The Term Structure of Implied Fees in Liquidity Pools

Yuri F. Saporito

Fundação Getulio Vargas

We present a novel framework to estimate the expected fee amounts earned for a single liquidity position in liquidity pools. By calibrating the price model to options market data, we derive a volatility surface that enables accurate pricing of AMM positions. This allows us to quantify the expected profitability of market-making in liquidity pools, bridging the gap between traditional options pricing and decentralized finance, providing a robust tool for evaluating and managing positions in liquidity pools.

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