020).

Stablecoin Adoption (SA), however, signifies the degree to which individuals and entities contain stablecoins into their cryptocurrency portfolios and sports. This can encompass using stablecoins as a medium of alternate, shop of cost, or for buying and selling functions. The courting between MC and SA is symbiotic and jointly reinforcing (Kothari et al., 2018). When marketplace contributors have high self-belief inside the broader cryptocurrency market, they may be more likely to explore and embrace stablecoins as a complementary and danger-mitigating device. During periods of market turbulence or heightened volatility in conventional cryptocurrencies,

stablecoins are regularly perceived as a secure haven, bolstering SA (Allen et al., 2022; Sandri et al., 2022).

Conversely, the considerable adoption of stablecoins can, in flip, decorate MC. As stablecoins emerge as deeply included into the cryptocurrency atmosphere, their presence can contribute to market stability by using imparting liquidity, lowering volatility, and fostering consider. This can further inspire marketplace individuals to have faith within the cryptocurrency marketplace as a whole, for that reason solidifying the connection among MC and SA. Several elements impact the dynamics of this dating, which includes the transparency and regulatory compliance of stablecoins, their technological robustness, and the stability mechanisms they hire. Regulatory trends also play a huge function in shaping MC and, eventually, SA (van Echelpoel et al., 2022). The presence of clean and supportive policies can instill greater self-belief in marketplace members, making them extra receptive to stablecoin adoption. Therefore, it can propose:

H4: Market Confidence significantly impacts Stablecoin Adoption.

3. Research Methodology and Results

Sampling Technique:

In this study, a purposive sampling technique was employed to select participants who are likely to have relevant insights and views on the issue of Market Confidence and Stablecoin Adoption within the cryptocurrency ecosystem. Purposive sampling involves selecting individuals who meet specific criteria that align with the research objectives. In this case, the criteria included individuals who are 18 years or older, have experience or awareness of cryptocurrencies, and are willing to participate voluntarily. Purposive sampling was chosen for several reasons. Firstly, the study aims to investigate the relationship between Market Confidence and Stablecoin Adoption within the cryptocurrency ecosystem, which requires input from individuals who are knowledgeable about cryptocurrencies. Using purposive sampling allowed the researchers to target respondents with relevant experience and awareness, ensuring the collected data is informative and meaningful. Additionally, by limiting the sample to individuals who are 18 years or older, the researchers ensured that the participants are legally able to participate in the study. This helps maintain ethical standards and ensures the validity of the data collected. Furthermore, the voluntary nature of participation ensures that respondents are willing to engage with the study, reducing the likelihood of non-response bias and enhancing the reliability of the findings.

Data Collection Method:

Data collection was conducted using a combination of online methods, including social media networks, emails, and WhatsApp invitations. These platforms were chosen for their widespread usage and ability to reach a large number of potential participants. Additionally, the snowball technique was employed, encouraging participants to share the survey link with others, further increasing the reach and diversity of the sample.

Sample Size:

A total of 198 complete responses were collected over a period of two months. This sample size is considered adequate for conducting statistical analysis and drawing meaningful conclusions, given the focus of the study and the chosen methodology.

SEM-PLS Analysis

The SEM-PLS model (Structural Equation Modeling - Partial Least Squares) is a statistical approach for analyzing the correlations between numerous variables. It is especially beneficial for researching complex and multifaceted phenomena like attitudes and ideas concerning cryptocurrency. The SEM-PLS model is divided into two phases: measurement (outer) model and structural model. The structural model is then used to investigate the multivariate connections between variables and to assess research hypotheses with statistical tests such as T-statistics and P-values. The SEM-PLS model was used in this study to investigate the correlations between variables and to assess the research hypotheses. The measurement and structural model findings give vital insight into the relationships between the variables and aid in determining whether the hypotheses are supported by the data.

PLS Measurement Model Findings

Item loading, which measures the degree to which each survey item is connected with its latent variable, is an essential parameter of the PLS outer model. The attitudes, beliefs, and trust in cryptocurrencies are the latent factors in this study, whereas the manifest variables are the particular survey items that test these notions. According to the findings, all of the items in the study had item loadings larger than 0.6, suggesting that they are legitimate and may be utilized in the outer model analysis. The PLS outer model analysis revealed that all of the survey questions

in the research had high item loadings, suggesting that they are legitimate and can be utilized to evaluate the connections between the structural model's latent variables.

