

Intro

Hello! And welcome to our course on Decentralized Derivatives Markets. In this course, you'll learn what decentralized derivatives are, how they work, and some of the most popular platforms today. I know you're anxious to get started, so let's jump right in.

Derivatives

Welcome to Lesson 1! In this lesson we're going to talk about derivatives, so let's get started.

Derivatives are also called synthetics. They're secondary financial instruments that get their value from an underlying asset. This could be anything from fiat currencies, dollar or the yen, to gold and silver, to index funds or other digital assets.

Derivatives aren't physical products; they're contracts that include transactions such as futures contracts, options, warrants, and swaps. Traders essentially make bets on the price of an asset without actually holding the asset.

Derivatives are often used to minimize risk by "hedging" against another investment. Hedging is a risk management strategy used to offset losses in an investment by taking an opposite position in a related asset. It's sort of like insurance that reduces your loss if prices don't go the way you expected on an asset.

So why are crypto derivatives such a big deal? Before crypto derivatives, the global derivatives market was only available to institutional investors like banks, credit unions, and insurance companies. But now, the derivatives market is open to anyone, anywhere.

Some say that derivatives are required for a financial system to mature. The crypto ecosystem is about ten years old so it's still pretty new, but it is maturing at a fast pace as derivatives markets become common in the industry.

Crypto Futures and Forward Contracts

Hey, welcome to Lesson 2! In this lesson we're going to talk about a type of derivative called futures. Are you ready? Let's go.

So what are Futures? Futures in crypto are similar to futures in the stock market. Two parties agree to buy or sell a cryptocurrency at a specific price at an agreed upon date in the future. The price of a crypto futures contract is reliant on the price of the underlying cryptocurrency asset.

One of the benefits of futures is that there is limited risk, but there is potential for a high profit. Futures are also high leverage investments because investors only need to deposit 10% of the contract value.

Another benefit is the high liquidity of futures. This means there is both high supply and high demand. Assets can be bought and sold easily with little effect on the price. Investors usually use futures to hedge their positions in the crypto market or to diversify their portfolios.

Similar to futures are Forward Contracts. Forward contracts are more customized contracts between two parties. They agree to buy or sell an asset at an agreed upon price at a later, predetermined date, just like futures. So what's the difference?

Futures are standardized contracts. They have standard terms and are traded on an exchange where prices are determined day by day until the end of the contract. Forward contracts are customized, private contracts that are settled once, at the end of the contract. They are traded "over-the-counter" instead of on an exchange.