

DeFi Ecosystem

Module Quiz – 20 Multiple-Choice Questions

Topics covered: DeFi fundamentals · AMM mechanics · Lending & liquidation · Stablecoins · Risk & contagion · DeFi evaluation

Select the best answer. Answers revealed after each question.

Bloom's levels: 4 Understand · 8 Apply · 6 Analyze · 2 Evaluate

Q1 [Understand]. What does DeFi stand for?

- A) Distributed Finance
- B) Decentralized Finance
- C) Digital Finance
- D) Delegated Finance

Q1 [Understand]. What does DeFi stand for?

- A) Distributed Finance
- B) Decentralized Finance
- C) Digital Finance
- D) Delegated Finance

Answer: (B) – DeFi stands for Decentralized Finance: financial services built on public blockchains without traditional intermediaries.

Q2 [Understand]. Which layer of the DeFi stack do protocols like Uniswap and Aave belong to?

- A) Settlement Layer
- B) Asset Layer
- C) Protocol Layer
- D) Application Layer

Q1 [Understand]. What does DeFi stand for?

- A) Distributed Finance
- B) Decentralized Finance
- C) Digital Finance
- D) Delegated Finance

Answer: (B) – DeFi stands for Decentralized Finance: financial services built on public blockchains without traditional intermediaries.

Q2 [Understand]. Which layer of the DeFi stack do protocols like Uniswap and Aave belong to?

- A) Settlement Layer
- B) Asset Layer
- C) Protocol Layer
- D) Application Layer

Answer: (C) – Uniswap (DEX) and Aave (lending) are core DeFi protocols; apps that build on them sit in the Application Layer above.

Q3 [Apply]. A user wants to trade tokens without an intermediary. Which DeFi primitive should they use?

- A) A centralized order book
- B) An automated market maker (AMM/DEX)
- C) A custodial wallet
- D) A wrapped token bridge

Q1 [Understand]. What does DeFi stand for?

- A) Distributed Finance
- B) Decentralized Finance
- C) Digital Finance
- D) Delegated Finance

Answer: (B) – DeFi stands for Decentralized Finance: financial services built on public blockchains without traditional intermediaries.

Q2 [Understand]. Which layer of the DeFi stack do protocols like Uniswap and Aave belong to?

- A) Settlement Layer
- B) Asset Layer
- C) Protocol Layer
- D) Application Layer

Answer: (C) – Uniswap (DEX) and Aave (lending) are core DeFi protocols; apps that build on them sit in the Application Layer above.

Q3 [Apply]. A user wants to trade tokens without an intermediary. Which DeFi primitive should they use?

- A) A centralized order book
- B) An automated market maker (AMM/DEX)
- C) A custodial wallet
- D) A wrapped token bridge

Answer: (B) – AMMs like Uniswap allow trustless token swaps via liquidity pools, with no central counterparty.

Q4 [Apply]. What does TVL measure in DeFi?

- A) Total volume of tokens listed on a protocol
- B) The number of transactions per second
- C) Total value of assets deposited in DeFi protocols
- D) The market capitalisation of a DeFi token

Q1 [Understand]. What does DeFi stand for?

- A) Distributed Finance
- B) Decentralized Finance
- C) Digital Finance
- D) Delegated Finance

Answer: (B) – DeFi stands for Decentralized Finance: financial services built on public blockchains without traditional intermediaries.

Q2 [Understand]. Which layer of the DeFi stack do protocols like Uniswap and Aave belong to?

- A) Settlement Layer
- B) Asset Layer
- C) Protocol Layer
- D) Application Layer

Answer: (C) – Uniswap (DEX) and Aave (lending) are core DeFi protocols; apps that build on them sit in the Application Layer above.

Q3 [Apply]. A user wants to trade tokens without an intermediary. Which DeFi primitive should they use?

- A) A centralized order book
- B) An automated market maker (AMM/DEX)
- C) A custodial wallet
- D) A wrapped token bridge

Answer: (B) – AMMs like Uniswap allow trustless token swaps via liquidity pools, with no central counterparty.