AVE (Average Variance Extracted) and Cronbach's Alpha scores can be used to assess the internal and external validity of latent variables. Thus, high AVE and Cronbach's Alpha values imply that the latent variables are legitimate and dependable and may be utilized to test research hypotheses properly. The AVE estimates show how much variation is explained by a latent variable, and a value greater than 0.5 implies that the variable has good external validity. Cronbach's Alpha values above 0.7 show dependability and suggest the internal consistency of the latent variables. This means that the study's latent variables have great internal and external validity and may be utilized to test the research hypotheses properly.

Table 1 Constructs Validity and Reliability

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Market Confidence	0.718	0.766	0.839	0.638
Perceived Volatility Reduction	0.752	0.754	0.843	0.574
Risk Perception	0.702	0.721	0.832	0.623
Stablecoin Usage Frequency	0.809	0.855	0.893	0.743
Stablecoin Adoption	0.866	0.872	0.909	0.713

The discriminant validity of the study's latent variables is assessed using the Fornell-Larcker criterion. The Fornell-Larcker criteria (Hair et al.,2017) states that a latent variable is discrimination-valid if the square root of its AVE score is greater than the correlations of that component with other latent variables. The Fornell-Larcker criteria is used to evaluate the discriminant validity of the study's latent variables. Table 2 shows that the latent variables are unique from one another and may be utilized to evaluate the study hypotheses properly.

Table 2 Discriminant Validity and Constructs' Intercorrelations

	1	2	3	4	5
Market Confidence	0.904				
Perceived Volatility Reduction	0.572	0.811			

Risk Perception	0.539	0.533	0.910		
Stablecoin Usage Frequency	0.465	0.522	0.719	0.822	
Stablecoin Adoption	0.679	0.512	0.566	0.767	0.612

PLS Structural Model Findings

The inner SEM-PLS model of the study, which analyses the links between the latent variables, reveals that faith in cryptocurrencies, perceived risks, and financial literacy are associated. The findings in Table 3 contain the Beta values, T-Statistics, and P-Values for the path coefficients, which indicate the strength and relevance of the correlations between the variables (Hair et al., 2017). The inner SEM-PLS model findings in this study demonstrate that all of the research hypotheses are supported at a significant level of 0.05. The findings give evidence for the correlations between the variables studied. These findings corroborate the study's hypothesis and give significant information for policymakers and scholars exploring cryptocurrency adoption.

Table 3. Path Coefficients - Mean, STDEV, T Values, P values

	Original sample (O)	T statistics (|O/STDEV|)	P values	Hypothesis Result
Market Confidence -> Stablecoin Adoption	0.198	2.696	0.007	Supported
Perceived Volatility Reduction -> Stablecoin Adoption	0.193	2.133	0.033	Supported
Risk Perception -> Stablecoin Adoption	0.303	4.172	0	Supported
Stablecoin Usage Frequency -> Stablecoin Adoption	0.159	2.254	0.024	Supported

