HT BLOCKCHAIN BI-WEEKLY NEWSLETTER

Editor's Note
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Dear Reader,

I am excited to announce that the HT Blockchain Bi-Weekly Newsletter has a new author starting this week! This author is the Chair of the Computer Science Department - Dr. Azubike Okpalaeze! Dr. Okpalaeze is Computer Science Professor with over 20 years of experience in the field. He is also the Director of HT's Center for Advanced Robotics. He has been a professor at HT for over 10 years.

In this, his first article for the blockchain newsletter, he will introduce you to the exciting world of Yield Farming. Yield farmers manipulate the interest rates associated with different cryptocurrencies for profit. Many crypto-millionaires have been minted from this type of activity.

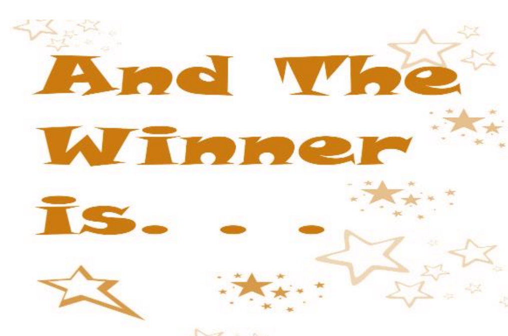
I am sure after hearing that you are as excited as I am for this article. Just remember that yield farming is not for the faint of heart. Only invest money you can afford to lose as this is a high-risk venture!

Do not forget to tell us how much you enjoyed the article by directly contacting Dr. Okpalaeze at aokpalaeze@htu.edu OR by completing the post-article survey at https://forms.gle/1dg4iR7XHSZgBMrx5. Remember, by completing the post-article survey you will have the opportunity to win a $50 gift card. The winner of the last post article survey was Robin Luck. Robin is a Full-time Education major at Huston-Tillotson University.

Editor:

Dr. Abena Primo (School of Business & Technology)

Do you want your cryptocurrency to grow into more cryptocurrency? If yes, consider Yield Farming!



Robin Luck

WHAT IS YIELD FARMING?

By Dr. Azubike Okpalaeze

Please note that the references shared in this article to commercial websites/applications are for informational purposes only and should not be taken as an endorsement of any product on the part of the author or Huston-Tillotson University. If you have questions about this article, please contact me at aokpalaeze@htu.edu.

In brief:

- Yield farming lets you lock up funds, and thus, provides rewards in the process.
- It involves lending out cryptos via DeFi protocols that yields fixed or variable interest.
- The rewards tops traditional investments, though higher rewards bring higher risks in volatile market.

It's impossible to understand the crypto sensations without constant review of new trends and buzzwords. One of the latest ones of interest is **yield farming** (a reward scheme that seeks to decentralized finance (**DeFi**) world. Arguably one of the main reasons people are drawn to the DeFi world is yield farming. In the DeFi world, inexperienced investors get burned, tech-savvy capitalists make their fortunes.

At its core, yield farming is a process that allows cryptocurrency holders to lock up their holdings, which in turn provides them with

What is yield farming?

Best defined, yield farming allows cryptocurrency holders to lock up their holdings and provides them with rewards. Precisely, it's a process that lets you earn either fixed or variable interest by investing crypto in a DeFi market.

Simply put, yield farming involves lending cryptocurrency that allows smart contracts to operate on its network (i.e. the Ethereum Network). The Ethereum Network was created by Vitalik Buterin, a Russian and Canadian software developer, and thus becomes the evolution of Bitcoin. When loans are made via banks using fiat money, the amount lent out is paid back with interest. With yield farming, the concept is the same: cryptocurrency that would otherwise be sitting in an exchange or in a wallet is lent out via DeFi protocols (or locked into smart contracts, in Ethereum terms) in order to get a return.

Yield farming is normally carried out using ERC-20 tokens on Ethereum, with the rewards being a form of ERC-20 token. While this might change in future, almost all current yield farming transactions take place in the Ethereum ecosystem.