Q4 [Apply]. What does TVL measure in DeFi?

- A) Total volume of tokens listed on a protocol
- B) The number of transactions per second
- C) Total value of assets deposited in DeFi protocols
- D) The market capitalisation of a DeFi token

Answer: (C) – TVL (Total Value Locked) aggregates the USD value of all assets supplied to a protocol's smart contracts.

Q5 [Understand]. In the constant product formula $x \cdot y = k$, what does k represent?

- A) The current price ratio between the two tokens
- B) The constant that remains unchanged after every trade
- C) The total liquidity provider fee collected
- D) The protocol's governance token supply

Q1 [Understand]. What does DeFi stand for?

- A) Distributed Finance
- B) Decentralized Finance
- C) Digital Finance
- D) Delegated Finance

Answer: (B) – DeFi stands for Decentralized Finance: financial services built on public blockchains without traditional intermediaries.

Q2 [Understand]. Which layer of the DeFi stack do protocols like Uniswap and Aave belong to?

- A) Settlement Layer
- B) Asset Layer
- C) Protocol Layer
- D) Application Layer

Answer: (C) – Uniswap (DEX) and Aave (lending) are core DeFi protocols; apps that build on them sit in the Application Layer above.

Q3 [Apply]. A user wants to trade tokens without an intermediary. Which DeFi primitive should they use?

- A) A centralized order book
- B) An automated market maker (AMM/DEX)
- C) A custodial wallet
- D) A wrapped token bridge

Answer: (B) – AMMs like Uniswap allow trustless token swaps via liquidity pools, with no central counterparty.

Q4 [Apply]. What does TVL measure in DeFi?

- A) Total volume of tokens listed on a protocol
- B) The number of transactions per second
- C) Total value of assets deposited in DeFi protocols
- D) The market capitalisation of a DeFi token

Answer: (C) – TVL (Total Value Locked) aggregates the USD value of all assets supplied to a protocol's smart contracts.

Q5 [Understand]. In the constant product formula $x \cdot y = k$, what does k represent?

- A) The current price ratio between the two tokens
- B) The constant that remains unchanged after every trade
- C) The total liquidity provider fee collected
- D) The protocol's governance token supply

Answer: (B) – k is invariant; each trade adjusts x and y such that their product stays constant.

Q6 [Apply]. A pool holds 100 ETH and 300,000 USDC ($k = 30,000,000$). You buy 10 ETH. How much USDC do you pay?

- A) 30,000 USDC B) 33,333 USDC C) 31,250 USDC D) 35,000 USDC

Q6 [Apply]. A pool holds 100 ETH and 300,000 USDC ($k = 30,000,000$). You buy 10 ETH. How much USDC do you pay?

A) 30,000 USDC B) 33,333 USDC C) 31,250 USDC D) 35,000 USDC

Answer: (B) – After the trade: $90 \times y' = 30,000,000$, so $y' = 333,333$ USDC. Cost = $333,333 - 300,000 = 33,333$ USDC.

Q7 [Apply]. If a token's price doubles relative to its pair, what is the approximate impermanent loss for an LP?

A) 2.0% B) 5.7% C) 11.1% D) 25.0%

Q6 [Apply]. A pool holds 100 ETH and 300,000 USDC ($k = 30,000,000$). You buy 10 ETH. How much USDC do you pay?

- A) 30,000 USDC B) 33,333 USDC C) 31,250 USDC D) 35,000 USDC

Answer: (B) – After the trade: $90 \times y' = 30,000,000$, so $y' = 333,333$ USDC. Cost = $333,333 - 300,000 = 33,333$ USDC.

Q7 [Apply]. If a token's price doubles relative to its pair, what is the approximate impermanent loss for an LP?

- A) 2.0% B) 5.7% C) 11.1% D) 25.0%

Answer: (B) – IL formula: $\frac{2\sqrt{r}}{1+r} - 1$ where $r = 2$ gives $\approx -5.7\%$ relative to holding.

Q8 [Analyze]. Why does slippage increase with larger trade sizes on AMMs?