Additionally, the R2 values for the study's endogenous constructs are evaluated. The R2 values show how much variance in each construct can be explained by the external constructs. The R2 of Stablecoin Adoption in the current study is 0.580, suggesting that the exogenous components explain 58% of the variation in Stablecoin Adoption. Figure 1 shows the research model we used, which was validated in SmartPLS 4.0. For each research construct, the SEM-PLS model provided the item loadings, beta values, and r-squared values.
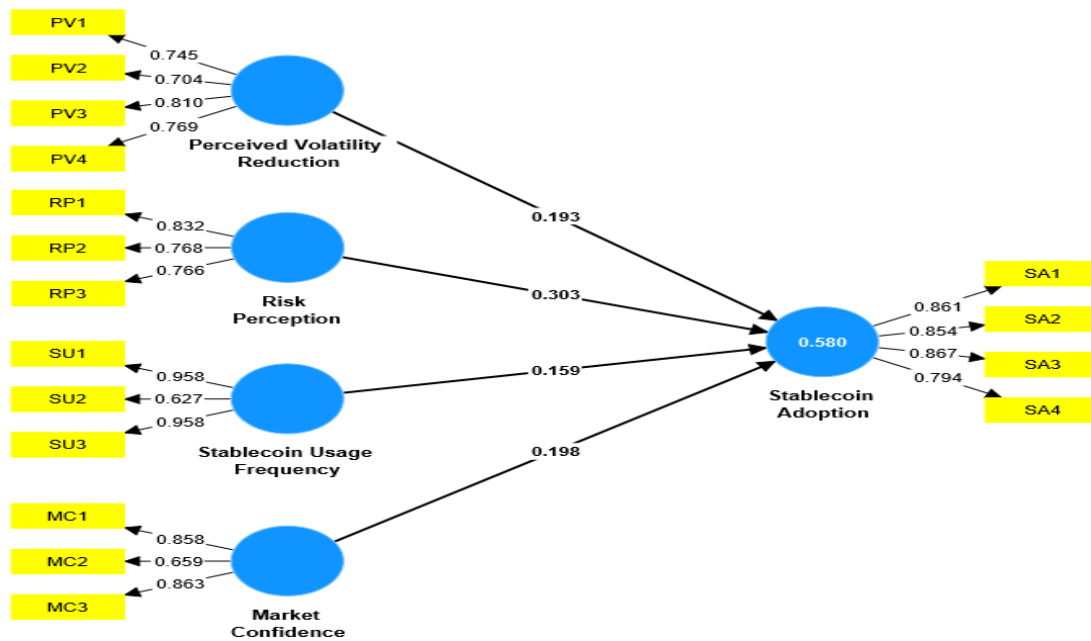
Fig 1. Research model - tested and validated on SmartPLS 4.3

4. Discussion

The research findings shed light on a crucial aspect of cryptocurrency adoption, emphasizing the significant impact of perceived volatility on the adoption of stablecoins. In recent years, stablecoins such as USDC or USDT have witnessed widespread adoption, largely attributed to their ability to address the inherent price volatility associated with traditional cryptocurrencies like Bitcoin and Ethereum. This discovery resonates with the overarching sentiment within the crypto community, where users and investors seek stability to enhance the utility and reliability of their digital assets (Kimmerl, 2020; Hsu et al., 2022). Numerous factors contribute to the observed phenomenon. Firstly, stablecoins are typically pegged to fiat currencies such as the US Dollar, providing a built-in sense of stability. This pegging mechanism ensures users that the value of their assets will not experience drastic fluctuations, a concern that often acts as a deterrent to adopting other cryptocurrencies. Moreover, the stability inherent in these digital currencies positions them as reliable mediums of exchange and stores of value, essential characteristics of any currency (Liao, 2022). Prior research in the realm of cryptocurrency adoption has consistently highlighted the significance of stability. Studies have demonstrated that stability in terms of value preservation plays a pivotal role in driving cryptocurrency usage both as a medium of exchange and a store of

value (Ciaian et al., 2018). These findings underscore the continuity of fundamental economic principles across traditional and digital financial systems.

Furthermore, the concept of perceived volatility reduction associated with stablecoins is closely intertwined with individual confidence. When users perceive a digital asset as less volatile, they are more inclined to trust it and integrate it into their economic activities, including online transactions, remittances, and investment ventures (Allen et al., 2022). This alignment with advanced research underscores the psychological aspect of stability perception in driving adoption trends. Expanding on the significance of perceived volatility in stablecoin adoption, it's imperative to delve into the broader implications for the cryptocurrency ecosystem. By addressing the volatility issue, stablecoins pave the way for increased mainstream adoption and utilization of cryptocurrencies for everyday transactions. Moreover, the stability offered by these digital assets opens doors for innovative financial products and services, such as decentralized finance (DeFi) platforms, where stablecoins serve as crucial components for lending, borrowing, and liquidity provision. In addition to mitigating volatility concerns, stablecoins also offer a gateway for individuals in economically unstable regions to access global financial markets with relative stability. This democratization of financial access aligns with the ethos of decentralization and financial inclusion championed by the broader cryptocurrency community. Also, the findings underscore the pivotal role of perceived volatility in driving the adoption of stablecoins within the cryptocurrency ecosystem. By providing stability and confidence to users, stablecoins not only address a fundamental barrier to mainstream cryptocurrency adoption but also open avenues for financial innovation and inclusion on a global scale. As the crypto landscape continues to evolve, the importance of stability in shaping user behaviors and adoption trends cannot be overstated.

