In financial economics, a financial institution is an institution that provides financial services for its clients or members. Probably the most important financial service provided by financial institutions is acting as financial intermediary.

Financial markets

A financial market is a mechanism that allows people to buy and sell (trade) financial securities (such as stocks and bonds), commodities (such as precious metals or agricultural goods), and other items of value at low transaction costs and at prices that reflect the efficient-market hypothesis.

Both general markets (where many commodities are traded) and specialized markets (where only one commodity is traded) exist. Markets work by placing many interested buyers and sellers in one "place", thus making it easier for them to find each other.

The **financial system determines both the cost and quantity of funds available** in the economy to pay for the thousands of goods and services we purchase daily. Equally important, what happens in this system has a powerful impact upon the health of the global economy. When funds become more costly and less available, spending for goods and services falls. As a result, unemployment rises and the economy's growth slows as businesses cut back production and lay off workers. In contrast, when the cost of funds declines and loanable funds become more readily available, spending in the economy often increases, more jobs are created, and the economy's growth accelerates. In truth, the global financial system is an integral part of the global economic system. We cannot understand one of these systems without understanding the other.

1 .2 Functions of the financial system

i. Savings function- the financial system provides a potentially profitable low risk outlet for the public savings
ii. Wealth function- Money and capital markets provide an excellent way to store wealth until funds are needed for spending
iii. Liquidity function- for wealth stored in financial instruments, the financial market place provides a means of converting those instruments into cash with little risk of loss. Thus the market provides liquidity for savers who hold financial instruments and are in need of cash.
iv. Credit function- the financial system provides a credit supply to support both consumption and investment spending in the economy
v. Payments function- provides a mechanism for making payments for goods and services e.g Visa, plastic, debit and credit cards e.t.c
vi. Risk function- Financial markets offer businesses, consumers and governments' protection against life, health, property and income risks. This is accomplished through insurance policy.

elearninginkenya@gmail.com Whatsapp: 0705437337

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- If the issue of shares is given under credit terms and the potent investors cannot obtain debt finance to purchase the securities.

- The economy may be experiencing high inflation such that investing in securities cannot be a viable investment.

ix. **Watered capital-** Watered capital refers to capital for companies that are considered financially strong and happen to issue bonus shares from the accumulated reserves. The capital is considered watered due to the additional capital raises. If such capital is realized it is known as watered capital.

x. Aggressive shares

- There are shares that rise or fall on the market out of proportion to the average rise or fall of other shares.
- Generally they react to market factors more quickly and substantially dramatically when the market rises and vice versa.
- Also called volatile shares.

xi. **Margin purchases-** in this case the broker buys shares on behalf of a client who does not have enough money in his account. Hence the investor is lent money to buy the shares. The investor does this with the hope that the share prices will subsequently rise and he will benefit from capital gain.

xii. **Short selling-** this occurs when an investor expects the share prices to fall. In this case the investor borrows shares from a broker and sells them. Later the investor buys them back when the price has fallen and returns the shares to the broker.

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Some of these steps may be omitted, depending on the circumstances; for example, non-cash proceeds that are already in the financial system would have no need for placement.

Forms of Money Laundering:

Money laundering takes several different forms, although most methods can be categorized into one of a few types:

i **Structuring**: Often known as *smurfing*, this is a method of placement whereby cash is broken into smaller deposits of money, used to defeat suspicion of money laundering and to avoid anti-money laundering reporting requirements.

ii **Bulk cash smuggling**: This involves physically smuggling cash to another jurisdiction and depositing it in a financial institution, such as an offshore bank, with greater bank secrecy or less rigorous money laundering enforcement.

iii **Cash-intensive businesses**: In this method, a business typically involved in receiving cash uses its accounts to deposit both legitimate and criminally derived cash, claiming all of it as legitimate earnings.

iv **Trade-based laundering**: This involves under- or overvaluing invoices to disguise the movement of money.

v **Shell companies and trusts**: Trusts and shell companies disguise the true owner of money. Trusts and corporate vehicles, depending on the jurisdiction, need not disclose their true, beneficial, owner.

vi **Round-tripping**: Here, money is deposited in a controlled foreign corporation offshore, preferably in a tax haven where minimal records are kept, and then shipped back as a foreign direct investment, exempt from taxation.

vii **Bank capture**: In this case, money launderers or criminals buy a controlling interest in a bank, preferably in a jurisdiction with weak money laundering controls, and then move money through the bank withoutscrutiny.

viii **Real estate**: Someone purchases real estate with illegal proceeds and then sells the property. To outsiders, the proceeds from the sale look like legitimate income. Alternatively, the price of the property is manipulated: the seller agrees to a contract that underrepresents the value of the property, and receives criminal proceeds to make up the difference.

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