How does yield farming work?

The first step in yield farming involves adding funds to a liquidity pool, which are essentially smart contracts that contain funds. These pools power a marketplace where users can exchange, borrow, or lend tokens. Once you've added your funds to a pool, you've officially become a liquidity provider.

In return for locking up your funds in the pool, you'll be rewarded with fees generated from the underlying DeFi platform. Note that investing in Ethereum (ETH) itself, for example, does not count as yield farming. Instead, lending out ETH on a decentralized non-custodial money market protocol like Aave (Open Source DeFi Protocol), then receiving a reward, is yield farming. Reward tokens themselves can also be deposited in liquidity pools, and it is common practice for people to shift their funds between different protocols to chase higher yields.

It's complex stuff. Yield farmers are often very experienced with the Ethereum network and its technicalities—and will move their funds around to different DeFi platforms in order to get the best returns. It is by no means easy, and certainly not easy money. Those providing liquidity are also rewarded based on the amount of liquidity provided, so those reaping huge rewards have correspondingly huge amounts of capital behind them.

A quick rundown of yield farming

- 💰 Liquidity providers deposit funds into a liquidity pool.
- 💸 Deposited funds are normally stablecoins linked to USD, such as DAI, USDT, USDC, and more.
- 💱 Another incentive to add funds to a pool could be to accumulate a token that's not on the open market, or has low volume, by providing liquidity to a pool that rewards it.
- 📈 Your returns are based on the amount you invest, and the rules that the protocol is based on.
- 🔗 You can create complex chains of investments by reinvesting your reward tokens into other liquidity pools, which in turn provide different reward tokens.

What's so special about yield farming?

The main benefit of yield farming is sweet, sweet profit. If you arrive early enough to adopt a new project, for example, you could generate token rewards that might rapidly shoot up in value. Sell the rewards at a profit, and you could treat yourself—or choose to reinvest.

Currently, yield farming can provide more lucrative interest than a traditional bank, but there are of course risks involved too. Interest rates can be volatile, making it hard to predict what your rewards could look like over the coming year—not to mention that DeFi is a riskier environment in which to place your money.

Why should we care?

Over the course of 2020, an insane amount of money was made (and lost) via the Ethereum network because yield farming platforms are built on Ethereum. And most, if not all, DeFi tools use the Ethereum platform.

Yield farming is important as it can help projects gain initial liquidity, but it is also useful for both lenders and borrowers because it makes taking out loans easier for all.

Those who are making huge returns often have a lot of capital behind them. But those wanting to take out a loan have access to cryptocurrency with very low interest rates - sometimes as low as 1% APR. Borrowers are also able to lock up the funds in a high-interest account with ease.

Though the yield farming explosion has died down somewhat following its Summer 2020 boom, there is still the possibility of earning an outsized yield on assets compared to that seen in the world of traditional finance.

Yield farming has been a somewhat divisive topic in the world of crypto. Not all the community thinks it's important—and some in the crypto community have advised people to stay away. For example, flash farms (yield farming projects that pop up for just a week or so) have been criticized by Ethereum developers for their high risk. Ethereum co-

Yield farming is a way to make more crypto with your crypto. It involves you lending your funds to others through the magic of computer programs

founder Vitalik Buterin himself has said he will be staying away from yield farming investments.

Conclusion:
The main benefit of yield farming, to put it bluntly, is sweet, sweet profit. If you arrive early enough to adopt a new project, for example, you could generate token rewards that might rapidly shoot up in value. Sell the rewards at a profit, and you could treat yourself—or choose to reinvest.

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Did you enjoy this article? Please let us know by following the link below and completing a short survey about this article. Survey participants will be entered in a draw to receive a $50 gift card. The gift card winner will be announced in this section of the next article.

Survey Link

Previous Winner: Robin Luck

This project was generously sponsored by the FinTech Center at Morgan State University. If you have any questions or concerns, please contact Dr. Abena Primo (email: acprimo@htu.edu).

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