- A) Larger trades incur higher gas fees that inflate the price
B) The protocol charges progressively higher fees for big orders
C) Larger trades move further along the constant product curve where price impact grows nonlinearly D) Bigger trades attract front-running bots that raise prices

Q6 [Apply]. A pool holds 100 ETH and 300,000 USDC ($k = 30,000,000$). You buy 10 ETH. How much USDC do you pay?

- A) 30,000 USDC B) 33,333 USDC C) 31,250 USDC D) 35,000 USDC

Answer: (B) – After the trade: $90 \times y' = 30,000,000$, so $y' = 333,333$ USDC. Cost = $333,333 - 300,000 = 33,333$ USDC.

Q7 [Apply]. If a token's price doubles relative to its pair, what is the approximate impermanent loss for an LP?

- A) 2.0% B) 5.7% C) 11.1% D) 25.0%

Answer: (B) – IL formula: $\frac{2\sqrt{r}}{1+r} - 1$ where $r = 2$ gives $\approx -5.7\%$ relative to holding.

Q8 [Analyze]. Why does slippage increase with larger trade sizes on AMMs?

- A) Larger trades incur higher gas fees that inflate the price
B) The protocol charges progressively higher fees for big orders
C) Larger trades move further along the constant product curve where price impact grows nonlinearly D) Bigger trades attract front-running bots that raise prices

Answer: (C) – Each marginal unit of a large trade receives a worse price because the curve steepens; small pools amplify this effect.

Q9 [Understand]. What is the health factor in DeFi lending?

- A) The annual percentage yield paid to depositors B) The protocol's audit score from security firms
C) The ratio of collateral value to borrowed value; liquidation occurs when it falls below 1.0 D) The percentage of governance tokens held by the team

Q6 [Apply]. A pool holds 100 ETH and 300,000 USDC ($k = 30,000,000$). You buy 10 ETH. How much USDC do you pay?

- A) 30,000 USDC B) 33,333 USDC C) 31,250 USDC D) 35,000 USDC

Answer: (B) – After the trade: $90 \times y' = 30,000,000$, so $y' = 333,333$ USDC. Cost = $333,333 - 300,000 = 33,333$ USDC.

Q7 [Apply]. If a token's price doubles relative to its pair, what is the approximate impermanent loss for an LP?

- A) 2.0% B) 5.7% C) 11.1% D) 25.0%

Answer: (B) – IL formula: $\frac{2\sqrt{r}}{1+r} - 1$ where $r = 2$ gives $\approx -5.7\%$ relative to holding.

Q8 [Analyze]. Why does slippage increase with larger trade sizes on AMMs?

- A) Larger trades incur higher gas fees that inflate the price
B) The protocol charges progressively higher fees for big orders
C) Larger trades move further along the constant product curve where price impact grows nonlinearly D) Bigger trades attract front-running bots that raise prices

Answer: (C) – Each marginal unit of a large trade receives a worse price because the curve steepens; small pools amplify this effect.

Q9 [Understand]. What is the health factor in DeFi lending?

- A) The annual percentage yield paid to depositors B) The protocol's audit score from security firms
C) The ratio of collateral value to borrowed value; liquidation occurs when it falls below 1.0 D) The percentage of governance tokens held by the team

Answer: (C) – Health factor = $\frac{\text{collateral} \times \text{liquidation threshold}}{\text{debt}}$; dropping below 1.0 triggers liquidation.

Q10 [Apply]. You deposit \$10,000 in ETH with a 75% LTV ratio. What is the maximum you can borrow?

- A) \$10,000 B) \$5,000 C) \$7,500 D) \$2,500

Q6 [Apply]. A pool holds 100 ETH and 300,000 USDC ($k = 30,000,000$). You buy 10 ETH. How much USDC do you pay?

- A) 30,000 USDC B) 33,333 USDC C) 31,250 USDC D) 35,000 USDC

Answer: (B) – After the trade: $90 \times y' = 30,000,000$, so $y' = 333,333$ USDC. Cost = $333,333 - 300,000 = 33,333$ USDC.

Q7 [Apply]. If a token's price doubles relative to its pair, what is the approximate impermanent loss for an LP?

