**MakerDAO**

What is MakerDAO?

MakerDAO is an Ethereum blockchain smart contract platform. The project’s objective is to provide a stable cryptocurrency. **The stability is achieved by utilizing DAI** — the ERC-20 standard token, which is a cryptocurrency backed by a collateral asset. The cost of DAI is relatively stable against the US dollar

# Dai: Stablecoin Without Intermediaries

<https://3commastutorials.medium.com/makerdao-and-dai-as-the-foundation-of-defi-fb07e1ed2176>

How does it work?

<https://timesofindia.indiatimes.com/business/cryptocurrency/blockchain/what-are-stablecoins-and-how-do-they-work/articleshow/89183323.cms?from=mdr>

**NOTE:** The DAI issuing scheme is similar to the one of issuing money secured by gold. In essence, the only difference is that in this case, Ethereum is used as collateral: the user sends a certain amount of ETH to the smart contract, which issues DAI tokens. This type of smart contract is called **Collateralized****Debt****Position** **(CDP).** Thus, the created DAI tokens represent a pledged debt to MakerDAO.

## What Is a Collateralized Debt Position (CDP)?

<https://coinmarketcap.com/alexandria/glossary/collateralized-debt-position-cdp>

**Constantly Used Terms in MakerDAO:**

**WETH**: Since ETH does not follow the erc-20 standard, it must look like a token in order to be able to use it in a decentralized, smart-contract regulated system. Hence the name “Wrapped ETH”, shortened as “WETH”, which is nothing more than an ETH disguised as a token.

**PETH**: “Pooled ETHs” are WETHs that are prepared to be included in the circulating DAIs’ collateral pool, and that are in turn “treated” so as to be managed with the automations that regulate the MakerDAO operation.

**DAI**: This is the stablecoin with a fixed value of 1 USD that every subject with blocked PETHs in the pool has the right to create in amounts that you will be able to see later. Seen from the investor/trader point of view, DAI is that one coin you should buy when meaning to exit momentarily from the cryptocurrencies ripples.

**MKR**: This is a cryptocurrency that has some use cases in the MakerDAO environment, such as paying interest on debt positions, or closing fees for a CDP. It also gives the owner some governance capabilities in the MakerDAO system, but this is outside the scope of this guide.

**CDP**: “Collateralized Debt Position” is that debt position that opens in the MakerDAO system, within which the PETH must be bound as guarantee. With respect to the amounts of PETH bound, an issuance of DAI can be requested.

## **Benefits of having a CDP?**

Like many technologies, CDP was created to make life easier and secure for people within the financial space. The technology has many benefits, including:

### **No Credit History Requirements**

This benefits many people who suffer from bad credit. People who can no longer form from financial institutions like banks can now get funds. The tiresome paperwork need when borrowing in the traditional banking system is eliminated when using the CDP. All one needs is an Ethereum address, and they are good to go!

### **Flexible in making payments**

Unlike traditional lending systems, CDP does not put time limits, minimum repayment schedules or shift term based rates. Users are free to draw Dai or add additional collateral, whenever they choose.

### **Low Fees**

Being based on the Ethereum blockchain, there are fewer intermediaries involved and little operational overhead. This reduces the cost of running things, thus reducing the amount charged by the Maker Foundation.

### **No Counterparty Risk**

Users no longer need to rely on a trusted counterparty institution to manage their funds or release their funds since it is a decentralized system on the blockchain. All records are public and secure.

Speculative investment

Coinbase(A centralized exchange)

How is corresponding Dai token issued to a fiat stable currency?

# **What Are Stablecoins?**

Stablecoins are an attempt to create a cryptocurrency that isn't volatile.

Purpose of stablecoins is to open up cryptocurrency for mass consumption.

<https://www.gemini.com/cryptopedia/what-are-stablecoins-how-do-they-work>

**WHAT KEEPS STABLECOINS STABLE?**

<https://www.nber.org/system/files/working_papers/w27136/w27136.pdf>

**Main Idea:**

For stablecoins to be stable it has to be backed by some form of currency, commodity or financial instrument. For example, a stablecoin is backed by dollar collateral, this works through investor arbitrage flows. When the USD price of the stablecoin rises above parity, investors have an incentive to deposit dollars to create new stablecoin tokens, and sell them in the secondary market.

<https://www.youtube.com/watch?v=M5MjfG86IyI>

**MakerDAO Analysis :**

MakerDAO’s soft-pegged stablecoin (meaning it targets, but doesn’t promise a 1:1 exchange rate with USD)

**Useful Links :**

<https://insights.santiment.net/read/measuring-dai-supply-and-demand-price-effects-623>

<https://decrypt.co/23027/makerdao-what-went-wrong-and-how-it-was-fixed>

<https://makerdao.world/en/learn/vaults/vault-onboarding-guide/>

<https://decrypt.co/22866/usdc-dai-makerdao-crypto>