



101 Blockchains



Decentralized Finance

101 Blockchains Flashcards

Learn the fundamentals of Decentralized Finance (DeFi) with DeFi flashcards, and enhance your knowledge as a blockchain professional.

1. DeFi

Decentralized Finance (DeFi) is actually just a combination of smart contracts operating independently on blockchains like the Ethereum network. The focus of DeFi primarily turns towards improvements in profitability for investors in the DeFi landscape. With the help of automated smart contracts, DeFi solutions can improve the yields for all investments. The faster growth of innovative ideas, alongside testing of new concepts frequently, has influenced the DeFi ecosystem profoundly.

2. dApp

dApp or decentralized application is a new variant of Web3 application running on a blockchain. It is probably one of the most valuable inventions of the 21st century as it enables various value benefits. dApp can enable prospects to define new solutions to existing problems. In addition, the decentralization in dApps helps in ensuring their resilience towards censorship and downtime. Decentralized applications can lay the foundation for complicated decentralized exchanges.

3. Centralized Exchange

Centralized Exchange, or CEX, refers to an exchange featuring a physical address alongside an explicitly formal centralized corporate structure. A centralized exchange, or CEX, has to comply with all relevant rules, laws, regulations, and money transmitter licenses for the country, state, and regions where it operates. The operations of a CEX involve various overhead costs such as rent and electricity, corporate leaders, expensive money transmitter licenses, office suppliers, and labor.

4. Audit

Audit refers to an internal or independent review of a specific concept, product, system, company, or process carried out comprehensively. The comprehensive audit process deals with an insightful and detailed overview of various factors. The factors include the structure, vulnerabilities, strength, and weaknesses of the process or object under audit. Audits can be classified as formal or informal, and they serve the purpose of identifying and analyzing issues for proactive resolution.

5. Alpha Code

Alpha code refers to the early-stage prototype computer code, algorithms, and programs tailored for solving a specific problem. The alpha code may also aim to offer new digital products and services. Alpha software generally features the expectations suggesting the code being in the early prototype stage. It also clearly showcases the limits of testing. It can miss out on different parts of expected software alongside planned features and software security.

6. Arbitrage

Arbitrage can be defined as the process of trading a crypto asset or coin. However, the mandatory highlight in arbitrage points out towards the distribution of the price across two different exchanges or markets for similar products or assets with the objective of earning improved profits. In the case of DeFi, automated yield farming leverages the algorithm-based arbitrage strategies for improving returns for investors with convenience for achieving arbitrage easily.

7. Aave

Aave is one of the open-source and non-custodial lending protocols that can allow the creation of money markets. Aave enables users to earn interest on deposits alongside borrowing assets. Depositors get a Liquidity Token with Aave, which serves as a representation of an equal amount of derivative deposit in a similar asset. For example, users can deposit DAI and then receive aDAI, a specific variant of USD-based crypto derivative, for convenience.

8. Automated Market Maker

Automated Market Maker or AMM is actually a decentralized asset trading pool. It can allow market participants to engage in the purchase and sales of cryptocurrencies. AMMs are also non-custodial as well as permissionless in their traits. The majority of AMMs depend on a constant product, constant sum market-making, and constant mean formula to provide the desired functionality. On the other hand, the constant product market maker stands as the best AMM functionality.

9. Balancer

Balancer Pool refers to a particular automated market maker or AMM featuring specific key properties that enable its functionality. The desired functionality of the balancer pool aims at serving as a self-balancing weighted portfolio alongside a price sensor. Balancer completely revolutionizes the concept of index funds. It takes away the need to pay fees to portfolio managers for rebalancing portfolios. On the other hand, users can collect fees from traders easily.

10. DAO

Distributed Autonomous Organization, or DAO, is basically an organization represented as a computer program with improved transparency and control of the organization members. DAO does not have any influence on the central government. The financial transaction record and documentation of program rules for a DAO are found on a blockchain. Proper DAO implementations can enable real-world experiments with decentralized democratic control and organization. DAO can also ensure freedom of action.