The findings discussed underscore the profound impact of risk perception on stablecoin adoption, elucidating the pivotal role that risk perception plays in molding the adoption trajectory of stablecoins within the dynamic landscape of the cryptocurrency ecosystem. This discovery resonates strongly with prior scholarly inquiries and overarching economic paradigms, which assert that both individuals and institutions tend to exhibit a natural inclination towards risk aversion when navigating financial decisions (Mukhamedov, 2022). A cornerstone of risk perception in the realm of stablecoins revolves around the assurance of value preservation. Users gravitate towards stablecoins, enticed by the notion of a secure harbor amidst the tumultuous seas

of cryptocurrencies. With stablecoins typically tethered to stable assets such as fiat currencies, they offer a semblance of predictability that mitigates the perceived risk of value erosion stemming from price volatility—a risk that looms large in the case of other cryptocurrencies (Sween, 2023). This empirical insight resonates harmoniously with antecedent research, which underscores the paramount importance of trust and confidence in influencing cryptocurrency adoption patterns. Users exhibit a greater propensity to embrace stablecoins when they perceive them as steadfast and low-risk assets. This sentiment echoes earlier research findings that underscore the cardinal significance of stability in propelling cryptocurrency adoption as both a medium of exchange and a store of value (Ciaian et al., 2018). Scholarly discourse has consistently highlighted the formidable barrier posed by perceived risks associated with cryptocurrencies in hindering their widespread adoption (Yermack, 2013; Al-Omoush et al., 2022). These concerns encompass apprehensions regarding price volatility, regulatory ambiguity, and the specter of fraudulent activities lurking within the crypto sphere. By prioritizing volatility reduction, stablecoins proactively address a subset of these concerns, thereby aligning with users' preferences for risk mitigation.

Expanding upon this narrative, it becomes evident that stablecoin adoption represents a convergence of user preferences and risk perception dynamics. Beyond the allure of stability, users are also drawn to the enhanced liquidity and accessibility that stablecoins afford within the cryptocurrency ecosystem. The ability to seamlessly transact and transfer value across borders, coupled with the assurance of price stability, imbues stablecoins with a multifaceted appeal that transcends traditional cryptocurrencies. Moreover, stablecoins serve as a gateway for individuals and businesses seeking to dip their toes into the realm of cryptocurrencies, offering a less daunting entry point compared to their more volatile counterparts. In essence, stablecoins emerge as a testament to the cryptocurrency ecosystem's evolutionary trajectory, wherein innovation converges with user demands and risk perception dynamics to sculpt novel financial instruments that cater to a diverse array of needs. As regulatory frameworks continue to evolve and market dynamics undergo constant flux, the role of stablecoins is poised to evolve in tandem, potentially reshaping the broader landscape of finance and digital asset utilization. Thus, while risk perception serves as a guiding compass shaping stablecoin adoption today, it also heralds the dawn of a new epoch in financial innovation—one where stability, trust, and user-centric design converge to redefine the contours of value exchange in the digital age.

Moreover, the result that Stablecoin Usage Frequency considerably influences Stablecoin Adoption highlights the interconnected dating among how often stablecoins are used and their overall adoption in the cryptocurrency surroundings. This locating is constant with prior studies and underscores the realistic importance of stablecoins as a method of undertaking transactions and storing value in a extra strong virtual form (Catalini et al., 2022). The frequency of stablecoin utilization may be seen as a mirrored image of the software and trustworthiness that customers partner with these digital properties. Stablecoins are regularly employed as a medium of trade in various cryptocurrency transactions, consisting of trading, remittances, and online purchases. Users who often make use of stablecoins probably achieve this because they fee the stableness and predictability that those belongings provide in assessment to extra risky cryptocurrencies (Liao & Hadeed, 2023). This result aligns with previous studies that have emphasized the importance of software and practicality in cryptocurrency adoption (Gandal et al., 2018). Users are greater willing to adopt and maintain the usage of stablecoins when they locate them handy and powerful for their financial desires. Frequent utilization is indicative of a tremendous comments loop, wherein individuals enjoy the benefits of balance and software, which, in flip, motivates them to contain stablecoins into their normal monetary activities. Moreover, this finding aligns with the wider understanding that adoption of digital currencies, such as stablecoins, frequently hinges on network consequences (Catalini & Gans, 2019). As more users have interaction with stablecoins and use them for everyday transactions, the community will become more treasured, attracting even more participants. This tremendous comments loop can extensively accelerate stablecoin adoption and further toughen their software.

