

L35: Uniswap Deep Dive

Module E: DeFi Ecosystem

Blockchain & Cryptocurrency

December 2025

- Trace Uniswap's evolution from V1 to V4
- Understand concentrated liquidity mechanics (V3)
- Analyze fee tier optimization
- Explore UNI token governance and the fee switch debate
- Case Study: Fee switch governance controversy

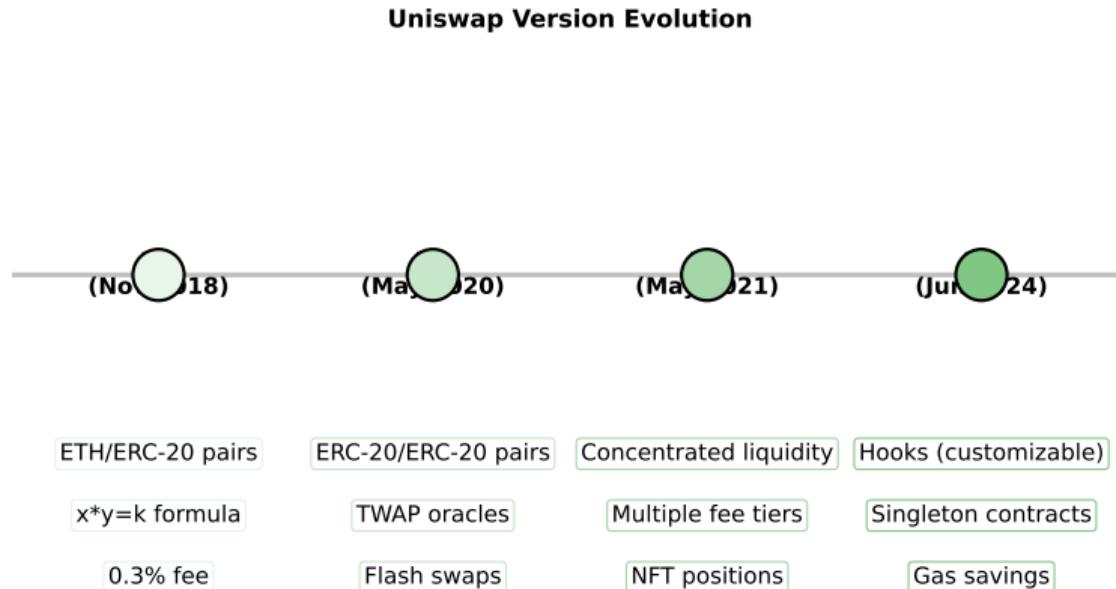
Created by: Hayden Adams (inspired by Vitalik Buterin's post)

Market Position (Dec 2024):

- Largest DEX by volume (\$50B+ monthly)
- \$5B TVL across all chains
- Deployed on Ethereum, Polygon, Arbitrum, Optimism, Base

Impact: Pioneered AMM model, inspired hundreds of forks.

Uniswap Version Evolution



Each version added significant innovation while maintaining core AMM principles

V1 (2018):

- ETH/ERC-20 pairs only, $x \cdot y = k$ formula
- 0.3% fee (100% to LPs)

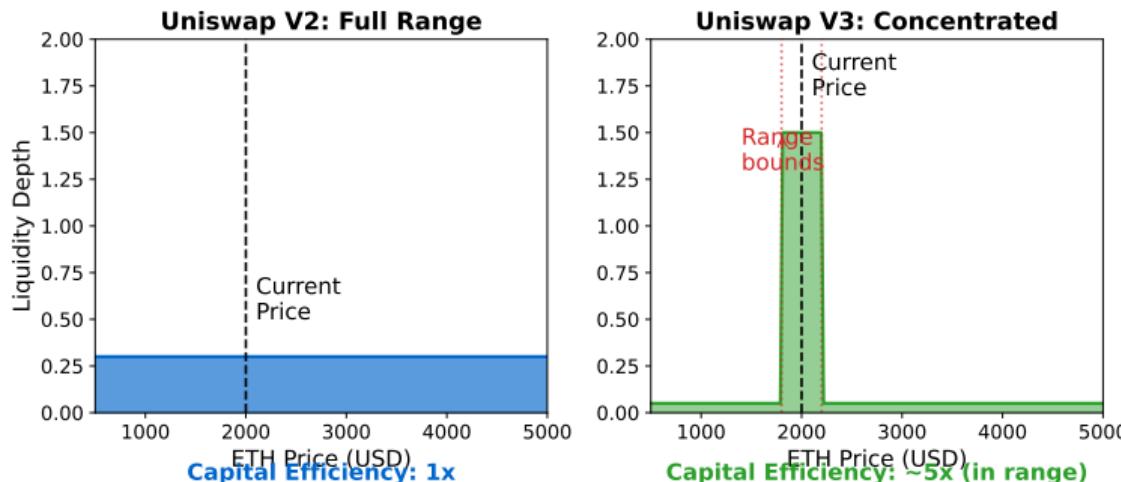
V2 (2020) - Major Improvements:

