

What is a liquidity pool?

A liquidity pool is a large sum of a cryptocurrency or a pair of cryptocurrencies used on a DEX or used for staking initiatives. In a DEX a LP is used to ensure trades are carried out against the LP using the price curve. Liquidity providers to the LP get returns in the form of fees from every transaction. In a staking initiative, the LP is used as a validator to validate blocks in the blockchain. As a reward a % of transaction fees or newly minted cryptocurrency or both are given to the validator and the reward is distributed amongst the stakers.