- A) 2.0% B) 5.7% C) 11.1% D) 25.0%

Answer: (B) – IL formula: $\frac{2\sqrt{r}}{1+r} - 1$ where $r = 2$ gives $\approx -5.7\%$ relative to holding.

Q8 [Analyze]. Why does slippage increase with larger trade sizes on AMMs?

- A) Larger trades incur higher gas fees that inflate the price
 B) The protocol charges progressively higher fees for big orders
 C) Larger trades move further along the constant product curve where price impact grows nonlinearly D) Bigger trades attract front-running bots that raise prices

Answer: (C) – Each marginal unit of a large trade receives a worse price because the curve steepens; small pools amplify this effect.

Q9 [Understand]. What is the health factor in DeFi lending?

- A) The annual percentage yield paid to depositors B) The protocol's audit score from security firms
 C) The ratio of collateral value to borrowed value; liquidation occurs when it falls below 1.0 D) The percentage of governance tokens held by the team

Answer: (C) – Health factor = $\frac{\text{collateral} \times \text{liquidation threshold}}{\text{debt}}$; dropping below 1.0 triggers liquidation.

Q10 [Apply]. You deposit \$10,000 in ETH with a 75% LTV ratio. What is the maximum you can borrow?

- A) \$10,000 B) \$5,000 C) \$7,500 D) \$2,500

Answer: (C) – Max borrow = $\$10,000 \times 0.75 = \$7,500$; borrowing more than this violates the LTV constraint.

Q11 [Apply]. Your collateral drops from \$10,000 to \$7,000 while you have \$7,500 outstanding debt. What happens?

- A) You receive a warning and have 24 hours to repay
- B) The protocol freezes your account
- C) Liquidation is triggered because the health factor dropped below 1.0
- D) The interest rate automatically increases

Q11 [Apply]. Your collateral drops from \$10,000 to \$7,000 while you have \$7,500 outstanding debt. What happens?

- A) You receive a warning and have 24 hours to repay B) The protocol freezes your account
C) Liquidation is triggered because the health factor dropped below 1.0 D) The interest rate automatically increases

Answer: (C) – Health factor = $7,000/7,500 \approx 0.93 < 1.0$; liquidators can repay your debt and seize collateral at a discount.

Q12 [Analyze]. Why do DeFi lending protocols require overcollateralization instead of credit scores?

- A) Credit scores are too expensive to compute on-chain B) Regulators prohibit credit-based lending in DeFi
C) There is no on-chain identity system; collateral is the only enforceable guarantee in a trustless environment D) Overcollateralization generates higher protocol fees

Q11 [Apply]. Your collateral drops from \$10,000 to \$7,000 while you have \$7,500 outstanding debt. What happens?

- A) You receive a warning and have 24 hours to repay B) The protocol freezes your account
C) Liquidation is triggered because the health factor dropped below 1.0 D) The interest rate automatically increases

Answer: (C) – Health factor = $7,000/7,500 \approx 0.93 < 1.0$; liquidators can repay your debt and seize collateral at a discount.

Q12 [Analyze]. Why do DeFi lending protocols require overcollateralization instead of credit scores?

- A) Credit scores are too expensive to compute on-chain B) Regulators prohibit credit-based lending in DeFi
C) There is no on-chain identity system; collateral is the only enforceable guarantee in a trustless environment D) Overcollateralization generates higher protocol fees

Answer: (C) – Pseudonymous addresses have no persistent reputation; collateral solves the enforcement problem that credit scores address off-chain.

Q13 [Apply]. The collateral ratio is 150%. How much ETH must you lock to mint \$1,000 DAI?

- A) \$1,000 worth of ETH B) \$1,200 worth of ETH C) \$1,500 worth of ETH D) \$2,000 worth of ETH

Q11 [Apply]. Your collateral drops from \$10,000 to \$7,000 while you have \$7,500 outstanding debt. What happens?

