AD1.5, thus increasing Y* to Y1.5. Therefore if the effectiveness of lowering interest rate to increase economic growth depends on the size of the multiplier, as small multiplier will have a mean that there will be small increase in real GDP.

Other factors may also affect the effectiveness of a decrease in the rate of interest in stimulating economic growth. An increase in income tax at the same time as the lowering of interest rates will offset the effectiveness. This is because it wiliness the leakages from the economy, people will be paying more tax and therefore have less disposable income and so therefore be less willing and able to buy goods and services and this will decrease AD and therefore reduce economic growth rather than increasing it, it will also decrease job security as less factors of production are required to produce the lower amount goods and services demanded effecting their purchase further as they maybe unsure of their job security as unemployment increase and negative economic growth occurs again. Therefore other factors occurring in the economy at the same time as a lowering of interest rates can limit the effectiveness of stimulating economic growth.

In conclusion a fall in the rate of interest is likely to cause economic growth to an extent as and it increases borrowing and reduces saving, thus stimulating AD and LRAS. However the size of this increase depends greatly on the size of the multiplier, size and duration as well as other factors affecting the economy, for example income tax changes.