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Ethereum's First Governance Token: Guide for MKR

Today, many excellent cryptocurrency assets can be traded on exchanges, including bitcoin, Ethereum, usdt, usdc and other stable currencies. Today, we are talking about MKR (Maker), the first governance token of Ethereum blockchain. Let's take a look at how MKR works and its uniqueness compared with other currencies in the cryptocurrency market.



Do you Know MKR (Maker)?

Before explaining what MKR (Maker) is, we should first recognize the concept of governance token. Governance token is a token in the network. Its development is to give the holder the right to decide and develop the future of the agreement.

In other words, the holder of the governance token has the right to choose the project. For example,

they can propose new functions and even determine major changes in the governance structure.

One type of governance token is maker (MKR). Developed and managed by MakerDao, MKR is one of the early governance tokens you see in the cryptocurrency market. A decentralized autonomous organization, called Dao, is a system based on smart contract created by developers to realize the automation of decision-making in a transparent way. The tokens recognized by MakerDao are Dai and maker tokens (MKR). Dai is a stable currency that provides stable price, while maker is proficient in protecting the stability of Dai.

Both MKR and Dai use legal currency as the benchmark of asset value to maintain its stability. In addition, MakerDao uses MKR tokens as a tool to hedge against price fluctuations. Therefore, maker can be called a stable currency, and its value is linked to the US dollar. As a token applying the concept of governance, maker can be used by token holders to make decisions about the development and future of the coin.

Maker as a Stablecoin

According to the developers, maker can cast and burn according to the fluctuation of Dai price. In fact, the value of Dai can be equivalent to \$1. It is characterized by a collateral system that allows asset owners to participate in Dai mechanism and network management.

Therefore, if the price of eth drops too fast, Dai network seems unable to respond effectively, and MKR token can become an option. Then, if Dai's collateral system is insufficient, MKR will be issued and sold to the encrypted asset trading market as additional collateral.

In addition, the "Dai savings rate" is characterized by the cumulative amount of Dai owned by the holder. The purpose is to help MKR determine the influence of Dai holders on governance voting. Dai's savings rate has changed from 8.75% to 0% in one year. However, with the market crisis in March 2020, the market value of Dai exceeded US \$1. After the incident, the MKR owner decided to reduce Dai's savings rate to 0% to promote Dai's sales in the future. Therefore, today's Dai price is expected to rise to the dollar value.

How MKR Work?

As mentioned earlier, the main function of MKR is to cope with the price fluctuation of Dai through casting and combustion. The system relies on external market forces and economic incentives to maintain the value of Dai and is linked to a stable currency linked to the US dollar. Strangely, Dai has never been worth exactly one dollar. In most cases, the value of a Dai token is between \$0.98 and \$1.02. Once the smart contract for the loan is completed, the MKR token will be burned immediately.

In order to maintain the stability of Dai, MKR uses three main network models even in the face of huge market price fluctuations. The first model is called the target price. It is mainly used to calculate the value of ERC-20 token relative to the US dollar.

Secondly, in order to limit the fluctuation of Dai during the market downturn, the target price feedback mechanism (TRFM) was deployed to break the dollar peg. In particular, this agreement will affect the change of target price over time.

TRFM also includes a sensitivity parameter system. It can monitor the fluctuation of Dai price relative to the US dollar and release TRFM in the event of market collapse. Finally, the collateralized

debt position (CDP) agreement enables maker to be self-sufficient or independent. These powerful smart contracts are considered to be the backbone of the maker ecosystem.

As long as ERC-20 tokens are delivered to the maker platform in exchange for Dai tokens, a CDP contract will be initiated. As the mortgage debt smart contract locks in tokens, users will be rewarded with the amount of Dai they deposit. CDP smart contract will release the mortgage assets immediately after the loan is repaid. Once the CDP is terminated, any remaining Dai and the resulting amount will be destroyed in a timely manner.