- **ERC-20/ERC-20 pairs:** Direct trading without ETH
- **TWAP oracles:** Manipulation-resistant price feeds
- **Flash swaps:** Borrow tokens, repay in same tx
- **Protocol fee switch:** 0.05% potential fee (not activated)

Flash Swaps: Enable arbitrage without upfront capital.

Uniswap V3: Concentrated Liquidity

V2 vs V3: Liquidity Distribution



V3 concentrates liquidity in active trading ranges for higher efficiency

Concentrated Liquidity Explained

Revolutionary Concept: LPs choose specific price ranges for liquidity.

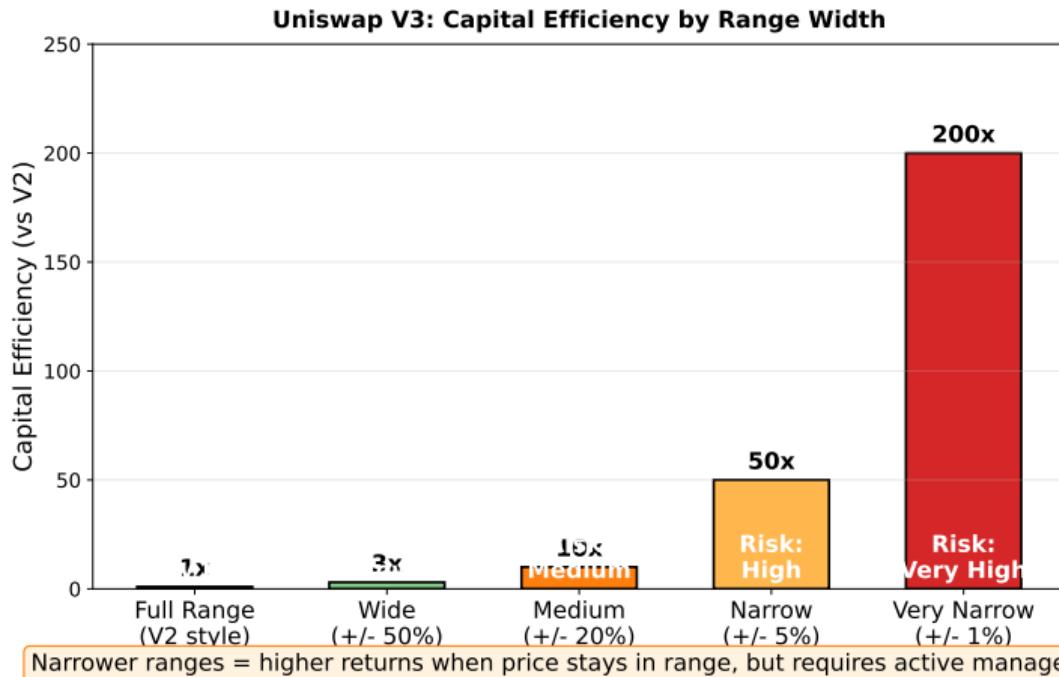
How It Works:

- Instead of infinite range, LP sets bounds (e.g., \$1,900-\$2,100)
- Liquidity only active within range
- Earns fees only when price in range

Example:

- LP deposits 1 ETH + 2,000 USDC with range \$1,900-\$2,100
- ETH = \$2,000: Position active, earns fees
- ETH = \$2,200: Position fully in USDC, no fees
- ETH = \$1,800: Position fully in ETH, no fees

Capital Efficiency by Range Width



Trade-off: Higher efficiency requires active management as price moves

Challenge: Price may exit your range, requiring rebalancing.