- A) You receive a warning and have 24 hours to repay B) The protocol freezes your account
C) Liquidation is triggered because the health factor dropped below 1.0 D) The interest rate automatically increases

Answer: (C) – Health factor = $7,000/7,500 \approx 0.93 < 1.0$; liquidators can repay your debt and seize collateral at a discount.

Q12 [Analyze]. Why do DeFi lending protocols require overcollateralization instead of credit scores?

- A) Credit scores are too expensive to compute on-chain B) Regulators prohibit credit-based lending in DeFi
C) There is no on-chain identity system; collateral is the only enforceable guarantee in a trustless environment D) Overcollateralization generates higher protocol fees

Answer: (C) – Pseudonymous addresses have no persistent reputation; collateral solves the enforcement problem that credit scores address off-chain.

Q13 [Apply]. The collateral ratio is 150%. How much ETH must you lock to mint \$1,000 DAI?

- A) \$1,000 worth of ETH B) \$1,200 worth of ETH C) \$1,500 worth of ETH D) \$2,000 worth of ETH

Answer: (C) – At 150% collateral ratio: \$1,000 DAI requires \$1,500 in ETH collateral.

Q14 [Analyze]. Why did Terra/UST's algorithmic peg fail while DAI survived the same market crash?

- A) DAI had a larger marketing budget and community B) UST relied solely on LUNA mint/burn with no real collateral; redemptions crashed LUNA, destroying confidence in a self-reinforcing spiral
C) Regulators rescued DAI but not UST D) DAI used a different blockchain with lower fees

Q11 [Apply]. Your collateral drops from \$10,000 to \$7,000 while you have \$7,500 outstanding debt. What happens?

- A) You receive a warning and have 24 hours to repay B) The protocol freezes your account
C) Liquidation is triggered because the health factor dropped below 1.0 D) The interest rate automatically increases

Answer: (C) – Health factor = $7,000/7,500 \approx 0.93 < 1.0$; liquidators can repay your debt and seize collateral at a discount.

Q12 [Analyze]. Why do DeFi lending protocols require overcollateralization instead of credit scores?

- A) Credit scores are too expensive to compute on-chain B) Regulators prohibit credit-based lending in DeFi
C) There is no on-chain identity system; collateral is the only enforceable guarantee in a trustless environment D) Overcollateralization generates higher protocol fees

Answer: (C) – Pseudonymous addresses have no persistent reputation; collateral solves the enforcement problem that credit scores address off-chain.

Q13 [Apply]. The collateral ratio is 150%. How much ETH must you lock to mint \$1,000 DAI?

- A) \$1,000 worth of ETH B) \$1,200 worth of ETH C) \$1,500 worth of ETH D) \$2,000 worth of ETH

Answer: (C) – At 150% collateral ratio: \$1,000 DAI requires \$1,500 in ETH collateral.

Q14 [Analyze]. Why did Terra/UST's algorithmic peg fail while DAI survived the same market crash?

- A) DAI had a larger marketing budget and community B) UST relied solely on LUNA mint/burn with no real collateral; redemptions crashed LUNA, destroying confidence in a self-reinforcing spiral
C) Regulators rescued DAI but not UST D) DAI used a different blockchain with lower fees

Answer: (B) – DAI's overcollateralized positions with liquidation mechanisms maintained solvency; UST had no backstop once the spiral started.

Q15 [Analyze]. What is the stablecoin trilemma?

- A) You cannot simultaneously have low fees, fast settlement, AND regulatory compliance
B) You cannot simultaneously have full decentralization, capital efficiency, AND peg stability
C) You cannot simultaneously have algorithmic, fiat-backed, AND crypto-backed designs D) You cannot simultaneously operate on Ethereum, Solana, AND Bitcoin

Q11 [Apply]. Your collateral drops from \$10,000 to \$7,000 while you have \$7,500 outstanding debt. What happens?

- A) You receive a warning and have 24 hours to repay B) The protocol freezes your account
C) Liquidation is triggered because the health factor dropped below 1.0 D) The interest rate automatically increases

Answer: (C) – Health factor = $7,000/7,500 \approx 0.93 < 1.0$; liquidators can repay your debt and seize collateral at a discount.

