Liquidity Pools

Liquidtiy pools are cryptocurrencies locked in a smart contract that provide liquidity for AMMs.
The idea is that people (mostly whales) provide liquidity for an exchange, so other people can swap tokens at any time. Liquidity providers get some yields for their action, but they are exposed to Impermanent loss.
Anyone can provide liquidity by exchanging both tokens of the trading pair for LP token and depositing that LP token to a liquidity pool.
The deeper the liquidity pool is, the smaller the price impact will be.