Strategies:

- ① **Passive (Wide Range):** Low returns, minimal management
- ② **Active (Narrow Range):** High returns if price stable, frequent rebalance
- ③ **Automated (Vault Services):** Gamma, Arrakis auto-rebalance for 0.1-0.5% fee

V3 LP Positions: Non-fungible (NFTs) - each position has custom range.

Impact: Less composable with other DeFi (wrapper protocols needed).

Innovation: Multiple fee tiers for same pair.

Fee Tier	Use Case	Examples
0.01%	Stablecoins	USDC/USDT, DAI/USDC
0.05%	Correlated assets	ETH/stETH
0.30%	Standard pairs	ETH/USDC
1.00%	Exotic/volatile	Low-liquidity tokens

Rationale: Stablecoins need low fees to attract volume; volatile pairs need higher fees to compensate IL.

Key Innovation: Customizable pool behavior via hooks.

What are Hooks?

- Smart contracts executing at specific points in trade lifecycle
- Before/after swap, before/after adding liquidity
- Add custom logic without forking Uniswap

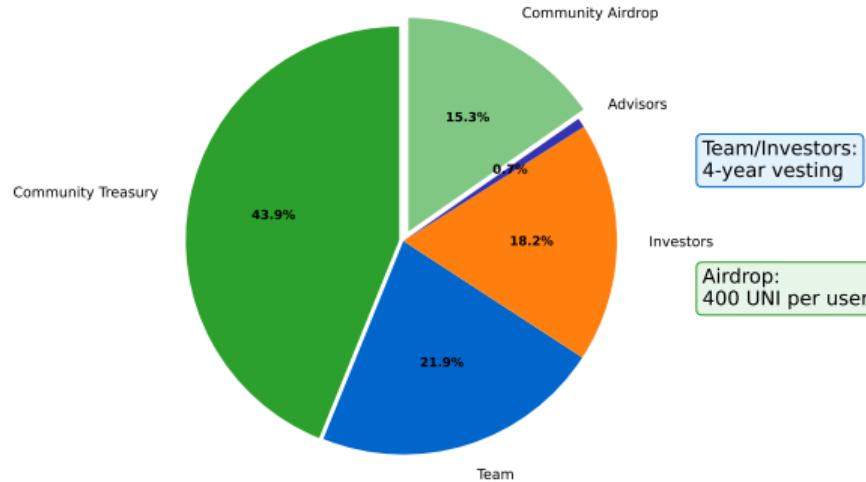
Example Use Cases:

- Dynamic fees based on volatility
- On-chain limit orders, TWAP execution
- Auto-rebalancing liquidity, MEV protection

Singleton Contract: All pools in one contract (gas savings).

UNI Token Distribution

UNI Token Distribution (1 Billion Total)



Community received 60% (airdrop + treasury); team/investors 40% with 4-year vesting

UNI Token: Governance

Launch: September 2020 (400 UNI airdropped to every user)

Governance Rights:

- Vote on protocol upgrades
- Treasury allocation (\$5B+ in assets)
- Fee switch activation (controversial)
- Cross-chain deployment approvals

Voting: 1 UNI = 1 vote (can delegate)

Thresholds: 2.5M UNI to propose, 40M quorum

Current Utility: Governance only - no direct fee revenue (yet).