Q12 [Analyze]. Why do DeFi lending protocols require overcollateralization instead of credit scores?

- A) Credit scores are too expensive to compute on-chain B) Regulators prohibit credit-based lending in DeFi
C) There is no on-chain identity system; collateral is the only enforceable guarantee in a trustless environment D) Overcollateralization generates higher protocol fees

Answer: (C) – Pseudonymous addresses have no persistent reputation; collateral solves the enforcement problem that credit scores address off-chain.

Q13 [Apply]. The collateral ratio is 150%. How much ETH must you lock to mint \$1,000 DAI?

- A) \$1,000 worth of ETH B) \$1,200 worth of ETH C) \$1,500 worth of ETH D) \$2,000 worth of ETH

Answer: (C) – At 150% collateral ratio: \$1,000 DAI requires \$1,500 in ETH collateral.

Q14 [Analyze]. Why did Terra/UST's algorithmic peg fail while DAI survived the same market crash?

- A) DAI had a larger marketing budget and community B) UST relied solely on LUNA mint/burn with no real collateral; redemptions crashed LUNA, destroying confidence in a self-reinforcing spiral
C) Regulators rescued DAI but not UST D) DAI used a different blockchain with lower fees

Answer: (B) – DAI's overcollateralized positions with liquidation mechanisms maintained solvency; UST had no backstop once the spiral started.

Q15 [Analyze]. What is the stablecoin trilemma?

- A) You cannot simultaneously have low fees, fast settlement, AND regulatory compliance
B) You cannot simultaneously have full decentralization, capital efficiency, AND peg stability
C) You cannot simultaneously have algorithmic, fiat-backed, AND crypto-backed designs D) You cannot simultaneously operate on Ethereum, Solana, AND Bitcoin

Answer: (B) – Each stablecoin design sacrifices one dimension: USDC (centralised), DAI (capital-inefficient), UST (unstable peg).

Q16 [Analyze]. What was the primary mechanism that caused the Terra/Luna death spiral?

- A) A coordinated hack drained the Anchor Protocol reserves
- B) UST redemptions minted more LUNA, crashing LUNA's price, reducing confidence, triggering more UST redemptions – a reflexive loop
- C) The Federal Reserve raised interest rates, making Anchor's 20% APY uncompetitive
- D) Validators voted to halt the chain, preventing redemptions

Q16 [Analyze]. What was the primary mechanism that caused the Terra/Luna death spiral?

- A) A coordinated hack drained the Anchor Protocol reserves B) UST redemptions minted more LUNA, crashing LUNA's price, reducing confidence, triggering more UST redemptions – a reflexive loop
C) The Federal Reserve raised interest rates, making Anchor's 20% APY uncompetitive D) Validators voted to halt the chain, preventing redemptions

Answer: (B) – The algorithmic peg relied on LUNA as a shock absorber; once LUNA's price collapsed, the mint/burn mechanism amplified rather than stabilized.

Q17 [Analyze]. How did the Terra/Luna collapse lead to failures at Three Arrows Capital and Celsius?

- A) Both firms were founded by the same team as Terraform Labs B) Contagion: Terra/Luna losses exposed heavily leveraged positions, triggering margin calls and cascading insolvency across interconnected firms
C) Three Arrows and Celsius were legally required to hold UST as reserves D) Regulators froze all assets linked to Terra/Luna globally

Q16 [Analyze]. What was the primary mechanism that caused the Terra/Luna death spiral?

- A) A coordinated hack drained the Anchor Protocol reserves B) UST redemptions minted more LUNA, crashing LUNA's price, reducing confidence, triggering more UST redemptions – a reflexive loop
C) The Federal Reserve raised interest rates, making Anchor's 20% APY uncompetitive D) Validators voted to halt the chain, preventing redemptions

Answer: (B) – The algorithmic peg relied on LUNA as a shock absorber; once LUNA's price collapsed, the mint/burn mechanism amplified rather than stabilized.

Q17 [Analyze]. How did the Terra/Luna collapse lead to failures at Three Arrows Capital and Celsius?

