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**Shared by Perry on 06-06-2022**

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# Question 1

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## Question Type: MultipleChoice

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The Jade Health Plan used a profitability index (PI) to rank the following capital proposals:

Proposal PI

A0.45

B1.05

This information indicates that, of these two projects, Jade would most likely select:

### Options:

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- A-** Proposal A, and the PI indicates that the net present value (NPV) for this project is less than zero
- B-** Proposal A, and the PI indicates that the net present value (NPV) for this project is greater than zero
- C-** Proposal B, and the PI indicates that the net present value (NPV) for this project is less than zero
- D-** Proposal B, and the PI indicates that the net present value (NPV) for this project is greater than zero

### Answer:

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C

## Question 2

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**Question Type:** MultipleChoice

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The following statements are about the capital budgeting technique known as the payback method. Select the answer choice containing the correct statement:

### Options:

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- A- The main benefit of the payback method is that it is simple to use.
- B- The payback method measures the profitability of a given capital project.
- C- The payback method considers the time value of money.
- D- The payback method states a proposed project's cash flow in terms of present value for the life of the entire project.

### Answer:

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A

## Question 3

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**Question Type: MultipleChoice**

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An investor deposited \$1,000 in an interest-bearing account today. That sum will accumulate to \$1,200 two years from now. One true statement about this transaction is that:

**Options:**

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- A- The process by which the original \$1,000 deposit grows to \$1,200 is known as compounding
- B- \$1,200 is the present value of the \$1,000 deposit
- C- The \$200 increase in the deposit's value is its incremental cash flow
- D- The \$200 difference between the original deposit and the accumulated value of the deposit is known as the deposit's discount

**Answer:**

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A

## Question 4

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**Question Type: MultipleChoice**

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A health plan may experience negative working capital whenever healthcare expenses generated by plan members exceed the premium income the health plan receives.

Ways in which a health plan can manage the volatility in claims payments, and therefore reduce the risk of negative working capital, include:

Accurately estimating incurred but not reported (IBNR) claims

Using capitation contracts for provider reimbursement

**Options:**

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**A-** Both 1 and 2

**B-** 1 only

**C-** 2 only

**D-** Neither 1 nor 2

**Answer:**

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A

## Question 5

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**Question Type: MultipleChoice**

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The Amethyst Health Plan uses a budgeting approach that requires each line of business within Amethyst's operation to justify its continued operation. Amethyst begins with the premise that no resources will be allocated for the following period unless each dollar to be spent is justified and is shown to be within departmental plans and corporate goals and objectives. The budgeting approach used by Amethyst is known as:

**Options:**

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- A- Bottom-up budgeting
- B- Top-down budgeting
- C- Zero-based budgeting
- D- Master budgeting

**Answer:**

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C

## Question 6

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**Question Type: MultipleChoice**

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For a given healthcare product, the Magnolia Health Plan has a premium of \$80 PMPM and a unit variable cost of \$30 PMPM. Fixed costs for this product are \$30,000 per month. Magnolia can correctly calculate the break-even point for this product to be:

**Options:**

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- A- 274 members
- B- 375 members
- C- 600 members
- D- 1,000 members

**Answer:**

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C

## Question 7

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**Question Type:** MultipleChoice

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Costs that can be defined by behavior are most commonly classified as fixed costs, variable costs and semi-variable costs. Examples of fixed costs include:

**Options:**

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- A- Rent, insurance expense, and depreciation on computer equipment
- B- Rent, claims processing costs, and selling expenses
- C- Claims processing costs, telephone expense, and depreciation on computer equipment
- D- Premium processing, rent, and selling expenses

**Answer:**

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A

## Question 8

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**Question Type: MultipleChoice**

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In order to achieve its goal of improved customer service, the Evergreen Health Plan will add three new customer service representatives to its existing staff, install a new switching station, and install additional phone lines. In this situation, the cost that would be classified as a sunk cost, rather than a differential cost, is the expense associated with:

**Options:**

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- A- Adding new customer service representatives
- B- Maintaining the existing staff
- C- Installing a new switching station
- D- Installing additional phone lines

**Answer:**

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B

## Question 9

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**Question Type:** MultipleChoice

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The following information relates to the Hardcastle Health Plan for the month of June:

-Incurred claims (paid and IBNR) equal \$100,000 -Earned premiums equal \$120,000 -Paid claims, excluding IBNR, equal \$80,000 -Total health plan expenses equal \$300,000

This information indicates that Hardcastle's medical loss ratio (MLR) for the month of June was approximately equal to:

**Options:**

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A- 40%

B- 67%

C- 83%

D- 120%

**Answer:**

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C

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