The Fee Switch Debate

Current State: 0.3% fee goes 100% to LPs

Potential: Protocol can redirect 0.05% to UNI holders

Arguments For:

- Value accrual for UNI token
- Sustainable protocol development revenue

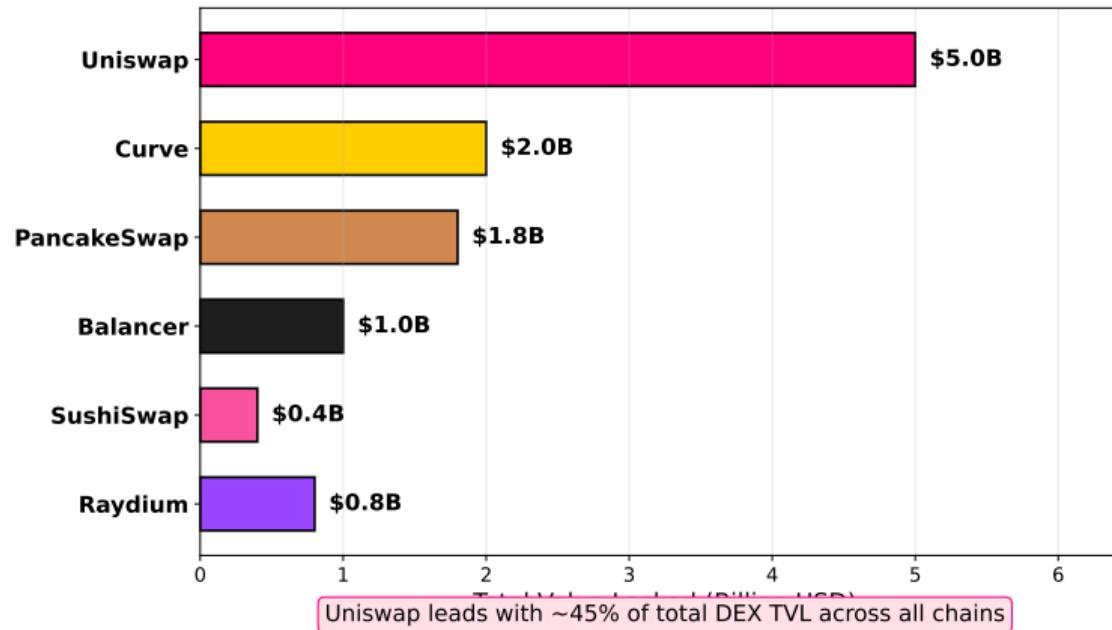
Arguments Against:

- Reduces LP returns (may lose liquidity)
- Regulatory risk (UNI could be deemed security)
- Current model working well

Status (Dec 2024): Fee switch remains off; delayed indefinitely.

DEX Market Comparison

Top DEXs by Total Value Locked (Dec 2024)



Uniswap maintains market leadership through innovation and brand recognition

Uniswap's Multi-Chain Strategy

Deployments (Dec 2024):

- Ethereum (L1), Polygon, Arbitrum, Optimism, Base, BNB Chain

Benefits:

- Lower gas fees on L2s (10-100x cheaper)
- Access different user bases
- Maintain dominance across ecosystems

Challenge: Liquidity fragmentation across chains.

Uniswap's Moat: Brand recognition, deepest liquidity, innovation leadership.

SEC Wells Notice (April 2024):

- Allegations: Operating unregistered securities exchange
- Response: Protocol is decentralized; Labs just builds software

Legal Arguments:

- Protocol vs. Interface distinction
- Smart contracts are speech (First Amendment)
- Users choose tokens, not Uniswap

Potential Outcomes:

- Settlement, lawsuit, or favorable ruling
- Precedent-setting for all DeFi

Status: Ongoing litigation (Dec 2024).

Key Takeaways:

- Uniswap evolved from V1 (simple AMM) to V4 (customizable hooks)
- V3 concentrated liquidity: 10-200x capital efficiency
- Fee tiers: 0.01% (stables) to 1% (exotic)
- UNI governs protocol but lacks direct cash flow
- Fee switch debate: value vs. LP retention vs. regulation
- Multi-chain expansion maintains market dominance

Next Lecture: Lab - Testnet Swap (hands-on Uniswap experience).

Questions for Reflection

- ① How does concentrated liquidity improve capital efficiency?
- ② Why might activating the fee switch harm Uniswap's position?
- ③ What are the trade-offs of NFT-based LP positions in V3?
- ④ How do hooks in V4 enable new DeFi primitives?
- ⑤ Should Uniswap prioritize decentralization or regulatory compliance?