11. Collateral

Collateralization is common in various DeFi platforms where users have to stack up collateral in one token or cryptocurrency if they want to borrow a different token or cryptocurrency. It is basically the same as putting up a house as collateral for obtaining a loan from the bank. Generally, users have to offer a significant portion of their token or cryptocurrency as collateral to obtain DeFi loans if they want to pursue other business activities.

12. Yield Farming

Yield farming or liquidity mining is a notable feature in the DeFi space. It enables people to put up one token or cryptocurrency as a stake in a dApp or DEX for incentives and rewards. Certain platforms can reward users with another token that is suitable for staking on similar or another dApp or DEX. The important highlight, in this case, is the option for chasing higher yields alongside regular yields.

13. Liquidity Pools

Liquidity pools are important functionalities of DEXs that are responsible for helping people with trade interactions among themselves without intermediaries. Smart contracts are responsible for governance of the work process and maintaining the balance of liquidity pools across various token and cryptocurrency trading groups or pairs. Users receive rewards in liquidity pools for placing their liquidity or coins into the pools.

14. Coin

Coin is just a type of digital currency with prolific significance in the scope of DeFi. It can work perfectly for storing wealth or making payments. The security of coins with encryption algorithms also presents another promising value advantage. The market price of a specific coin provides representation for the value of ownership of a divisible unit of the token or coin at a specific point of time with ease.

15. Compound

Compound is one of the renowned DeFi platforms. The Compound DAO is basically an independent, algorithm-based interest rate protocol tailored for developers to expand an array of open financial applications. Developed by using different community-built interfaces, Compound is also a perfect example of collaboration between conventional institutional investors and cryptocurrency institutional investors. Compound showcases efforts for collaboration on a product that can benefit investors and the CeFi and DeFi communities.

16. Curve

Curve is the perfect example of a decentralized stablecoin Automated Market Maker or AMM. It facilitates low-slippage trades among stablecoins such as DAI, sUSD, USDC, TUSD & USDT, and the other synthetic assets existing over the Ethereum blockchain. The advantage of Curve reflects on the facility of liquidity for similar assets like the USD equivalents of cryptocurrencies. It provides an effective solution for resolving impermanent loss or IL for Liquidity Providers.

17. Fair Launch Coin

Fair launch coin or token, as the name implies, is clearly known for a launch that is fair to the public. By a fair launch, it implies that the coin or token did not have any founder, venture capitalist, foundation or development team, or early investor pre-mining or pre-allocation program. It enables claiming a specific portion of the concerned coin's supply prior to its general availability for sale to the public.

18. Impermanent Loss

Lending providers allocate assets to market participants for enabling liquidity in Automated Market Makers or AMMs. AMM pools can help in leveraging a bonding curve tailored specifically on a constant function market maker formula. The constant fluctuations in asset prices depend considerably on the AMM pool's response to trading activities by different ecosystem participants. However, the dollar value of assets could be lower without the provision of liquidity in impermanent loss.

19. Lending Provider

Lending provider in the context of DeFi refers to any individual or group capable of offering cryptocurrency capital in return for a share of fees and rewards. The lending provider loans out and offers liquidity for different cryptocurrency coins and related networks. Cryptocurrency networks, CIs, traders, exchanges, DAOs, and investors could leverage the various arbitrage opportunities alongside the business opportunities offered in the CeFi and DeFi ecosystem with considerable flexibility.

20. Liquidity Mining

Liquidity points out the amount of available circulating supply of a currency or an asset alongside the activity of the concerned currency or asset in a network, economy, or exchange. Liquidity mining refers to the energy-efficient variant of cryptocurrency mining which supports transactions and processes on a blockchain without any cost-intensive application or hardware-centric equipment required in conventional approaches for cryptocurrency mining. Liquidity mining providers offer incentives to liquidity providers.

21. Liquidity Providers

The role of a liquidity provider is quite significant in the domain of decentralized finance and cryptocurrency. They are just the investors who have deposited a specific asset and offered liquidity on a specific exchange or network so they can achieve the desired ROI on the concerned investment. Investors can deposit one or multiple digital assets in decentralized liquidity pools for offering liquid capital to smart contracts and exchanges. Liquidity providers offer multiple assets.