- A) Both firms were founded by the same team as Terraform Labs B) Contagion: Terra/Luna losses exposed heavily leveraged positions, triggering margin calls and cascading insolvency across interconnected firms
C) Three Arrows and Celsius were legally required to hold UST as reserves D) Regulators froze all assets linked to Terra/Luna globally

Answer: (B) – DeFi and CeFi entities were interconnected through loans and collateral; Terra's collapse revealed the system-wide leverage.

Q18 [Apply]. A DeFi protocol advertises 1,000% APY on stablecoin deposits. What is the most important question to ask?

- A) Which blockchain does it run on? B) Is the team doxxed and publicly known?
C) Where does the yield come from? Unsustainable yields typically indicate Ponzi dynamics or severe token dilution D) How long has the protocol been running?

Q16 [Analyze]. What was the primary mechanism that caused the Terra/Luna death spiral?

- A) A coordinated hack drained the Anchor Protocol reserves B) UST redemptions minted more LUNA, crashing LUNA's price, reducing confidence, triggering more UST redemptions – a reflexive loop
C) The Federal Reserve raised interest rates, making Anchor's 20% APY uncompetitive D) Validators voted to halt the chain, preventing redemptions

Answer: (B) – The algorithmic peg relied on LUNA as a shock absorber; once LUNA's price collapsed, the mint/burn mechanism amplified rather than stabilized.

Q17 [Analyze]. How did the Terra/Luna collapse lead to failures at Three Arrows Capital and Celsius?

- A) Both firms were founded by the same team as Terraform Labs B) Contagion: Terra/Luna losses exposed heavily leveraged positions, triggering margin calls and cascading insolvency across interconnected firms
C) Three Arrows and Celsius were legally required to hold UST as reserves D) Regulators froze all assets linked to Terra/Luna globally

Answer: (B) – DeFi and CeFi entities were interconnected through loans and collateral; Terra's collapse revealed the system-wide leverage.

Q18 [Apply]. A DeFi protocol advertises 1,000% APY on stablecoin deposits. What is the most important question to ask?

- A) Which blockchain does it run on? B) Is the team doxxed and publicly known?
C) Where does the yield come from? Unsustainable yields typically indicate Ponzi dynamics or severe token dilution D) How long has the protocol been running?

Answer: (C) – Yield must originate from real economic activity (fees, interest); token inflation masquerading as yield is a red flag for imminent collapse.

Q19 [Evaluate]. A new protocol offers uncollateralized lending using on-chain social reputation scores. Evaluate viability.

- A) Fully viable – on-chain reputation is more accurate than credit scores B) Viable if the reputation oracle is decentralised
C) Not yet viable – on-chain identity is pseudonymous, reputation is not cross-protocol enforceable, and defaults have no recourse mechanism D) Viable only for loans under \$1,000

Q16 [Analyze]. What was the primary mechanism that caused the Terra/Luna death spiral?

- A) A coordinated hack drained the Anchor Protocol reserves B) UST redemptions minted more LUNA, crashing LUNA's price, reducing confidence, triggering more UST redemptions – a reflexive loop
C) The Federal Reserve raised interest rates, making Anchor's 20% APY uncompetitive D) Validators voted to halt the chain, preventing redemptions

Answer: (B) – The algorithmic peg relied on LUNA as a shock absorber; once LUNA's price collapsed, the mint/burn mechanism amplified rather than stabilized.

Q17 [Analyze]. How did the Terra/Luna collapse lead to failures at Three Arrows Capital and Celsius?

- A) Both firms were founded by the same team as Terraform Labs B) Contagion: Terra/Luna losses exposed heavily leveraged positions, triggering margin calls and cascading insolvency across interconnected firms
C) Three Arrows and Celsius were legally required to hold UST as reserves D) Regulators froze all assets linked to Terra/Luna globally

Answer: (B) – DeFi and CeFi entities were interconnected through loans and collateral; Terra's collapse revealed the system-wide leverage.

Q18 [Apply]. A DeFi protocol advertises 1,000% APY on stablecoin deposits. What is the most important question to ask?