Finally, the result that market self-assurance notably affects stablecoin adoption is a crucial insight into the dynamics of stablecoin adoption within the cryptocurrency ecosystem. It underscores the pivotal position that investor and person confidence plays inside the great acceptance and usage of stablecoins. This finding is in alignment with prior studies and resonates with set up monetary theories that emphasize the significance of accept as true with and self-belief in financial markets (Allen, 2022). Market self-assurance in stablecoins refers to the belief amongst users and buyers that those digital properties are reliable, stable, and fulfill their meant motive correctly. This confidence can be motivated by means of several factors, consisting of transparency in stablecoin

issuers' operations, regulatory compliance, and the stableness of the pegged belongings (Kothari, 2018). Previous research has highlighted that believe and confidence are vital determinants of cryptocurrency adoption (Catalini & Gans, 2019). Users are more likely to include stablecoins once they understand them as a sincere alternative to conventional currencies or as a means of reducing exposure to the volatility inherent in different cryptocurrencies. Furthermore, market confidence in stablecoins is closely tied to the overall fitness and stability of the broader cryptocurrency market. When cryptocurrency markets enjoy intervals of severe volatility or uncertainty, customers may also be seeking refuge in stablecoins as a secure haven asset, reinforcing the connection between marketplace confidence and stablecoin adoption. This result additionally aligns with the perception of network consequences in the cryptocurrency space (Gandal et al., 2018). As greater users and investors specific self-assurance in stablecoins, it draws additional participants, in addition strengthening the steadiness and application of those property. This fantastic remarks loop can drastically boost up the adoption of stablecoins (MacDonald, 2018).

5. Theoretical, practical implications, limitations and future research directions

Theoretical Implications:

1. Trust and Confidence in Digital Assets: The locating reinforces the significance of trust and self-belief in cryptocurrency adoption, extending traditional financial theories to the digital realm. It underscores the idea that person believe is not just about technology but also about the reliability and stability of the property themselves.

2. Network Effects: The have a look at aligns with community consequences theories, emphasizing that the greater customers trust in stablecoins, the greater treasured and widely followed they turn out to be. This network effect can cause a self-reinforcing cycle of adoption, making stablecoins increasingly more essential inside the cryptocurrency surroundings.

3. Behavioral Economics: It highlights the role of behavioral economics in cryptocurrency adoption. Users tend to be threat-averse, and their confidence in a solid and predictable asset like stablecoins is a result of behavioral biases that want balance and reliability.

Practical Implications:

1. Regulatory Focus: Regulators and policymakers may additionally use this insight to shape guidelines and oversight for stablecoin issuers. Ensuring transparency, compliance, and reliability inside the stablecoin market can enhance market self assurance and shield customers.

2. Business Strategy: Companies and projects operating within the cryptocurrency space can benefit from understanding the significance of market confidence. Building consider through transparency, auditability, and adherence to regulatory requirements can be a strategic gain in attracting users and traders.

3. Risk Management: Investors and customers can use this insight to inform their threat management strategies. Understanding that marketplace confidence influences stablecoin adoption can have an impact on selections on asset allocation and portfolio diversification, specifically at some point of durations of high cryptocurrency marketplace volatility.

4. Financial Inclusion: Stablecoins, due to their balance, can play a important function in expanding financial inclusion. The sensible implication is that promoting self assurance in those belongings can help bridge the space between the conventional economic device and underserved populations, especially in regions with excessive volatility in neighborhood currencies.

Limitations

1. Generalizability: One limitation of the study is the potential lack of generalizability of the findings beyond the specific context of the cryptocurrency ecosystem in which the research was conducted. The study focused on Malaysian individuals, and factors influencing stablecoin adoption may vary across different countries and cultures. Thus, caution should be exercised when extrapolating the results to broader populations or other geographic regions.

