

HOW AUTOMATED MARKET MAKERS (AMMS) WORK | SEED PHRASE COLLECTION #329

Automated Market Makers (AMMs) are a crucial innovation in decentralized finance (DeFi), enabling users to trade cryptocurrencies without the need for traditional order books or intermediaries. Unlike centralized exchanges, which match buy and sell orders directly, AMMs use smart contracts to create and manage liquidity pools that automatically determine prices based on supply and demand.

In an AMM system, liquidity providers deposit pairs of tokens into pools, such as ETH and USDT. These pools allow traders to swap between tokens at any time. The most common pricing algorithm is the constant-product formula ($x \cdot y = k$), popularized by Uniswap, where x and y are the quantities of the two tokens in the pool and k is a constant. As users trade against the pool, the ratio of tokens adjusts, which in turn alters the price. This mechanism ensures that the pool always remains balanced and liquid, but large trades can result in 'slippage,' where the price changes significantly due to low liquidity.

Liquidity providers earn a portion of the trading fees collected from every swap in the pool, incentivizing them to maintain or add liquidity. However, they are also exposed to 'impermanent loss,' a temporary loss in value that can occur when the price of deposited tokens diverges.

AMMs are non-custodial, meaning users retain control of their assets, and trades are executed directly on the blockchain for transparency and security. They have democratized market-making, allowing anyone to participate and earn rewards, as opposed to the restricted access typical in traditional financial systems.

Overall, AMMs like Uniswap, SushiSwap, and Balancer have transformed crypto trading by making liquidity provision and exchange more accessible, efficient, and decentralized. They continue to evolve, with new designs experimenting with improved capital efficiency and reduced slippage.

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BIP39 WORD SEQUENCES

- 1) ripple rabbit cheap target conduct fever depart devote engage poverty clutch lunch
- 2) heavy field jewel second gravity target dumb clay mask field roof fire
- 3) surround consider birth mansion army arena awkward august kiwi raccoon dove advance
- 4) tribe about today subway pride stuff crack polar chief save whale elephant
- 5) opinion again neither hub spy survey valve check elevator profit notable palace
- 6) author romance sea hollow maximum rice change tobacco endless creek faith bless
- 7) knock figure canoe choose access transfer interest group follow cinnamon version fiber
- 8) hamster clutch upon disorder session dance lumber fantasy decide cattle direct sport
- 9) receive believe float keep answer dynamic sound promote collect assist wonder choice
- 10) glow clerk enlist buyer special off life antique dwarf trophy what sand
- 11) assist water hope vehicle give cinnamon drink school gym perfect clean acoustic
- 12) enemy another warm wear orphan visit resemble wave guide reduce keep very
- 13) tobacco draft marble cube language capable economy night apology owner youth metal
- 14) across random mask shift neglect increase shove cabbage purse awful tunnel piece
- 15) world ready ostrich exchange marriage voyage turn device crop seek stock planet
- 16) kiss hidden fashion ethics misery deputy fall barely magic favorite sudden add
- 17) before occur bulb diagram parrot thought bicycle symptom scene cement keep sport
- 18) ten zoo knock dinosaur approve hawk weekend garden click puzzle bottom hole
- 19) suffer benefit goat donate august tissue fitness hub barrel crumble gadget soup
- 20) rigid supply sense round trip tumble rigid rival bread rocket proof defense
- 21) drift business notice sorry file atom barely paper spot pact rotate render
- 22) boost elder farm cost ahead desert sleep achieve start silly credit hint
- 23) siege noodle easily aspect present skill merry master tank crane major deputy
- 24) boss era section force receive deer range mirror cup fringe decorate elevator
- 25) install into food tunnel alone matrix struggle kitten fault finger inform forward
- 26) section able memory clean ozone cereal royal ostrich bid amused life cross
- 27) prosper shrug bridge fragile mind arctic squeeze output upon valve three crop
- 28) valley rude bulk snack fix brave laptop now sudden pill name arrest
- 29) rely canvas senior depth master direct notice resemble minimum food judge major
- 30) move cushion wire health use pizza select borrow attract ball arrive anger
- 31) entire moon fold near road motion bag choice breeze breeze jungle lab
- 32) better swear cloth topic correct choice gold faith skull flee jungle pass
- 33) promote enhance fish tortoise burden antique drill save balcony odor crash shift
- 34) kick because pride walnut era cloth provide question rifle camera little sense
- 35) glory morning below spawn ghost derive august cram capable fabric volume merry
- 36) feel reason stand key enhance fuel material interest summer love pool simple
- 37) detail mixture hedgehog bomb dutch problem safe pact enrich track describe dose
- 38) rocket green rude pluck blade topple involve pair cherry excess critic maze
- 39) mutual trap evoke tonight elbow blind label buddy height husband depart harvest
- 40) notice pass retreat pave blouse copper tonight squeeze proud drill place certain
- 41) frost lobster wood maximum tortoise match educate short mechanic vocal athlete proud

BIP39 WORD SEQUENCES

- 42) trend float frog until similar toe fence sketch drill fire bench sweet
- 43) click skull best tourist future renew inside ill tent hurry trade panther
- 44) type badge solution census hammer year dash buddy stone used town above
- 45) gun train humor ghost tent boring clerk vital imitate spread master comic
- 46) original neglect crane laptop wedding wolf echo describe favorite theme across owner
- 47) adapt cigar rubber slender remember advice high crazy crash over loyal inner
- 48) tone example sick timber laugh burger evil cage airport auto borrow regret
- 49) amount apology original mean opera brick twelve arrow renew situate raise occur
- 50) remind abandon satisfy pilot swear goddess era worry deliver cancel satisfy cloud
- 51) awkward broom news short carpet describe wise advice video foster cute dawn
- 52) vintage black heavy fortune grow creek side firm shallow match father wife
- 53) matrix lady very neglect eagle pride hair wasp whisper private six better
- 54) domain public quit huge taste supply oblige critic jar paper lamp side
- 55) laptop switch captain vote army pet music hamster hint ski discover adapt
- 56) sunny couch example leg smoke echo just near stick cheese stereo faint
- 57) modify fence food evolve festival write tortoise anchor false now envelope humble
- 58) bottom room blossom prevent cliff turtle phone crash scan sail earn nest
- 59) hello negative ship cattle fish tent army margin pyramid lonely hold cup
- 60) dawn illness celery oak prosper payment mimic iron super nurse garage autumn
- 61) bottom panel isolate initial river float must exact dinner guilt whisper bless
- 62) retire thought toilet window hold liberty fog razor decline upset tribe crazy
- 63) crater spatial spy column lens peasant essence woman time much kangaroo vital
- 64) ribbon lion vacant social beauty coconut fit deal develop rail embark practice
- 65) regret blade chicken mixed bitter monster vicious normal boat actress magnet spy

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