22. Multisig Wallet

Multisig wallet, or multiple signature wallets, can be defined as a cryptocurrency wallet with the capability of controlling access and modifications to one or multiple smart contracts. Projects under community governance such as DAO generally imply the need for multiple signers for transaction approval before execution. In community-based projects, multisig wallets for DeFi projects can be implemented in the form of 6 of 9 wallets for specific community wallet signers.

23. Rebalance

Rebalance is an important process in DeFi space and helps in making modifications to a portfolio or collection of funds for diverse reasons. It can also be perceived as a manual or automated tactical change to a yield farming strategy tailored for carrying out different tasks simultaneously. Rebalance is highly crucial in times of increased volatility with the implementation of mitigation efforts autonomously or through the application of manual intervention.

24. Stablecoin

Stablecoin is undoubtedly one of the significant resources in the DeFi space. It is basically a digital cryptocurrency that is equivalent in value to one USD. On paper, all stablecoins bear the equal value of corresponding fiat currency, albeit with some variance in practice. However, stablecoins such as DAI can come with zero variance due to their design to ensure a lack of volatility. Stablecoin can foster the DeFi sector as an attractive investment.

25. Stake

Staking is the process of depositing a cryptocurrency token or coin in a yield farming initiative or protocol, irrespective of access to the project through DeFi or CeFi methods. Stakers could work on gaining interest in deposits in such yield farming projects and solutions. CeFi is presently assumed safe for different reasons such as strict rules, regulations, and permitting. On the other hand, DeFi provides the assurance of better rewards.

26. TVL

TVL is the abbreviation for the Total Value Locked in a specific smart contract or array of smart contracts, which could be stored or deployed at one or multiple markets or exchanges. The primary function of TVL is to serve as an indicator of investor deposits. It basically represents the dollar value of all tokens or coins locked in a specific lending program, platform, insurance liquidity pool, or protocol.

27. Tokenomics

Generally, people confuse tokens with cryptocurrencies such as Ether and Bitcoin. However, they are the same as the shares of a company on the stock market. Trading in tokens could result in profit, although not in euros or dollars. All tokens don't necessarily have value. Tokenomics provides an ideal description of significant functionalities and projections related to newly issued tokens. Tokenomics can dictate the way tokens can be issued and distributed.

28. Pump and Dump

Pump and Dump is a common term in the DeFi space representing the practice of purchasing massive piles of a token or cryptocurrency for inflation of its price followed by selling it collectively, leading to a price crash. New token listings are commonly associated with pump and dump routines so that hype, as well as private pre-sales, can result in an initial growth spurt in the price before the crash arrives.

29. Margin

Margin is one of the crucial financial terms which refer to an available scope for borrowing capital with high risks alongside facility of collateral for a margin loan to ensure that it is easy to secure the loan. Margin or margin loan is quite a risky loan that is pegged against the margins of the investment. The primary objective of margin loans is growth in profits for traders or investors.



101 Blockchains

101 Blockchains is the world's leading research-based platform built for Enterprise Blockchain Professionals, with a thriving community of over 25,000 professionals.

101 Blockchains offers world-class training courses and industry-recognized certification programs that are helping professionals all over the world upgrade their skills and accelerate their career growth.

Check out our collection of [101 Blockchains Flashcards](#). Gain further knowledge about blockchain technology with in-depth [guides and blogs](#). Find world-class [professional training courses](#).

101 Blockchains Ltd © 2021. All rights reserved. This document may not be distributed, transmitted or reproduced in any form or by any means without 101 Blockchains' prior written permission. While the information contained in this document has been obtained from sources believed to be reliable, 101 Blockchains disclaims all warranties as to the completeness or accuracy. Although 101 Blockchains research may address business, financial, investment and legal issues, 101 Blockchains does not provide any business, financial, legal or investment advice and this document should not be construed or used as such. 101 Blockchains shall not be responsible for any loss sustained by any person who relies on this publication.