- A) Which blockchain does it run on? B) Is the team doxxed and publicly known?
C) Where does the yield come from? Unsustainable yields typically indicate Ponzi dynamics or severe token dilution D) How long has the protocol been running?

Answer: (C) – Yield must originate from real economic activity (fees, interest); token inflation masquerading as yield is a red flag for imminent collapse.

Q19 [Evaluate]. A new protocol offers uncollateralized lending using on-chain social reputation scores. Evaluate viability.

- A) Fully viable – on-chain reputation is more accurate than credit scores B) Viable if the reputation oracle is decentralised
C) Not yet viable – on-chain identity is pseudonymous, reputation is not cross-protocol enforceable, and defaults have no recourse mechanism D) Viable only for loans under \$1,000

Answer: (C) – Without enforceable identity and legal recourse, borrowers can default by abandoning an address; the system is gameable and lacks the off-chain legal infrastructure credit requires.

Q20 [Evaluate]. Compare DeFi vs. traditional finance for an individual in a country with unstable banking. Which better serves their needs?

- A) Traditional finance – it has deposit insurance and legal protections B) DeFi – permissionless access, censorship resistance, and dollar-denominated stablecoins outweigh its risks for the unbanked
C) Neither – both are inaccessible without government ID D) Traditional finance – DeFi requires stable internet access unavailable in unstable regions

Q16 [Analyze]. What was the primary mechanism that caused the Terra/Luna death spiral?

- A) A coordinated hack drained the Anchor Protocol reserves B) UST redemptions minted more LUNA, crashing LUNA's price, reducing confidence, triggering more UST redemptions – a reflexive loop
C) The Federal Reserve raised interest rates, making Anchor's 20% APY uncompetitive D) Validators voted to halt the chain, preventing redemptions

Answer: (B) – The algorithmic peg relied on LUNA as a shock absorber; once LUNA's price collapsed, the mint/burn mechanism amplified rather than stabilized.

Q17 [Analyze]. How did the Terra/Luna collapse lead to failures at Three Arrows Capital and Celsius?

- A) Both firms were founded by the same team as Terraform Labs B) Contagion: Terra/Luna losses exposed heavily leveraged positions, triggering margin calls and cascading insolvency across interconnected firms

C) Three Arrows and Celsius were legally required to hold UST as reserves D) Regulators froze all assets linked to Terra/Luna globally

Answer: (B) – DeFi and CeFi entities were interconnected through loans and collateral; Terra's collapse revealed the system-wide leverage.

Q18 [Apply]. A DeFi protocol advertises 1,000% APY on stablecoin deposits. What is the most important question to ask?

A) Which blockchain does it run on? B) Is the team doxxed and publicly known?

C) Where does the yield come from? Unsustainable yields typically indicate Ponzi dynamics or severe token dilution D) How long has the protocol been running?

Answer: (C) – Yield must originate from real economic activity (fees, interest); token inflation masquerading as yield is a red flag for imminent collapse.

Q19 [Evaluate]. A new protocol offers uncollateralized lending using on-chain social reputation scores. Evaluate viability.

A) Fully viable – on-chain reputation is more accurate than credit scores B) Viable if the reputation oracle is decentralised

C) Not yet viable – on-chain identity is pseudonymous, reputation is not cross-protocol enforceable, and defaults have no recourse mechanism D) Viable only for loans under \$1,000

Answer: (C) – Without enforceable identity and legal recourse, borrowers can default by abandoning an address; the system is gameable and lacks the off-chain legal infrastructure credit requires.

Q20 [Evaluate]. Compare DeFi vs. traditional finance for an individual in a country with unstable banking. Which better serves their needs?

A) Traditional finance – it has deposit insurance and legal protections B) DeFi – permissionless access, censorship resistance, and dollar-denominated stablecoins outweigh its risks for the unbanked

C) Neither – both are inaccessible without government ID D) Traditional finance – DeFi requires stable internet access unavailable in unstable regions

Answer: (B) – DeFi offers non-custodial savings in USD stablecoins and cross-border transfers without bank approval; smart contract risk and technical barriers are real but surmountable trade-offs for the unbanked.