

What is an AMM

An AMM, which stands for automatic market maker, is used by DEXs to make transactions. It executes transactions based on a price curve and 2 pools. Essentially, a constant ratio ($x*y=k$) must be maintained between the two pools. This means to take currency out of 1 pool you must pay currency into the other. Depending on the size of the pool this can be very cheap or expensive. AMMs are operated through stakers and liquidity providers who stake part of their portfolio to earn a return from the transaction fees on every transaction a DEX swap makes. However they can lose some of their portfolio due to impermanent loss. This is why it is always recommended to research the DEX heavily before staking.