2. Sampling Bias: Another limitation relates to the sampling method employed. While purposive sampling allowed for the selection of participants with relevant insights into cryptocurrency adoption, it may introduce bias as individuals self-select to participate. This could result in overrepresentation of certain demographic groups or individuals with specific views or experiences, potentially skewing the findings.

3. Self-Reporting Bias: The study relied on self-reported data from participants, which may be subject to biases such as social desirability bias or recall bias. Participants may provide responses

that they perceive as favorable or socially acceptable, leading to an overestimation or underestimation of certain factors influencing stablecoin adoption.

4. Cross-Sectional Design: The study utilized a cross-sectional design, capturing data at a single point in time. While this provides a snapshot of stablecoin adoption and its influencing factors, it does not allow for the examination of changes or trends over time. Longitudinal studies would provide more insights into the dynamics of stablecoin adoption and the evolution of market confidence.

future research directions

1. Comparative Analysis: Future research could explore stablecoin adoption and its influencing factors across different countries and regions to assess variations in market dynamics, regulatory environments, and cultural attitudes towards cryptocurrencies. Comparative studies would enhance our understanding of the global landscape of stablecoin adoption and shed light on factors driving adoption in diverse contexts.

2. Longitudinal Studies: Longitudinal studies tracking stablecoin adoption over time would provide insights into the sustainability and persistence of adoption trends. By examining changes in market confidence, risk perception, and usage frequency longitudinally, researchers can identify emerging patterns and assess the long-term impact of stablecoins on the cryptocurrency ecosystem.

3. Qualitative Research: Complementing quantitative analysis with qualitative research methods such as interviews or focus groups could offer deeper insights into individuals' attitudes, motivations, and decision-making processes regarding stablecoin adoption. Qualitative research can uncover nuanced factors that may not be captured through quantitative surveys alone, enriching our understanding of stablecoin adoption dynamics.

4. Regulatory Analysis: Given the regulatory complexities surrounding stablecoins, future research could investigate the impact of regulatory frameworks on stablecoin adoption and market confidence. Understanding how regulatory changes influence user behavior and market dynamics is crucial for policymakers and industry stakeholders seeking to foster innovation while mitigating risks in the cryptocurrency space.

6. Conclusions

Numerous effects mentioned regarding stablecoin adoption screen several key insights into the dynamics of those digital assets inside the cryptocurrency surroundings. These findings not most effective provide a deeper information of ways and why stablecoins are being adopted but additionally shed mild on their broader implications for the sector of finance.

Firstly, the results consistently emphasize the significance of balance and reduced volatility in riding stablecoin adoption. Whether it is the perceived volatility reduction, risk belief, or market confidence, the not unusual thread is the desire for stability and predictability in an in any other case relatively risky cryptocurrency market. Stablecoins, pegged to fiat currencies or other solid assets, satisfy this need by presenting a dependable shop of value and a stable medium of alternate.

Secondly, those findings align with preceding studies inside the subject of cryptocurrency adoption. Trust and self-belief have lengthy been diagnosed as essential elements inside the choice-making process of cryptocurrency users and buyers. Stablecoins, by using reducing the danger and uncertainty related to different cryptocurrencies, resonate with the inherent hazard-averse nature of individuals and institutions.

Moreover, the effects underscore the significance of sensible software in riding stablecoin adoption. Frequent utilization of stablecoins reflects their relevance and convenience in diverse financial sports, reinforcing their adoption through community results. Users and traders are much more likely to embrace stablecoins after they locate them powerful for transactions, investments, or remittances, echoing mounted monetary principles. From a realistic perspective, those findings have real-world implications for stakeholders inside the cryptocurrency surroundings. Regulators can use insights approximately market confidence to shape rules that protect customers and make certain the stability of the stablecoin market. Businesses and initiatives can broaden techniques to construct agree with through transparency and compliance with regulatory requirements.

Overall, stablecoins are poised to continue playing a pivotal role within the cryptocurrency panorama and beyond. As the global financial machine maintains to adapt, stablecoins provide a bridge among the traditional economic machine and the sector of virtual assets, offering users with a reliable and strong alternative. Understanding the drivers of stablecoin adoption, including perceived volatility reduction, chance perception, marketplace confidence, and sensible software,

is important for correctly navigating this dynamic and transformative space. These findings contribute to a deeper comprehension of the evolving cryptocurrency surroundings and its implications for the destiny of finance.

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